

REGISTRATION NO. 333-14183

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SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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PRE-EFFECTIVE AMENDMENT NO. 4 TO  
FORM S-1  
REGISTRATION STATEMENT  
UNDER  
THE SECURITIES ACT OF 1933

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SUN HYDRAULICS CORPORATION  
(Exact name of Registrant as specified in its charter)

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<TABLE>

<S>	<C>	<C>
FLORIDA	3492	59-2754337
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification No.)

</TABLE>

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1500 WEST UNIVERSITY PARKWAY  
SARASOTA, FLORIDA 34243  
(941) 362-1200

(Address, including zip code, and telephone number, including area code, of  
Registrant's principal executive offices)

CLYDE G. NIXON  
PRESIDENT AND CHIEF EXECUTIVE OFFICER

SUN HYDRAULICS CORPORATION  
1500 WEST UNIVERSITY PARKWAY  
SARASOTA, FLORIDA 34243  
(941) 362-1200

(Name, address, including zip code, and telephone number, including area code,  
of agent for service)

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With Copies to:

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<S>	<C>	
GREGORY C. YADLEY, ESQUIRE SHUMAKER, LOOP & KENDRICK, LLP 101 E. KENNEDY BLVD., SUITE 2800 TAMPA, FLORIDA 33602 (813) 229-7600	WADE H. STRIBLING, ESQUIRE NELSON MULLINS RILEY & SCARBOROUGH, L.L.P. 400 COLONY SQUARE, SUITE 2200 1201 PEACHTREE STREET, N.E. ATLANTA, GA 30361 (404) 817-6000	

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APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC: As soon as practicable after this Registration Statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. [ ]

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. [ ]

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INFORMATION CONTAINED HEREIN IS SUBJECT TO COMPLETION OR AMENDMENT. A REGISTRATION STATEMENT RELATING TO THESE SECURITIES HAS BEEN FILED WITH THE SECURITIES AND EXCHANGE COMMISSION. THESE SECURITIES MAY NOT BE SOLD NOR MAY OFFERS TO BUY BE ACCEPTED PRIOR TO THE TIME THE REGISTRATION STATEMENT BECOMES EFFECTIVE. THIS PROSPECTUS SHALL NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY NOR SHALL THERE BE ANY SALE OF THESE SECURITIES IN ANY STATE IN WHICH SUCH OFFER, SOLICITATION OR SALE WOULD BE UNLAWFUL PRIOR TO REGISTRATION OR QUALIFICATION UNDER THE SECURITIES LAWS OF ANY SUCH STATE.

SUBJECT TO COMPLETION, DATED DECEMBER 19, 1996

2,000,000 SHARES

(SUN HYDRAULICS(R) LOGO)

COMMON STOCK

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All of the 2,000,000 shares of common stock, par value \$0.001 per share (the "Common Stock"), offered hereby are being sold by Sun Hydraulics Corporation (the "Company"). Prior to this offering (the "Offering"), there has been no public market for the Common Stock of the Company. It is currently anticipated that the initial public offering price will be between \$9.50 and \$11.50 per share. See "Underwriting" for a discussion of the factors to be considered in determining the initial public offering price. The Company has filed an application for the Common Stock to be quoted and traded on the Nasdaq National Market under the symbol "SNHY."

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SEE "RISK FACTORS" BEGINNING ON PAGE 7 FOR A DISCUSSION OF CERTAIN MATTERS THAT SHOULD BE CONSIDERED BY PROSPECTIVE PURCHASERS OF THE COMMON STOCK OFFERED HEREBY.

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THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

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	PRICE TO PUBLIC	UNDERWRITING DISCOUNT(1)	PROCEEDS TO COMPANY(2)
<S>	<C>	<C>	<C>
Per Share.....	\$	\$	\$
Total(3).....	\$	\$	\$

</TABLE>

(1) The Company has agreed to indemnify the several Underwriters against certain liabilities, including liabilities under the Securities Act of 1933, as amended (the "Securities Act"). See "Underwriting."

(2) Before deducting estimated expenses of \$950,000, all of which are payable by the Company.

(3) The Company has granted the Underwriters a 30-day option to purchase up to 300,000 additional shares of Common Stock on the same terms and conditions as set forth above solely to cover over-allotments, if any. If such option is exercised in full, the total Price to Public, Underwriting Discount and Proceeds to Company will be \$ , \$ and \$ , respectively. See "Underwriting."

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The Common Stock is offered by the several Underwriters, subject to prior sale, when, as, and if issued to and accepted by them and subject to certain conditions. The Underwriters reserve the right to withdraw, cancel or modify such offer or to reject any orders in whole or in part. It is expected that delivery of the shares of Common Stock will be made on or about , 1997.

A.G. EDWARDS & SONS, INC. ROBERT W. BAIRD & CO.  
INCORPORATED

The date of this Prospectus is January , 1997

[Photographs and text on this page overlay outlines of schematic design drawings of various unidentified cartridge valves and manifolds.]

[Photograph of a container-pallet loader being used to load supplies into a passenger jet]

[Photograph of two manifolds of the Company with the Company's cartridge valves]

Custom manifolds often result in a smaller package size and allow equipment manufacturers to reduce assembly time and expense with fewer hoses, fittings and hard tube routing.

[Photograph of two man-lifts being used outside of a building]

[Photograph of various screw-in hydraulic cartridge valves and manifolds of the Company]

Load control valves control the motion and locking of hydraulic cylinders and are used in critical applications. These important system elements can be close coupled to, or directly integrated in, hydraulic cylinders.

[Photograph of an injection molding machine]

[Photograph of three of the Company's small manifolds with the Company's cartridge valves]

The ability to withstand high pressure, high cycle operation is critical in many industrial applications. Sun's screw-in cartridge valves provide the necessary performance and endurance and can be conveniently interfaced in industrial

machinery.

#### Custom Hydraulic Manifolds

A manifold is a solid block of metal, usually aluminum, steel, or ductile iron, that is machined to create threaded cavities and channels into which cartridge valves can be easily placed and through which hydraulic fluids flow. Using its in-house computer-aided engineering and design systems and its proprietary CAM expert system software, Sun Hydraulics has flexible production capability and can efficiently manufacture manifolds in any quantity desired by a customer, down to a single piece. The high degree of reliability of Sun's cartridge valves also allows manifold manufacturers around the world to utilize Sun's cartridge valves in manifolds of their design.

[Photograph of a large, see-through manifold with four of the Company's cartridge valves inserted in it. Various channels for hydraulic fluid are highlighted in various colors.]

Custom directional control manifold mounts directly to a pump outlet, significantly reducing hosing, fittings, and potential leakage points.

#### Standard Cartridge Valves and Manifolds

Sun Hydraulics designs and manufactures one of the most comprehensive lines of standard screw-in cartridge valves and manifolds in its industry.

[Photograph of a large variety of the Company's screw-in hydraulic cartridge valves and manifolds]

In addition to core products that include pressure controls, flow controls and load controls (shown laying on their side in the photograph), Sun Hydraulics manufactures a wide variety of complementary products to enable customers to solve complex applications problems. All of Sun's screw-in cartridge valves are designed to operate at high pressures, making them ideally suited for both mobile and industrial applications.

IN CONNECTION WITH THE OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE COMMON STOCK OF THE COMPANY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH TRANSACTIONS MAY BE EFFECTED ON THE NASDAQ NATIONAL MARKET OR OTHERWISE. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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### PROSPECTUS SUMMARY

The following summary is qualified in its entirety by the more detailed information and Financial Statements and Notes thereto appearing elsewhere in this Prospectus. Investors should consider carefully the risk factors related to the purchase of Common Stock of the Company. See "Risk Factors." Except as otherwise indicated herein, (i) the term the "Company" refers to Sun Hydraulics Corporation and its subsidiaries (see "The Reorganization"); and (ii) the information in this Prospectus (a) assumes the Underwriters' over-allotment option is not exercised, (b) assumes an initial public offering price for the Common Stock of \$10.50 per share, (c) gives effect to a 9.90373 for 1 stock split of the Common Stock, to be paid in the form of a stock dividend in connection with the Reorganization to the stockholders of record of the Company on the day before the effective date of the Offering, and (d) gives effect to the consummation of the Reorganization prior to the completion of the Offering.

### THE COMPANY

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 innovative floating construction of the Company's screw-in cartridge valves provides demonstrable performance and reliability advantages compared to other available screw-in cartridge valves. Screw-in cartridge valves are an increasingly accepted alternative to conventional forms of hydraulic valving, offering significant design flexibility, as well as substantial size, weight and efficiency benefits afforded to designers of fluid power systems. Since the introduction of screw-in

hydraulic cartridge valves in the late 1950s, manufacturers of these and similar products have captured approximately \$550 million of the worldwide market for all non-aerospace hydraulic valves and manifolds, which management believes to be in excess of \$3 billion. The Company has generated a profit each year since 1972 and has achieved an internal compound annual growth rate in net sales of 17% over the last ten years. The Company believes that its success is primarily a result of its innovative product design, consistent high quality and superior product performance.

Fluid power involves the transfer and control of power through fluid under pressure. Fluid power systems are integral to a wide variety of manufacturing, material handling, agricultural and construction equipment. Due to its mechanical advantage, fluid power is widely employed to move and position materials, control machines, vehicles and equipment, and improve industrial efficiency and productivity. Fluid power systems typically are comprised of valves and manifolds that control the flow of fluids, a pump that generates pressure, and actuators such as cylinders and motors that translate pressure into mechanical energy.

The Company designs and manufactures one of the most comprehensive lines of screw-in hydraulic cartridge valves in the world. These valves control direction, pressure, flow and loads, are available in up to five size ranges, and are suitable for flows from 5 to 400 gallons per minute and continuous operating pressures up to 5,000 pounds per square inch. The floating construction pioneered by the Company provides demonstrable performance and reliability advantages compared to competitors' product offerings due to its self-alignment characteristic that accommodates potential manufacturing deviations common in the thread-making operations of screw-in cartridge valves and manifolds. This floating construction significantly differentiates the Company from most of its competitors, who design and manufacture rigid screw-in cartridge valves that fit an industry common cavity. The Company believes that competitors' products typically do not offer the inherent reliability of the Company's products and do not provide equivalent operating performance because of the design constraints imposed by the industry common cavity.

The Company also designs and manufactures the most comprehensive line of standard manifolds in the world. A manifold is a solid block of metal, usually aluminum, steel or ductile iron, which is machined to create threaded cavities and channels into which screw-in cartridge valves are installed and through which the hydraulic fluids flow. Fluid power engineers can package standard or customized manifolds with screw-in cartridge valves to create application-specific, multiple-function hydraulic control systems that are safe, reliable and provide greater control. In 1995, screw-in cartridge valves accounted for approximately 75% of the Company's net sales while standard and custom manifolds accounted for approximately 25% of net sales.

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The Company sells its products primarily through a global network of independent fluid power distributors to a diverse universe of end users, for use in various "mobile" applications, such as construction, agricultural and utility equipment (approximately 65% of net sales), and a broad array of "industrial" applications, such as machine tools and material handling equipment (approximately 35% of net sales). Sales to the Company's largest distributor represented approximately 6% of net sales in 1995, and the Company believes that aggregate sales by its distributors to the largest end user represented less than 3% of net sales in 1995.

The Company believes that screw-in cartridge valves will continue to achieve significant growth at the expense of conventional hydraulic valves as design engineers recognize the inherent advantages of screw-in cartridge valves. The Company believes that additional growth potential for screw-in cartridge valve applications exists as a result of a trend toward miniaturization as end users require smaller, lighter-weight and more efficient components. Custom manifolds that utilize screw-in cartridge valves allow customers to design an optimal solution for control of their fluid power systems that significantly reduces assembly time and expense. The United States and Western Europe are the largest developed markets for screw-in cartridge valves, and the Company believes future growth prospects are particularly attractive in the Pacific Rim, Eastern Europe and India, where the adoption of screw-in cartridge valves is in an early stage. In 1995, approximately 34% of the Company's net sales were outside the United States.

Management believes that the Company's success during its 26-year history is due in large part to its emphasis on innovative product designs and vertically integrated, state of the art manufacturing processes. Management attributes the Company's ability continuously to implement process improvements to its horizontal management structure that encourages employee contribution at all levels. The Company does not have a formal organizational chart and employee responsibilities do not devolve from titles or narrow job descriptions. This management philosophy is utilized throughout the Company's operations.

The Company's objective is to enhance its position as one of the world's leading designers and manufacturers of screw-in hydraulic cartridge valves by (i) broadening the market for screw-in cartridge valve applications, (ii) continuing the geographic expansion of its markets, and (iii) selectively expanding its product lines. Key elements of the Company's strategy include the following:

- Deliver Value Through High-Quality, High-Performance Products
- Offer a Wide Variety of "Off-the-Shelf" Products
- Capitalize on Custom Manifold Opportunities
- Expand Global Presence
- Maintain a Horizontal Organization with Entrepreneurial Spirit
- Leverage Manufacturing Capability and Know-how as Competitive Advantages
- Sell Through Distributors, Market to End Users

The Company was incorporated in 1986 to take over the operation of the business of the Company's predecessor, Suninco, Inc. (f/k/a Sun Hydraulics Corporation) which was founded in 1970 by Robert E. Koski for the specific purpose of developing and promoting screw-in cartridge valve technology. Mr. Koski remains active in the business as Chairman of the Board of Directors. The address of the Company's executive offices is 1500 West University Parkway, Sarasota, Florida 34243, and its telephone number is 941/362-1200.

#### THE OFFERING

Common Stock offered by the  
Company..... 2,000,000 shares

Common Stock outstanding after the  
Offering..... 6,000,000 shares(1)

Use of Proceeds..... To repay debt principally related to  
equipment financing and mortgage  
financing of the Company's existing and  
new Florida manufacturing plants, to  
pay the S Corporation Distribution and  
for general corporate purposes. See  
"Use of Proceeds."

Proposed Nasdaq National Market  
Symbol..... "SNHY"  
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(1) Does not include an aggregate of 1,000,000 shares of Common Stock reserved for issuance under the Company's 1996 Stock Option Plan. As of September 30, 1996, there were options to purchase 319,960 shares of Common Stock outstanding under the Company's 1996 Stock Option Plan and the Company has committed to issue immediately after the consummation of the Offering options to purchase an additional 289,348 shares of Common Stock. See "Management -- Stock Option Plan."

#### SUMMARY FINANCIAL DATA

<TABLE>  
<CAPTION>

NINE MONTHS  
ENDED SEPTEMBER  
YEARS ENDED DECEMBER 31, 30,

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1991 1992 1993 1994 1995 1995 1996  
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(IN THOUSANDS EXCEPT PER SHARE DATA)

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STATEMENT OF INCOME DATA:

Net sales.....	\$26,250	\$28,331	\$32,431	\$42,853	\$55,388	\$42,718	\$41,233
Cost of sales.....	16,928	17,946	21,971	27,512	34,581	26,361	27,903
Gross profit.....	9,322	10,385	10,460	15,341	20,807	16,357	13,330
Selling, engineering and administrative expenses.....	7,319	7,826	7,346	8,605	10,578	7,652	9,288(1)
Operating income.....	2,003	2,559	3,114	6,736	10,229	8,705	4,042
Interest expense.....	1,118	997	931	859	814	612	678
Miscellaneous (income) expense.....	(320)	(252)	249	66	(79)	(81)	107
Income before income taxes.....	1,205	1,814	1,934	5,811	9,494	8,174	3,257
Income tax provision (benefit)(2).....	46	(201)	(148)	408	633	478	727
Net income.....	\$ 1,159	\$ 2,015	\$ 2,082	\$ 5,403	\$ 8,861	\$ 7,696	\$ 2,530

PRO FORMA STATEMENT OF INCOME DATA:(3)

Income before income taxes.....	\$ 1,205	\$ 1,814	\$ 1,934	\$ 5,811	\$ 9,494	\$ 8,174	\$ 3,257
Income tax provision.....	481	580	604	2,738	3,611	3,069	1,255
Net income.....	\$ 724	\$ 1,234	\$ 1,330	\$ 3,073	\$ 5,883	\$ 5,105	\$ 2,002
Net income per common share(4).....				\$ 1.13		\$ 0.38	
Weighted average shares outstanding(4).....			5,217		5,307		

OTHER FINANCIAL DATA:

Depreciation.....	\$ 1,953	\$ 1,971	\$ 2,112	\$ 2,197	\$ 2,556	\$ 1,803	\$ 2,288
Capital expenditures.....	1,683	1,987	3,005	5,130	7,657	5,316	12,423

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SEPTEMBER 30, 1996

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ACTUAL PRO FORMA AS ADJUSTED(7)  
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BALANCE SHEET DATA:

Working capital.....	\$ 3,064	\$ (6,841)	\$ 3,669
Total assets.....	43,964	43,964	43,964
Total debt.....	14,538	14,538	5,863
Shareholders' equity.....	24,030(5)	12,180	30,760

</TABLE>

(1) Includes a non-recurring, non-cash compensation expense of approximately \$1.4 million related to the termination of phantom stock compensation agreements and the issuance of options to Directors. See Note 16 of the Notes to Financial Statements. Excluding such expense, pro forma net income for the nine months ended September 30, 1996 would have been approximately \$2.9 million.

(2) The Company has previously operated as an S Corporation. Therefore, the historical income tax provision represents primarily foreign taxes.

- (3) The pro forma statement of income data is based on historical net income as adjusted to reflect a provision for income taxes calculated using the statutory rates in effect during the applicable periods, as if the Company had been a C Corporation since inception. See Notes 2 and 11 of the Notes to Financial Statements.
- (4) The pro forma net income per share data is based on the historical weighted average number of shares outstanding and as adjusted to reflect the assumed issuance of 1,066,000 shares (as of the beginning of each respective period) to fund the S Corporation Distribution as of September 30, 1996. See "S Corporation Distribution."
- (5) Shareholders' equity reflects the Reorganization. See "The Reorganization" and Note 2 of the Notes to Financial Statements.
- (6) The pro forma column reflects (a) the declaration of the S Corporation Distribution of approximately \$9.9 million and (b) the recognition of an estimated provision of approximately \$1.9 million for deferred income taxes which would have been required had the Company terminated its S Corporation status at September 30, 1996. See Notes 1 and 11 of the Notes to Financial Statements.
- (7) Gives effect to the adjustments in Note (6) above, the sale of shares of Common Stock offered hereby and the application of the net proceeds therefrom as set forth under "Use of Proceeds."

References herein to the Notes to Financial Statements, unless otherwise indicated, refer to the Notes to the Combined Financial Statements of Sun Hydraulics Corporation, contained elsewhere herein.

This Prospectus contains statements which constitute forward-looking statements within the meaning of Section 27A of the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Those statements appear in a number of places in this Prospectus and include statements regarding the intent, belief or current expectations of the Company, its Directors or its Officers with respect to, among other things: (i) the use of the proceeds of the Offering; (ii) the Company's financing plans; (iii) trends affecting the Company's financial condition or results of operations; (iv) the Company's growth strategy and operating strategy; and (v) the declaration and payment of dividends. Prospective investors are cautioned that any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and that actual results may differ materially from those projected in the forward-looking statements as a result of various factors. The accompanying information contained in this Prospectus, including without limitation the information set forth under the headings "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business," identifies important factors that could cause such differences.

## RISK FACTORS

In evaluating the Offering, prospective investors should consider carefully all of the information contained in this Prospectus and, in particular, the following risk factors relating to the Company and to the Common Stock.

**POTENTIAL MARKETPLACE ADOPTION OF INDUSTRY STANDARD.** Approximately 75% of the Company's total sales are derived from the sale of its screw-in cartridge valves that fit into a unique cavity. To date, no other manufacturer has designed products of any significance that fit this cavity; most competitive manufacturers produce screw-in cartridge valves that fit into an industry common cavity. Accordingly, the Company's screw-in cartridge valves are not interchangeable with those of other manufacturers. Additionally, the International Standards Organization ("ISO") recently has adopted an industry standard for screw-in hydraulic cartridge valve cavities that is based on metric threads and only specifies dimensional data and flow paths. The Company has not adopted either the industry common cavity or the ISO standard cavity for its products because it believes both fail to address critical functional requirements, which could result in performance and safety problems of significant magnitude for end users. While there are not yet any noticeable market pressures to supply screw-in cartridge valves that fit the ISO standard cavity, and no major competitor has converted its products to fit this standard



cavity, any move toward the adoption of the ISO standard cavity for cartridge valves in the screw-in cartridge valve and manifold industry could have a material adverse effect on the Company's business, financial condition and results of operation. See "Business -- Competition."

**RISKS RELATING TO GROWTH STRATEGY.** In pursuing its growth strategy, the Company intends to expand its presence in its existing markets and enter new geographic markets. In addition, the Company may pursue acquisitions and joint ventures to complement its business. Many of the expenses arising from the Company's expansion efforts may have a negative effect on operating results until such time, if at all, as these expenses are offset by increased revenues. There can be no assurance that the Company will be able to implement its growth strategy or that its strategy ultimately will be successful. See "Business -- Strategy."

The Company's expansion strategy also may require substantial capital investment for the construction of new facilities and their effective operation. The Company may finance the acquisition of additional assets using cash from operations, bank or institutional borrowings, or through the issuance of debt or equity securities. There can be no assurance that the Company will be able to obtain financing from bank or institutional sources or through the equity or debt markets or that, if available, such financing will be on terms acceptable to the Company.

The Company currently is involved in an expansion of its facilities in Florida and Germany. The Company also currently is engaged in the implementation of new accounting and manufacturing computer software systems. These matters require significant attention from senior management and may divert their attention from other aspects of the business. There can be no assurance that the facilities expansion can be completed on time within budget and that the new computer software systems can be timely and efficiently integrated into the Company's operations. Failure to do so could have a material adverse effect on the Company's business, financial condition and results of operation.

**FLUCTUATIONS IN QUARTERLY RESULTS.** The Company's quarterly results are subject to significant fluctuation based upon the time of receipt of orders from distributors and requested shipments of products. While the Company's distributors stock inventory, shipments are largely dependent upon delivery requirements of end users. In addition to fluctuations due to economic cyclicity, 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. As a result, the Company's fourth quarter net sales, income from operations and net income typically have been the lowest of any quarter during the year. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Overview" and "-- Seasonality."

**DEPENDENCE ON KEY EMPLOYEES AND SKILLED PERSONNEL.** The Company's success depends, to a significant extent, upon a number of key individuals. The loss of the services of one or more of these individuals, including the Company's Chairman, Robert E. Koski, or its President and Chief Executive Officer, Clyde G. Nixon, could have a material adverse effect on the business of the Company. The

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Company's future operating results depend to a significant degree upon the continued contribution of its key technical personnel and skilled labor force. Competition for management and engineering personnel is intense, and the Company competes for qualified personnel with numerous other employers, some of whom have greater financial and other resources than the Company. The Company conducts a substantial part of its operations at its factory in Sarasota, Florida. The Company's continued success depends on its ability to attract and retain a skilled labor force at this location. While the Company has been successful in attracting and retaining skilled employees in the past, there can be no assurance that the Company will continue to be successful in attracting and retaining the personnel it requires to develop, manufacture and market its products and expand its operations. See "Business -- Employees."

**COMPETITION.** The hydraulic valve industry is highly fragmented and intensely competitive, with the Company facing competition from a large number of competitors, some of which are full-line producers and others that are niche suppliers like the Company. Full-line producers have the ability to provide total hydraulic systems to customers, including components functionally similar

to those manufactured by the Company. The Company believes that it competes based upon quality, reliability, price, value, speed of delivery and technological characteristics. Many of the Company's screw-in cartridge valve competitors are owned by corporations which are significantly larger than the Company and have greater financial resources than the Company. There can be no assurance that the Company will continue to be able to compete effectively with these companies.

The manifold business is also highly fragmented and intensely competitive. All of the major screw-in cartridge valve manufacturers either manufacture manifolds or have sources that they use on a regular basis. In addition, there are a number of independent manifold suppliers that produce manifolds incorporating various manufacturers' screw-in cartridge valves, including those made by the Company. Finally, there are many small, independent machine shops that produce manifolds at very competitive prices. Competition in the manifold business is based upon quality, price, relationships based on proximity to the customer, and speed of delivery. Many of the Company's competitors have very low overhead structures and there can be no assurance that the Company will continue to be able to compete effectively with these companies.

In addition, the Company competes in the sale of hydraulic valves and manifolds with certain of its customers. Generally, these customers purchase special purpose valves from the Company to meet a specific need in a system which cannot be filled by any valve made by such customer. To the extent that the Company introduces new valves in the future that increase the competition between the Company and such customer, such competition could adversely affect the Company's relationships with these customers.

**CYCLICALITY.** The capital goods industry in general, and the hydraulic valve and manifold industry in particular, is subject to economic cycles. Cyclical downturns could have a material adverse effect on the Company's business, financial condition and results of operation.

**MANUFACTURING CAPACITY EXPANSION.** The Company's Sarasota, Florida, manufacturing facility is currently operating near full capacity. In March 1996, the Company began construction of a new plant in Sarasota, Florida, which will be used for the manufacture of manifolds. It is intended that, after the new facility is completed, the existing Sarasota plant will be utilized solely for the manufacture of the Company's screw-in cartridge valves. Construction of the new plant is expected to be completed early in 1997. In March 1996, the Company began construction of a new plant in Erkelenz, Germany, which is scheduled to be completed by the end of 1996. There can be no assurance that the Company will be able to complete its plant expansions on a timely basis or that production will commence on schedule. Any delay in opening the new facilities, unanticipated disruptions to manufacturing at the current facility or unanticipated startup costs at either new facility could adversely affect the Company's business, financial condition and results of operation. See "Business -- Properties."

**INTERNATIONAL SALES.** In 1995, approximately 34% of the Company's net sales were outside of the United States. The Company is expanding the scope of its operations outside the United States, both through direct investment and distribution and expects that international sales will continue to account for a significant portion of net sales in future periods. International sales are subject to various risks, including unexpected changes in regulatory requirements and tariffs, longer payment cycles, difficulties in receivable collections,

potentially adverse tax consequences, trade or currency restrictions and, particularly in emerging economies, potential political and economic instability and regional conflicts. Furthermore, the Company's international operations generate sales in a number of foreign currencies, particularly British pounds and German marks. Therefore, the Company's financial condition and results of operation are affected by fluctuations in exchange rates between the United States dollar and these currencies. Any or all of these factors could have a material adverse effect on the Company's business, financial condition and results of operation.

**INDEPENDENT DISTRIBUTORS.** The Company uses independent distributors and does not maintain an internal sales force. While the Company knows of no current intention of any of its principal distributors to terminate existing relationships, there is no assurance of the continuation of such relationships.

In the event any current relationships are terminated, there can be no assurance that the Company will be able to secure adequate substitutions, and such inability could have a material adverse effect on the Company's business, financial condition and results of operation. See "Business -- Sales and Marketing."

**ENVIRONMENTAL COMPLIANCE.** The Company's operations involve the handling and use of substances that are subject to federal, state and local environmental laws and regulations that impose limitations on the discharge of pollutants into the soil, air and water and establish standards for their storage and disposal. Management believes that the Company's current operations are in substantial compliance with applicable environmental laws and regulations, the violation of which could have a material adverse effect on the Company. There can be no assurance, however, that currently unknown matters, new laws and regulations, or stricter interpretations of existing laws or regulations will not materially affect the Company's business or operations in the future.

**RISK OF PRODUCT LIABILITY.** The application of many of the Company's products entails an inherent risk of product liability. There can be no assurance that the Company will not face any material product liability claims in the future or that the product liability insurance maintained by the Company at such time will be adequate to cover such claims.

**OPERATION AS A PUBLIC COMPANY.** Since its inception, the Company has maintained a very long-term view of its business operations. Product developments, process developments and capital investments have been executed to achieve long-term benefits. The Company also believes that one of its competitive strengths is its horizontal management structure which fosters broad employee involvement in all aspects of its operations. Following the Offering, the potential for the Company to focus on short-term financial results could have an adverse effect on the Company's internal culture and significantly alter the Company's long-term view and, as a result, its long-term business performance and operating results.

**TECHNOLOGICAL CHANGE.** The fluid power industry and its component parts are subject to technological change, evolving industry standards, changing customer requirements and improvements in and expansion of product offerings. If technologies or standards used in the Company's products become obsolete, the Company's business, financial condition and results of operation will be adversely affected. Although the Company believes that it has the technological capabilities to remain competitive, there can be no assurance that developments by others will not render the Company's products or technologies obsolete or noncompetitive. See "Business -- Strategy."

**RAW MATERIALS.** The primary raw materials used by the Company in the manufacture of its products are aluminum, ductile iron and steel. There can be no assurance that prices for such materials will remain stable. If the Company is unable to pass through any price increases to its customers, the operating results of the Company will be adversely affected.

**PAYMENT OF SUBSTANTIAL PORTION OF OFFERING PROCEEDS TO CURRENT STOCKHOLDERS.** In connection with the Reorganization, the Company will terminate its status as an S Corporation and will pay a distribution to its stockholders of record as of October 5, 1996, in an aggregate amount equal to the Company's undistributed S Corporation earnings through such date. As of September 30, 1996, the amount of such undistributed earnings totalled approximately \$9.9 million. The actual amount of the distribution will include the taxable income of the Company for the period from October 1, 1996, through the date of the consummation of the Reorganization, less any foreign or other taxes payable by the Company. The distribution will be paid by the

Company from the net proceeds of the Offering. See "Use of Proceeds" and "S Corporation Distribution." The purchasers of Common Stock in the Offering will not receive any portion of the S Corporation Distribution.

**PAYMENT OF DIVIDENDS.** Although the Company currently intends to pay quarterly cash dividends beginning with the quarter ending March 31, 1997, there can be no assurance that there will be funds available therefor. The declaration and payment of dividends will be subject to the sole discretion of the Board of Directors of the Company and will depend upon the Company's profitability, financial condition, capital needs, future prospects and other factors deemed

relevant by the Board of Directors, and may be restricted by the terms of the Company's credit agreements.

**CERTAIN ANTI-TAKEOVER PROVISIONS.** The Company's Articles of Incorporation provides for a classified Board of Directors. In addition, the Articles of Incorporation gives the Board of Directors the authority, without further action by the stockholders, to issue up to 2,000,000 shares of preferred stock and to fix the rights and preferences of such preferred stock. The issuance of such shares may have a dilutive effect on stockholders' equity. These and other provisions of the Articles of Incorporation and the Company's Bylaws may deter or delay changes in control of the Company, including transactions in which stockholders might otherwise receive a premium for the shares over then current market prices. In addition, these provisions may limit the ability of stockholders to approve transactions that they may deem to be in their best interests. See "Description of Capital Stock."

**CONTROL BY CURRENT STOCKHOLDERS AND MANAGEMENT.** Following the sale of the shares of Common Stock offered hereby, Robert E. Koski and members of his family will own or control approximately 43.5% of the outstanding shares of Common Stock (41.4% if the Underwriters' over-allotment option is exercised in full). Accordingly, the members of the Koski family likely will have the ability to control the election of the Company's Directors and the outcome of certain corporate actions requiring stockholder approval and to control the business of the Company. Such control could preclude any acquisition of the Company and could adversely affect the price of the Common Stock. Additionally, all Directors and Executive Officers of the Company as a group will beneficially own or control approximately 52.5% of the outstanding shares of Common Stock (50.1% if the Underwriters' over-allotment option is exercised in full). See "Principal Stockholders."

**SHARES ELIGIBLE FOR FUTURE SALE.** Sales of substantial amounts of Common Stock after the Offering, or the perception that such sales could occur, could adversely affect prevailing market prices for the Common Stock. There will be 6,000,000 shares of Common Stock outstanding immediately following the consummation of the Offering (6,300,000 shares if the Underwriters' over-allotment option is exercised in full). The 2,000,000 shares of Common Stock offered hereby (plus an additional 300,000 shares if the Underwriters' over-allotment option is exercised in full) will be fully tradeable without restriction or registration under the Securities Act by persons other than "affiliates" (as defined in the Securities Act) of the Company. The shares of Common Stock other than those offered hereby will be "restricted securities" under the Securities Act and may only be sold pursuant to an effective registration statement under the Securities Act or an applicable exemption from the registration requirements of the Securities Act, including Rule 144 thereunder. Upon completion of the Offering, the Company intends to file an S-8 registration statement to register up to 1,000,000 shares of Common Stock reserved for issuance pursuant to the Company's 1996 Stock Option Plan. See "Management -- Stock Option Plan." The Company, all Directors and Executive Officers and all holders of more than 5% of the Common Stock prior to the Offering have agreed with the Underwriters not to offer, sell, contract to sell, grant any option to purchase or otherwise dispose of their shares of Common Stock of the Company or any securities convertible into or exercisable or exchangeable for such Common Stock or in any other manner transfer all or a portion of the economic consequences associated with the ownership of such Common Stock for a period of 180 days after the date of this Prospectus without the prior written consent of A.G. Edwards & Sons, Inc. See "Shares Eligible for Future Sale."

**NO PRIOR TRADING MARKET; POSSIBLE VOLATILITY OF STOCK PRICE.** Prior to the Offering, there has been no public market for the Company's Common Stock, and there can be no assurance that an active trading market will develop or be sustained after the Offering. The initial public offering price negotiated between the

Company and the Underwriters may not be indicative of prices that will prevail in the trading market after the Offering, and there can be no assurance that the market price of the Common Stock after the Offering will not fall below the

initial public offering price. See "Underwriting". There has historically been significant volatility in the market price of securities of manufacturing and capital goods companies. In addition, the stock market in recent years has experienced extreme price and volume fluctuations that often have been unrelated or disproportionate to the operating performance of companies. Many factors that have influenced trading, such as actual or anticipated operating results, growth rates, changes in estimates by analysts, market conditions in the industry, announcements by competitors, regulatory actions and general economic conditions, will vary from period to period. As a result of the foregoing, the Company's operating results and prospects from time to time may be below the expectations of public market analysts and investors. Any such event would likely result in a material adverse effect on the price of the Common Stock.

IMMEDIATE AND SUBSTANTIAL DILUTION. Investors purchasing shares of Common Stock in the Offering will incur immediate, substantial dilution. See "Dilution."

## S CORPORATION DISTRIBUTION

Prior to the consummation of the Reorganization, the Company was treated for federal and certain state income tax purposes as an S Corporation under the Internal Revenue Code of 1986, as amended (the "Code"), and comparable state tax laws. As a result, the Company's earnings were taxed for federal and certain state income tax purposes directly to its stockholders. Upon the consummation of the Reorganization, the Company's status as an S Corporation will be terminated. On October 5, 1996, the Board of Directors declared a dividend (the "S Corporation Distribution") in an amount equal to all of its undistributed earnings through the date of termination of its S Corporation status. The Company will pay 90% of the estimated amount of the S Corporation Distribution within 10 business days after the closing of the Offering. The balance of the S Corporation Distribution will be paid by May 15, 1997. The S Corporation Distributions will be paid to stockholders of record of the Company as of October 5, 1996. As of September 30, 1996, the amount of the S Corporation Distribution would have totalled approximately \$9.9 million. The actual amount of the S Corporation Distribution will include the taxable income of the Company for the period from October 1, 1996, through the date of the consummation of the Reorganization, less any foreign or other taxes payable by the Company. The Reorganization will be effective immediately prior to the closing of the Offering. The S Corporation Distribution will be paid by the Company with a portion of the net proceeds of the Offering. See "Use of Proceeds." The purchasers of Common Stock in the Offering will not receive any portion of the S Corporation Distribution.

## USE OF PROCEEDS

The net proceeds to the Company from the sale of the 2,000,000 shares of Common Stock offered hereby, assuming an initial public offering price of \$10.50 per share (after deducting the underwriting discount and estimated offering expenses), are estimated to be approximately \$18.6 million. The Company intends to use the net proceeds of the Offering as follows:

(i) approximately \$8.7 million to repay the outstanding balance of the Company's \$3.0 million capital equipment loan, the outstanding indebtedness under the \$2.4 million mortgage loan on the Company's existing manufacturing facility in Florida and approximately \$3.3 million of the indebtedness under a 10-year mortgage loan for \$6.2 million related to the new manufacturing facility in Florida. These loans had a weighted average interest rate of 8.25% at September 30, 1996, and maturity dates of May 1, 2003, for the capital equipment loan, April 1, 2006, for the mortgage loan on the existing facility and July 1, 2006, for the new facility mortgage loan;

(ii) approximately \$9.9 million will be used to pay the S Corporation Distribution; and

(iii) any remainder will be used for general corporate purposes.

Pending the application of the net proceeds as described above, such proceeds will be placed in interest-bearing bank accounts or invested in short-term United States government securities, certificates of deposit of major banks, money market mutual funds or investment-grade commercial paper.

#### DIVIDEND POLICY

The Company currently intends to pay quarterly cash dividends of \$.035 per share, beginning with the quarter ending March 31, 1997, assuming that there are funds legally available therefor. However, the declaration and payment of dividends will be subject to the sole discretion of the Board of Directors of the Company and will depend upon the Company's profitability, financial condition, capital needs, future prospects and other factors deemed relevant by the Board of Directors. Further, the revolving line of credit agreement the Company expects to enter into prior to the consummation of the Offering may include covenants which restrict the payment of dividends.

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#### CAPITALIZATION

The following table sets forth the short-term borrowings and capitalization of the Company at September 30, 1996, and as adjusted to give effect to the sale by the Company of the Common Stock offered hereby and the application of the net proceeds therefrom as described under "Use of Proceeds."

<TABLE>  
<CAPTION>

	SEPTEMBER 30, 1996		
	PRO FORMA		
	ACTUAL	PRO FORMA(1)	AS ADJUSTED(2)
	(IN THOUSANDS)		
<S>	<C>	<C>	<C>
Total short-term debt.....	\$ 1,750	\$ 1,750	\$ 1,145
Total long-term debt.....	\$12,788	\$ 12,788	\$ 4,718
Stockholders' equity (3):			
Common Stock, \$.001 par value, 20,000,000 shares authorized, 4,000,000 shares issued and outstanding and 6,000,000 shares issued and outstanding as adjusted; preferred stock, \$.001 par value, 2,000,000 shares authorized, no shares issued and outstanding as adjusted.....	4	4	6
Capital in excess of par value.....	4,985	4,985	23,563
Retained earnings.....	19,427	7,577	7,577
Equity adjustment for foreign currency translation.....		(386)	(386) (386)
Total stockholders' equity.....	24,030	12,180	30,760
Total capitalization.....	\$36,818	\$ 24,968	\$ 35,478

</TABLE>

- 
- (1) Pro Forma for the Reorganization as if the following had occurred as of September 30, 1996: (i) the S Corporation Distribution of approximately \$9.9 million and (ii) the related provision for deferred income taxes of approximately \$1.9 million. See "S Corporation Distribution" and Notes 1 and 11 of the Notes to Financial Statements.
  - (2) Gives effect to the adjustments described in Note (1) above, the receipt of the estimated net proceeds from the Offering and the application of such proceeds as set forth under "Use of Proceeds."
  - (3) Actual stockholders' equity as of September 30, 1996, gives effect to the Reorganization. See "The Reorganization."

## DILUTION

Purchasers of the Common Stock offered hereby will experience an immediate and substantial dilution in the net tangible book value of their Common Stock from the assumed initial public offering price. The net tangible book value of the Company at September 30, 1996, was approximately \$24.0 million, or \$6.01 per share. Net tangible book value per share is equal to net tangible assets (tangible assets of the Company less total liabilities) divided by the number of shares of Common Stock outstanding. Net tangible book value dilution per share represents the difference between the amount per share paid by purchasers of shares of Common Stock in the Offering and the pro forma net tangible book value per share of Common Stock immediately after completion of the Offering. After giving effect to the payment of the S Corporation Distribution, the provision for deferred income taxes to be recorded upon the Company's termination of its S Corporation status, and the sale of the 2,000,000 shares of Common Stock offered hereby (after deducting the underwriting discount and estimated offering expenses), the pro forma net tangible book value of the Company as of September 30, 1996, would have been approximately \$30.8 million, or \$5.13 per share. This represents an immediate increase in net tangible book value of \$2.09 per share to existing stockholders and an immediate dilution in net tangible book value of \$5.37 per share to purchasers of Common Stock in the Offering, as illustrated in the following table:

<S>	<C>	<C>
Assumed public offering price per share.....		\$10.50
Net tangible book value per share at September 30, 1996.....		\$6.01
Decrease attributable to S Corporation Distribution(1).....	2.48	
Decrease attributable to provision for deferred income taxes(2)...	.49	
	----	
Subtotal.....	3.04	
Increase per share attributable to new investors.....	2.09	
	----	
Pro forma net tangible book value per share after the Offering.....		5.13
	-----	
Net tangible book value dilution per share to new investors.....		\$ 5.37
	=====	

&lt;/TABLE&gt;

- 
- (1) As of September 30, 1996, the amount of the S Corporation Distribution would have totalled approximately \$9.9 million. The actual amount of the S Corporation Distribution will include the taxable income of the Company for the period from October 1, 1996, through the date of the consummation of the Reorganization, less any foreign or other taxes payable by the Company.
- (2) Represents an expense of approximately \$1.9 million resulting from recognition of deferred income taxes to be recorded by the Company upon termination of its S Corporation status.

The following table sets forth certain information with respect to the number of shares of Common Stock purchased from the Company, the total cash consideration paid and the average price per share paid, by existing stockholders:

<TABLE>  
<CAPTION>

	SHARES PURCHASED		TOTAL CONSIDERATION		AVERAGE
			PRICE PER		
	NUMBER	PERCENT	AMOUNT	PERCENT	SHARE
	-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>	<C>
Existing stockholders.....	4,000,000	66.7%	\$ 4,985,000(1)	19.2%	\$ 1.25
New investors.....	2,000,000	33.3%	21,000,000	80.8%	10.50

Total.....	6,000,000	100.0%	\$25,985,000	100.0%
------------	-----------	--------	--------------	--------

</TABLE>

(1) Represents aggregate par value and capital in excess of par value as of September 30, 1996.

The foregoing tables assume no exercise of outstanding options. As of September 30, 1996, there were options outstanding to purchase 319,960 shares of Common Stock at a weighted average price of \$3.90 per share, all of which are presently exercisable. Additionally, the Company has committed to issue immediately after the consummation of the Offering options to purchase 289,348 shares at the initial public offering price of the Common Stock. Of such additional options, options to purchase 39,168 shares of Common Stock will be exercisable within 60 days. See "Management -- Stock Option Plan" and "Shares Eligible for Future Sale."

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SELECTED FINANCIAL DATA

Set forth below is selected financial data for each of the five years ended December 31, 1995, and for the nine month periods ended September 30, 1995 and 1996. The selected financial data for each of the three years ended December 31, 1995, has been derived from the Company's combined financial statements which have been audited by Price Waterhouse LLP, independent certified public accountants, that are included elsewhere herein and should be read in conjunction with such financial statements and the Notes thereto. The selected unaudited financial data for the years ended December 31, 1991 and 1992 has been derived from financial statements that are not included herein. The selected financial data as of and for the nine months ended September 30, 1995 and 1996 has been derived from the Company's unaudited interim combined financial statements contained elsewhere herein. In the opinion of management, the unaudited combined financial statements have been prepared on the same basis as the audited combined financial statements and include all adjustments (consisting of only normal recurring accruals) necessary for a fair presentation of the financial position and results of operations for these periods. Results of operations for the nine months ended September 30, 1996, are not necessarily indicative of results to be expected for the year ending December 31, 1996. The following data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Business," "Risk Factors" and the Combined Financial Statements and the Notes thereto included elsewhere in this Prospectus.

<TABLE>  
<CAPTION>

	NINE MONTHS ENDED						
	YEARS ENDED DECEMBER 31,				SEPTEMBER 30,		
	1991	1992	1993	1994	1995	1995	1996

(IN THOUSANDS EXCEPT PER SHARE DATA)

	<C>	<C>	<C>	<C>	<C>	<C>	<C>
STATEMENT OF INCOME DATA:							
Net sales.....	\$26,250	\$28,331	\$32,431	\$42,853	\$55,388	\$42,718	\$41,233
Cost of sales.....	16,928	17,946	21,971	27,512	34,581	26,361	27,903
Gross profit.....	9,322	10,385	10,460	15,341	20,807	16,357	13,330
Selling, engineering and administrative expenses.....	7,319	7,826	7,346	8,605	10,578	7,652	9,288(1)
Operating income.....	2,003	2,559	3,114	6,736	10,229	8,705	4,042
Interest expense.....	1,118	997	931	859	814	612	678
Miscellaneous (income) expense.....		(320)	(252)	249	66	(79)	(81)
Income before income taxes.....	1,205	1,814	1,934	5,811	9,494	8,174	3,257
Income tax provision (benefit)(2).....	46	(201)	(148)	408	633	478	727



Net income.....	\$ 1,159	\$ 2,015	\$ 2,082	\$ 5,403	\$ 8,861	\$ 7,696	\$ 2,530
PRO FORMA STATEMENT OF INCOME DATA:(3)							
Income before income taxes.....	\$ 1,205	\$ 1,814	\$ 1,934	\$ 5,811	\$ 9,494	\$ 8,174	\$ 3,257
Income tax provision.....	481	580	604	2,738	3,611	3,069	1,255
Net income.....	\$ 724	\$ 1,234	\$ 1,330	\$ 3,073	\$ 5,883	\$ 5,105	\$ 2,002
Net income per common share(4).....				\$ 1.13	\$ 0.38		
Weighted average shares outstanding(4).....				5,217	5,307		
OTHER FINANCIAL DATA:							
Depreciation.....	\$ 1,953	\$ 1,971	\$ 2,112	\$ 2,197	\$ 2,556	\$ 1,803	\$ 2,288
Capital expenditures.....	1,683	1,987	3,005	5,130	7,657	5,316	12,423

<TABLE>  
<CAPTION>

	DECEMBER 31,				SEPTEMBER 30,		
	1991	1992	1993	1994	1995	1995	1996
	<C>	<C>	<C>	<C>	<C>	<C>	<C>

<S>  
BALANCE SHEET DATA:

Cash and cash equivalents.....	\$ 1,711	\$ 1,128	\$ 1,883	\$ 2,371	\$ 2,434	\$ 1,493	\$ 1,187
Working capital.....	4,474	3,396	4,557	5,085	4,326	5,591	3,064
Total assets.....	22,445	20,411	22,674	27,868	33,864	32,304	43,964
Total debt.....	8,541	7,637	8,184	8,025	6,186	6,095	14,538
Shareholders' equity.....	10,690	10,805	12,051	15,624	21,529	20,932	24,030

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- (1) Includes a non-recurring, non-cash compensation expense of approximately \$1.4 million related to the termination of phantom stock compensation agreements and the issuance of options to Directors. See Note 16 of the Notes to Financial Statements. Excluding such expense, pro forma net income for the nine months ended September 30, 1996 would have been approximately \$2.9 million.
- (2) The Company has previously operated as an S Corporation. Therefore, the historical income tax provision represents primarily foreign taxes.
- (3) The pro forma statement of income data is based on historical net income as adjusted to reflect a provision for income taxes calculated using the statutory rates in effect during the applicable periods, as if the Company had been a C Corporation since inception. See Notes 2 and 11 of the Notes to Financial Statements.
- (4) The pro forma net income per share data is based on the historical weighted average number of shares outstanding and as adjusted to reflect the assumed issuance of 1,066,000 shares (as of the beginning of each respective period) to fund the S Corporation Distribution as of September 30, 1996. See "S Corporation Distribution."

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

The following discussion should be read in conjunction with, and is qualified in its entirety by, the Financial Statements and the Notes thereto and Selected Financial Data included elsewhere in this Prospectus. Historical operating results are not necessarily indicative of trends in operating results for any future period.

## 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's innovative product design, consistent high quality and superior product performance have allowed it to generate a profit in every year since 1972 and achieve an internal compound annual growth rate in net sales of 17% over the last ten years, although net sales were down approximately 3.5% for the first nine months of fiscal year 1996 compared to the first nine months of fiscal year 1995. In recent years, the Company's sales have been comprised of approximately 75% screw-in cartridge valves and approximately 25% manifolds, and the Company expects that relationship to remain relatively constant. The Company sells its products globally through independent distributors and in 1995 generated approximately 34% of its net sales outside the United States.

The Company experienced significant growth in net sales and improvements in profitability in 1994 and 1995. Management believes that the Company's growth was due primarily to the increasing awareness of the quality, reliability and design flexibility of the Company's products and its increased presence in international markets, as well as the growth of the hydraulics market in general. In the nine months ended September 30, 1996, the Company experienced a decline in net sales and gross margin due to declines in industry shipments and temporary inefficiencies caused by the Company's existing plant in Sarasota, Florida, operating near full capacity. The Company believes that the new facility under construction in Sarasota, Florida, will address the current capacity constraints.

The capital goods industry in general, and the hydraulic valve and manifold industry in particular, is subject to economic cycles. Following three years of rapid growth, the hydraulic valve and manifold industry peaked in mid-1995. The National Fluid Power Association ("NFPA") estimated a decline in domestic industry shipments in excess of 2% in the first half of 1996. The Company's net sales during the nine months ended September 30, 1996, although adversely affected by capacity constraints, were in line with industry trends. Historically, the Company has managed to mitigate negative consequences of cyclical downturns with new product introductions and geographic and end user market diversity. The Company is unable to predict the length and/or severity of the current downturn. The demand for the Company's products is dependent upon demand for the capital goods in which the Company's products are incorporated. In 1995, approximately 34% of the Company's net sales were outside the United States and the Company's single largest end user customer represented less than 3% of net sales.

The Company maintains facilities in the United States, the United Kingdom and Germany. The United States plant manufactures screw-in cartridge valves and manifolds, and supplies the United Kingdom plant with finished products and some cartridge valve components for final assembly and test. The United Kingdom operation also manufactures manifolds and supplies a portion to the United States plant. Both the United States and United Kingdom operations supply technical support and finished product to the German distribution facility. The United States dollar is the functional currency for all intercompany sales, and international sales are made in a number of foreign currencies, particularly British pounds and German marks. Currency fluctuations have not been material to date, but could become more important as the Company's international sales grow in the future.

The Company has been an S Corporation for federal and state income tax purposes. As a result, the Company has not been subject to federal and state income taxes, but has been subject to foreign taxes. The Company will terminate its S Corporation status in connection with the consummation of the Reorganization

and will be fully subject to federal and state income taxes in the future. Upon termination of S Corporation status, the Company will be required to recognize approximately \$1.9 million of deferred income taxes.

## RESULTS OF OPERATIONS

The following table sets forth, for the periods indicated, certain items in the Company's statements of income as a percentage of net sales. Results for any

one or more periods are not necessarily indicative of annual results or continuing trends.

<TABLE>  
<CAPTION>

AS A PERCENTAGE OF NET SALES					
NINE MONTHS					
ENDED					
YEAR ENDED DECEMBER 31,			SEPTEMBER 30,		
1993	1994	1995	1995	1996	
<S>	<C>	<C>	<C>	<C>	<C>
Net sales.....	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of sales.....	67.7	64.2	62.4	61.7	67.7
Gross profit.....	32.3	35.8	37.6	38.3	32.3
Selling, engineering and administrative expenses...	22.7	20.1	19.1	17.9	22.5
Operating income.....	9.6	15.7	18.5	20.4	9.8
Interest expense.....	2.9	2.0	1.5	1.4	1.6
Miscellaneous (income) expense.....	0.7	0.1	(0.1)	(0.1)	0.3
Income before income taxes.....	6.0%	13.6%	17.1%	19.1%	7.9%

</TABLE>

#### Comparison of Nine Months Ended September 30, 1996 and 1995

Net sales decreased 3.5%, or \$1.5 million, to \$41.2 million in the nine month period ended September 30, 1996, compared to \$42.7 million in the nine month period ended September 30, 1995. Domestic net sales decreased 3.6%, or \$1.0 million to \$27.3 million in the nine month period ended September 30, 1996, primarily due to distributor inventory adjustments as well as to a general decline in hydraulic industry shipments. International net sales decreased 3.2%, or \$0.5 million, to \$13.9 million in the nine month period ended September 30, 1996. United Kingdom net sales increased 10.3% while net sales decreased in Germany and Canada 14.9% and 25.3%, respectively.

Gross profit decreased 18.5%, or \$3.0 million, to \$13.3 million in the nine month period ended September 30, 1996, compared to \$16.4 million in the nine month period ended September 30, 1995. Gross profit as a percentage of net sales decreased to 32.3% for the nine month period ended September 30, 1996, from 38.3% for the nine month period ended September 30, 1995. The decrease in gross profit was primarily due to increased costs in the United States plant as new machinery for future growth was installed in severely restricted space, creating excess down time and start-up costs. In addition, material cost increases also were experienced due to an increase in outsourcing necessitated by the United States plant operating near full capacity.

Selling, engineering and administrative expenses increased 21.4% or \$1.6 million, to \$9.3 million in the nine month period ended September 30, 1996, compared to \$7.7 million in the nine month period ended September 30, 1995. These expenses as a percentage of net sales increased to 22.5% for the nine month period ended September 30, 1996, from 17.9% for the nine month period ended September 30, 1995. The increase in selling, engineering and administrative expenses was primarily due to a non-recurring, non-cash compensation expense of \$1.4 million related to the issuance of stock options and the cancellation of phantom stock compensation agreements and increases in software development costs and professional fees. Excluding the \$1.4 million compensation expense, selling, engineering and administrative expenses as a percentage of sales would have been 19.2% for the nine month period ended September 30, 1996, compared to 17.9% for the nine month period ended September 30, 1995.

#### Comparison of Years Ended December 31, 1995 and 1994

Net sales increased 29.3%, or \$12.5 million, to \$55.4 million in 1995, compared to \$42.9 million in 1994. Domestic net sales increased 27.7%, or \$7.9 million, to a total of \$36.6 million in 1995, compared to \$28.7 million in 1994. International net sales increased 32.5%, or \$4.6 million, to \$18.8 million in



expense.....	(151)	(16)	5	(70)	2	53	(63)	117	
Income before income taxes...	1,535	2,765	2,613	2,796	1,320	1,392	1,622	243	
Pro forma tax provision.....	723	987	933	1,149	542	554	646	55	
Pro forma net income.....	\$ 812	\$ 1,778	\$ 1,680	\$ 1,647	\$ 778	\$ 838	\$ 976	\$ 188	

</TABLE>

## 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 as needed. The Company's principal uses of cash have been to pay operating expenses, make capital expenditures, make distributions to stockholders, repurchase shares of the Company's Common Stock and service debt.

At September 30, 1996, the Company had working capital of approximately \$3.1 million. Cash generated from operations was \$5.9 million and \$9.6 million in the nine month periods ended September 30, 1996 and 1995, respectively. The decrease in the Company's cash generated from operations reflects primarily a decrease in net income. Cash generated from operations was \$12.7 million in 1995, compared to \$7.3 million and \$3.5 million in 1994 and 1993, respectively.

Capital expenditures in the nine months ended September 30, 1996, were \$12.4 million, compared to \$5.3 million in the comparable 1995 period. For the full year 1996, the Company intends to invest approximately \$16.0 million in capital expenditures, of which \$11.0 million will be used to complete the new manufacturing plants in the United States and Germany, and approximately \$5.0 million will be invested in machinery and equipment. Capital expenditures were \$7.7 million, \$5.1 million and \$3.0 million in 1995, 1994 and 1993, respectively. Included in 1995 capital expenditures was \$0.9 million used for land and land improvements for the new United States and German facilities.

The Company currently has a \$1.7 million line of credit, secured by all inventory and accounts, which bears interest at the lender's prime rate and has a maturity date of March 1, 1997. The Company currently is negotiating a new unsecured revolving credit facility which will provide a maximum availability of \$10.0 million, payable on demand, with a floating interest rate. There can be no assurance that the Company will be able to finalize this new facility; however, management believes that the Company would be able to obtain other financing on commercially reasonable terms if the Company is unable to obtain the credit facility described above.

In 1996, the Company obtained a mortgage loan of approximately \$2.4 million, 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%. In May 1996, the Company converted its existing \$0.8 million line of credit for capital equipment to a term loan, borrowing an additional \$2.3 million for a total loan amount of approximately \$3.1 million. The interest rate on the term loan is 8.25% and it matures on May 1, 2003. The loan is secured by the equipment purchased with the loan proceeds. Concurrently, the Company obtained a ten-year mortgage loan for \$6.2 million at an interest rate of 8.25% for the new facility in Florida. This loan matures on July 1, 2006. The existing Florida facility has a \$2.4 million mortgage loan with an interest rate of 8.25%. This loan matures on April 1, 2006. In

England, the Company has a \$1.2 million line of credit, denominated in British pounds, which bears interest at a floating rate (8.0% at September 30, 1996) equal to 2.25% over the bank's base rate. None of these arrangements contain pre-payment penalties. In addition, the Company has \$2.7 million in notes payable to former stockholders, which bear interest at a weighted rate of 15%, and which have terms ranging from three to five years. These notes were issued by the Company in connection with the repurchase of shares of Common Stock from the former stockholders, and do not allow for prepayment by the Company.

The Company intends to use approximately \$8.7 million of the net proceeds from the Offering to repay the outstanding balance of the Company's \$3.0 million capital equipment loan, the \$2.4 million mortgage loan related to the existing

facility in Florida and \$3.3 million of the indebtedness under the mortgage loan for \$6.2 million related to the new facility in Florida.

The Company believes that cash generated from operations, borrowing availability under the bank facility currently under negotiation and the net proceeds of the Offering will be sufficient to satisfy the Company's operating expenses and capital expenditures for the foreseeable future.

## SEASONALITY

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. As a result, the Company's fourth quarter net sales, income from operations and net income typically have been the lowest of any quarter during the year.

## INFLATION

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

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## BUSINESS

### 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 innovative floating construction of the Company's screw-in cartridge valves provides demonstrable performance and reliability advantages compared to other available screw-in cartridge valves. Screw-in cartridge valves are an increasingly accepted alternative to conventional forms of hydraulic valving, offering significant design flexibility, as well as substantial size, weight and efficiency benefits afforded to designers of fluid power systems. Since the introduction of screw-in hydraulic cartridge valves in the late 1950s, manufacturers of these and similar products have captured approximately \$550 million of the worldwide market for all non-aerospace hydraulic valves and manifolds, which management believes to be in excess of \$3 billion. The Company has generated a profit each year since 1972 and has achieved an internal compound annual growth rate in net sales of 17% over the last ten years. The Company believes that its success is primarily a result of its innovative product design, consistent high quality and superior product performance.

Fluid power involves the transfer and control of power through fluids under pressure. Fluid power systems are integral to a wide variety of manufacturing, material handling, agricultural and construction equipment. Due to its mechanical advantage, fluid power is widely employed to move and position materials, control machines, vehicles and equipment, and improve industrial efficiency and productivity. Fluid power systems typically are comprised of valves and manifolds that control the flow of fluids, a pump that generates pressure and actuators such as cylinders and motors that translate pressure into mechanical energy.

The Company designs and manufactures one of the most comprehensive lines of screw-in hydraulic cartridge valves in the world. These valves control direction, pressure, flow and loads, are available in up to five size ranges, and are suitable for flows from 5 to 400 gallons per minute and continuous operating pressures up to 5,000 pounds per square inch. The floating construction pioneered by the Company provides demonstrable performance and reliability advantages compared to competitors' product offerings due to its self-alignment characteristic that accommodates potential manufacturing deviations common in the thread-making operations of screw-in cartridge valves and manifolds. This floating construction significantly differentiates the Company from most of its competitors, who design and manufacture rigid screw-in cartridge valves that fit an industry common cavity. The Company believes that competitors' products typically do not offer the inherent reliability of the

Company's products and cannot provide equivalent operating performance because of the design constraints imposed by the industry common cavity.

The Company also designs and manufactures the most comprehensive line of standard manifolds in the world. A manifold is a solid block of metal, usually aluminum, steel or ductile iron, which is machined to create threaded cavities and channels into which screw-in cartridge valves are installed and through which the hydraulic fluids flow. Fluid power engineers can package standard or customized manifolds with screw-in cartridge valves to create application-specific, multiple-function hydraulic control systems that are safe, reliable and provide greater control. In 1995, screw-in cartridge valves accounted for approximately 75% of the Company's net sales while standard and custom manifolds accounted for approximately 25% of net sales.

The Company sells its products primarily through a global network of independent fluid power distributors to a diverse universe of end users, for use in various "mobile" applications, such as construction, agricultural and utility equipment (approximately 65% of net sales), and a broad array of "industrial" applications, such as machine tools and material handling equipment (approximately 35% of net sales). Sales to the Company's largest distributor represented approximately 6% of net sales in 1995, and the Company believes that aggregate sales by its distributors to the largest end user represented less than 3% of net sales in 1995.

The Company believes that screw-in cartridge valves will continue to achieve significant growth at the expense of conventional hydraulic valves as design engineers recognize the inherent advantages of screw-in cartridge valves. The Company believes that additional growth potential for screw-in cartridge valve applications exists as a result of a trend toward miniaturization as end users require smaller, lighter-weight and

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more efficient components. Custom manifolds that utilize screw-in cartridge valves allow customers to design an optimal solution for control of their fluid power systems that significantly reduces assembly time and expense. The United States and Western Europe are the largest developed markets for screw-in cartridge valves, and the Company believes future growth prospects are particularly attractive in the Pacific Rim, Eastern Europe and India where the adoption of screw-in cartridge valves is in the early stage. In 1995, approximately 34% of the Company's net sales were outside the United States.

Management believes that the Company's success during its 26-year history is due in large part to its emphasis on innovative product designs and vertically integrated, state of the art manufacturing processes. Management attributes the Company's ability to continuously implement process improvements to its horizontal management structure that encourages employee contribution at all levels. The Company does not have a formal organizational chart and employee responsibilities do not devolve from titles or narrow job descriptions. This management philosophy is utilized throughout the Company's operations.

## INDUSTRY BACKGROUND

Fluid power is one of three basic technologies, along with electrical and mechanical, utilized to achieve power transmission and motion control. Due to its mechanical advantage, fluid power is widely employed to move and position materials, control machines, vehicles and equipment, and improve industrial efficiency and productivity. Fluid power can perform work on very light loads with a high degree of accuracy or develop enormous forces to move and position materials and equipment that weigh many tons. As a result, fluid power systems are integral to a wide variety of manufacturing, material handling, agricultural and construction equipment. Fluid power systems typically are comprised of valves and manifolds that control the flow of fluids, a pump to generate fluid pressure, and actuators, such as cylinders and rotary motors, to translate pressure into mechanical energy.

Screw-in hydraulic cartridge valves first appeared in the late 1950s as an alternative to conventional forms of hydraulic valving. Conventional hydraulic valves are generally larger in size, typically manufactured from cumbersome iron castings, relatively inflexible in their ability to interface with machinery and equipment, and are usually simple devices designed to control a single task.

Screw-in cartridge valves represent a miniaturization of hydraulic valves, providing the same functional characteristics as conventional valves, but in a smaller package size. In addition to being lighter-weight and more compact, screw-in cartridge valves frequently offer significant advantages in interface flexibility and cost over conventional hydraulic valves.

Screw-in cartridge valves have achieved greater marketplace acceptance in recent years as hydraulic system design engineers increasingly use them to develop multiple-function control systems. A number of screw-in cartridge valves can be grouped together in a manifold, creating a hydraulic control system that is functionally analogous to an electronic integrated circuit. The Company's breadth of products offers many custom "packaging" opportunities that allow design engineers to create custom, application-specific solutions using the Company's cataloged "off-the-shelf" screw-in cartridge valves and related components. End users can utilize screw-in valves and custom manifolds to design an optimal solution for control of their fluid power systems that significantly reduces assembly time and expense.

The Company estimates the global market for non-aerospace hydraulic valves to be in excess of \$3 billion, and believes that manufacturers of screw-in hydraulic cartridge valves and manifolds and similar products have captured approximately \$550 million of the total market. The United States and Western Europe are the largest developed markets for screw-in cartridge valves, and the Company believes that future growth prospects are particularly attractive in the Pacific Rim, Eastern Europe and India, where the adoption of screw-in cartridge technology is in the early stage.

## STRATEGY

The Company's objective is to enhance its position as one of the world's leading designers and manufacturers of screw-in hydraulic cartridge valves by (i) broadening the market for screw-in cartridge valve applications, (ii) continuing the geographic expansion of its markets, and (iii) selectively expanding its product lines. Key elements of the Company's strategy include the following:

**Deliver Value Through High-Quality, High-Performance Products.** The Company's products are designed with operating and performance characteristics that typically exceed those of functionally similar products. Overall, the Company's products provide high value because they generally operate at higher flow rates and pressures than competitive offerings of the same size. The Company tests 100% of its screw-in cartridge valves in order to ensure the highest level of performance on a consistent basis.

**Offer a Wide Variety of "Off-the-Shelf" Products.** The Company currently offers one of the most comprehensive lines of screw-in cartridge valves in the world. The Company is committed to producing functionally superior, cataloged products that contain a high degree of common content to minimize work in process and maximize manufacturing efficiency. Products are designed for use by a broad base of industries to minimize the risk of dependence on any single market segment or customer. The Company, in the future, will seek to expand its business through development of products that are complementary to its existing products.

**Capitalize on Custom Manifold Opportunities.** Because fluid power system design engineers are increasingly incorporating screw-in cartridge valves into custom control systems, the Company will concentrate its efforts in the custom manifold market in two ways: (i) by designing and manufacturing manifolds which incorporate the Company's screw-in cartridge valves for sale to original equipment manufacturers ("OEMs"), and (ii) by encouraging competitive manifold manufacturers to utilize the Company's screw-in cartridge valves in their manifold designs. The Company's internally developed, proprietary expert system software allows the Company efficiently to design and manufacture smaller, more efficient manifolds in low quantities. The Company provides free software to aid manifold designers in designing the Company's unique cavity into their manifolds and sells tooling at cost for machining its cavities, allowing independent manifold manufacturers easily to incorporate the Company's screw-in cartridge valves into their designs.

**Expand Global Presence.** The Company intends to continue to increase its global presence through expansion of its distribution network and its



international manufacturing capabilities. Key areas for expansion where the Company has minimal presence include Central and South America, China and Eastern Europe. In addition to operating units in Germany and England, the Company has strong distributor representation in most developed and developing markets, including Western Europe, Taiwan, Korea, Singapore, Australia and Japan. In 1995, the Company generated approximately 34% of its net sales outside the United States. The Company believes that further expansion of its international manufacturing facilities could enhance its competitive position in certain foreign markets. In addition, custom manifolds provide an opportunity for distributors to offer significant local-added content through the local production of manifolds that incorporate the Company's screw-in cartridge valves. This strategy helps minimize potential tariffs and duties that could inflate the price of the Company's products in foreign markets.

**Maintain a Horizontal Organization with Entrepreneurial Spirit.** The Company believes that maintaining its horizontal management structure is critical to retaining key personnel and an important factor in attracting top talent from within the hydraulic valve and manifold industry. The Company will strive to maintain its horizontal management structure that encourages communication, creativity, an entrepreneurial spirit and individual responsibility among employees. Employee initiatives have led to continuous process improvement, resulting in considerable operating efficiencies and quality control, as well as the maintenance of a safe and comfortable working environment. The Company believes that a lack of job titles and direct formal reporting responsibilities eliminates perceived barriers to advancement and reduces the potential for adversarial relationships to arise within the organization. A workplace without walls in the Company's offices as well as on the shop floor encourages informal employee consultation and provides the opportunity for all personnel to interface across functional areas.

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**Leverage Manufacturing Capability and Know-how as Competitive Advantages.** The Company believes one of its competitive advantages is its ability to manufacture products to demanding specifications. The Company's strong process capability allows it to machine parts to exacting dimensional tolerances, resulting in the high performance characteristics of its screw-in cartridge valves. The Company has the ability to control manufacturing processes to replicate products consistently and can, if it desires, manufacture all components of its products with the exception of springs and elastomer seals. Additionally, the Company has in-house heat treatment capability to provide consistent and reliable control of this critical operation.

**Sell Through Distributors, Market to End Users.** Due to the variety of potential customers and the Company's desire to avoid unnecessary bureaucracy, the sales function has been performed primarily by independent distributors. The Company currently utilizes 60 distributors, 37 of which are located outside the United States and a majority of which have strong technical backgrounds or capabilities which enable them to develop practical, efficient and cost-effective fluid power systems for their customers. The Company provides a high level of technical support to its distributors through open access to the Company's engineering staff, catalogs, technical documents and technical training programs. In addition, the Company maintains close relationships with many OEMs and end users of its products in order to understand and predict future needs for fluid power control devices and to test and refine new product offerings.

## PRODUCTS

The Company's products are integral components in fluid power systems for both "mobile" applications, such as construction, agricultural and utility equipment (approximately 65% of net sales) and a broad array of "industrial" applications, such as machine tools and material handling equipment (approximately 35% of net sales). In 1995, screw-in cartridge valves accounted for approximately 75% of the Company's net sales while standard and custom manifolds accounted for approximately 25% of net sales.

### Screw-in Cartridge Valves

The Company designs and manufactures high-performance, screw-in hydraulic cartridge valves in up to five size ranges, suitable for flows from 5 to 400 gallons per minute and continuous operating pressures up to 5,000 pounds per square inch. The floating construction pioneered by the Company provides

demonstrable performance and reliability advantages compared to competitors' product offerings due to its self-alignment characteristic that accommodates potential manufacturing deviations common in the thread-making operations of screw-in cartridge valves and manifolds. This floating construction significantly differentiates the Company from most of its competitors, who design and manufacture rigid screw-in cartridge valves that fit an industry common cavity. The floating construction of the Company's screw-in cartridge valves eliminates the tendency of working parts inside rigid cartridge valves to bind when screwed into the manifold, which leads to unnecessary stress and often premature failure.

The Company has developed new market opportunities by scaling its screw-in cartridge valves to accommodate application requirements with various flow ranges. Management believes that the series zero valve introduced in 1996 will allow the Company to gain entry to new market applications which it previously had not been able to serve, including fork lift trucks and food processing equipment. The Company believes that scaling involves minimal risk, as designs and manufacturing processes are already proven. Future upward scaling of the product line currently is in a conceptual stage.

The Company manufactures screw-in cartridge valves for load control, pressure control, flow control and logic and directional control, with a broad range of other unique functional offerings. Many variants of the same basic functional products can be interchanged with each other to attain an optimum level of performance in a customer's fluid power system. The Company's screw-in cartridge valves are described more fully below.

**Load Control Valves.** The Company considers itself to be the world's recognized leader in the design and manufacture of load control valves and believes that it holds a dominant market share position in multiple end use applications. Load control valves are pressure devices that are used to control the motion and locking of linear and rotary hydraulic actuators (cylinders and motors) and often are used as safety devices in many critical system areas. Typical applications for these products include cranes,

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manlifts and aerial platforms. The uncompromising requirement for smooth and reliable operation in these applications has helped build the Company's reputation as a high quality, screw-in cartridge valve manufacturer. Load control valves represent the Company's largest selling product family.

**Pressure Control Valves.** The Company manufactures screw-in cartridge valves for limiting or regulating fluid pressure. Types of pressure controls include relief valves, reducing valves, reducing/relieving valves and sequence valves, each available in many variants and configurations. Most hydraulic systems incorporate at least one pressure relief valve for over-pressure protection.

**Flow Control Valves.** The Company manufactures a variety of two-, three- and four-port valves to control the rate of flow of fluids in fluid power systems. These valves typically are used to control speed and are an integral component in most fluid power systems. Variety and high flow capacity relative to physical size help differentiate the Company in this product area.

**Logic and Directional Control Valves.** The Company manufactures a variety of screw-in cartridge valves that can be used as directional control devices. These valves are used to start, direct and stop the flow of fluid in a fluid power system and can be actuated electrically, manually or with hydraulic pressure. The Company's logic control valves, some of which are patented, can be used in combination with one another to provide complex directional control functions. The Company also manufactures high-pressure spool-type solenoid valves and other pilot devices that can be used to actuate other Company screw-in cartridge valves.

**Other Products.** The Company designs and manufactures a broad array of screw-in cartridge valves that can be used in combination with other Company products to offer useful and unique functionality. For example, the Company's Air-Bleed and Start-Up cartridge valves help protect a fluid power system from potential damage by releasing air trapped in the system when a machine is shut down for maintenance. Often, these functional

products are not manufactured by any other competitors, providing the Company with additional sales opportunities. While these products are not generally demanded in high volumes, their usefulness across industries helps strengthen the Company's brand name and market penetration.

## Manifolds

A manifold is a solid block of metal, usually aluminum or ductile iron, which is machined to create threaded cavities and channels into which screw-in cartridge valves can be installed and through which the hydraulic fluid flows. The manifolds manufactured by the Company are described more fully below.

**Standard Manifolds.** The variety of standard, cataloged manifolds offered by the Company is unmatched by any screw-in cartridge valve competitor. These products allow customers easily to interface the Company's screw-in cartridge valves into their systems in many different ways. Once designed, standard manifolds require minimal, if any, maintenance engineering over the life of the product. The following are the types of standard manifolds manufactured by the Company:

- Line Mounted Manifolds can be placed anywhere in a hydraulic system and are easily connected to various standard couplings. These specific products are suitable for both mobile and industrial applications.
- Subplates and Sandwich Manifolds are offered in five different sizes and industry standard interface patterns and generally are used in industrial applications. The Company believes that the breadth of different functional screw-in cartridge valves it manufactures allows it to offer more functionally unique standard sandwich manifolds than any other cartridge valve or conventional valve manufacturer.
- Motor Mount Manifolds fit a variety of the most common commercially available hydraulic motor interface patterns. These products allow users of hydraulic motors to buy standard control elements to interface simply and easily with their motors.

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**Custom Manifolds.** Custom manifolds are designed for a customer-specific application and typically combine many different screw-in cartridge valves in a single package. The Company's internally developed, proprietary expert system software allows the Company efficiently to design and manufacture smaller, more efficient manifolds in low quantities.

## ENGINEERING

The Company believes that it is critical for engineers to play an important role in all aspects of the Company's business, including design, manufacturing, sales and marketing and technical support. The Company currently employs 11 screw-in cartridge valve design engineers, 13 engineering personnel who serve in other capacities, including designing standard and custom manifolds, and five additional engineers who provide technical support. When designing products, engineers work within a disciplined set of design parameters that often results in repeated incorporation of existing screw-in cartridge valve components in new functional products. The Company's focus on engineering has served as the foundation of its ability to offer the expansive range of screw-in cartridge valves that it brings to market.

Before designing functionally new screw-in cartridge valves, the Company's engineers and sales and marketing personnel first establish performance and operating requirements for the products. An iterative design process is undertaken to meet the expected performance requirements in a screw-in cartridge valve that fits the Company's cavity. Prototypes are typically hand built and subject to extensive testing until the desired performance levels are achieved. Before a new product is released for sale, the Company's engineers will work closely with beta site customers to test the product under actual field conditions.

During product development, engineers work closely with manufacturing personnel to define the processes required to manufacture the product reliably and consistently. The close link between engineering and manufacturing helps to ensure a smooth transition from design to market. Design changes to facilitate manufacturing processes are not considered if performance levels would be

compromised. The Company practices a continuous improvement process, and at various times the Company may incorporate design changes in a product to improve its performance or life expectancy. All of the Company's engineers provide application support to customers and distributors.

## MANUFACTURING

The Company is a process intensive manufacturing operation that extensively utilizes state of the art computer numerically controlled ("CNC") machinery to manufacture its products with consistent replication and minimal lead times. Where commercial machinery is not available for specific manufacturing or assembly operations, the Company often designs and builds its own machinery to perform these tasks. The Company makes extensive use of automated handling and assembly technology (robotics) where possible to perform repetitive tasks, thus promoting manufacturing efficiencies and workplace safety. The Company has its own electric heat treatment furnace to provide consistent and reliable control of this important operation.

The Company's manufacturing operations include turning, grinding, honing and lapping operations for its screw-in cartridge valves and milling and drilling operations for its manifolds. Most machinery employed by the Company is computer numerically controlled, with more than 75 CNC machines in operation in the Company's manufacturing plants. The Company employs more than 60 robots, including 45 intelligent (programmable) models, to supplement traditional pick and place units. In addition, eight vision systems are in use with three used for decision making tasks. In its manifold manufacturing operations in Florida and England, the Company utilizes internally developed, proprietary personal computer based software to program machines off-line and to minimize setup times. This expert system also enables the Company to utilize compound angle holes in its manifold designs, a technique that allows manifolds to be made smaller in size with fewer potential leak points.

At its Sarasota, Florida plant, the Company has extensive testing facilities that allow its design engineers to test fully all products at their maximum rated pressure and flow rates. A metallurgist and complete metallurgical laboratory support the Company's design engineers and in-house heat treatment facility.

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Extensive test equipment also is utilized by the resident engineers at the Company's plants in England and Germany.

The Company employs a build-to-order philosophy and relies on its distributors to purchase and maintain sufficient inventory to meet their customers' demands. On the front end, most raw materials are delivered on a just-in-time basis, with a one-day supply of aluminum and a five-day supply of steel held in plant. These and other raw materials are commercially available from multiple sources. Scheduling is aided by a software system that provides employees with the requisite information to make intelligent scheduling decisions.

The Company's ability to machine components to exacting tolerances, such as millionths of an inch circularity, makes it more difficult for competitors to offer products of equal performance. The Company controls most critical finishing processes in-house but does rely on a small network of outside manufacturers to machine cartridge components to varying degrees of completeness. High volume machining operations are performed exclusively at outside vendors. The Company is very selective in establishing its vendor base and develops long-term relationships with vendors. The Company is capable of machining all parts of its cartridge valves and manifolds in house, except elastomer seals and springs. Both of the existing facilities in the United States and England have been certified to ISO 9002 since 1993.

The Company's operations involve the handling and use of substances that are subject to federal, state and local environmental laws and regulations that impose limitations on the discharge of pollutants into the soil, air and water and establish standards for their storage and disposal. The Company believes that it is in material compliance with all of such laws. Compliance with such laws and regulations has not had, and is not expected to have, any material effect on the Company's earnings or competitive position. The Company has not been required to make any material capital expenditures, nor does it expect to have to make any material capital expenditures, in connection with its

compliance with such laws and regulations.

## SALES AND MARKETING

The Company's products are sold globally primarily through independent fluid power distributors. Distributors are supported with product education programs conducted by the Company at its facilities. Technical support is provided by each of the Company's three operations (Florida, England and Germany), with two additional regional support offices in the United States. Included in the Company's sales and marketing staff are hydraulic engineers that have significant experience in the fluid power industry. Discount pricing structures encourage distributors to buy in moderate to high volumes to ensure there is a local inventory of products in the marketplace. Domestic distributors are rewarded with additional pricing discounts if payments are received within 10 days of invoicing, helping to establish lower accounts receivable cycle times. The Company does not grant extended payment terms to distributors. The Company has an exchange policy which permits distributors to return standard screw-in cartridge valves and standard manifolds for full credit, provided that the products are in new condition, packaged in factory boxes and date coded within two years. All inventory exchanges must be approved by the Company, and a distributor's quarterly total list price value of inventory exchanges generally is not permitted to exceed 2% of the distributor's prior year's annual shipments, up to a maximum of \$50,000.

The Company currently utilizes 60 distributors, 37 of which are located outside the United States and a majority of which have strong technical backgrounds or capabilities which enable them to develop practical, efficient and cost-effective fluid power systems for their customers. Sales to the Company's largest distributor represented approximately 6% of net sales in 1995 and approximately 34% of the Company's net sales were outside of the United States in 1995.

In addition to distributors, the Company sells directly to other companies within the hydraulic industry under a pricing program that does not undermine the primary distributors' efforts. Companies that participate in this program must utilize the Company's products in a value-added application, integrating the Company's screw-in cartridge valves into other fluid power products of their manufacture. This strategy strengthens the Company because it encourages other manufacturers to buy from the Company instead of competing with it. The "goodwill" relationships that result from this strategy also help to keep the Company abreast of

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technological advances within the fluid power industry, aiding in new product development. In 1995, direct sales to other fluid power component manufacturers accounted for approximately 5% of net sales.

While the Company generally does not sell directly to end users, it markets directly to end users with catalogs that typically include suggested list prices along with suggested customer discounts. This program is intended to provide design engineers with all the necessary information that is required to specify and obtain the Company's products. Since the average price for a single screw-in cartridge valve is about \$20 and the typical order from an end user is for a relatively small quantity, the Company recognizes that its products are often "bought" and not "sold." Publishing and distributing technically comprehensive catalogs makes the Company's products easy to purchase. The Company believes that publishing prices helps to maintain the Company's pricing strategy.

## CUSTOMERS

The Company mails its catalogs to more than 15,000 potential end users in the United States and Canada. Overseas marketing and catalog distribution is executed primarily through distributors. The Company believes that its single largest end use customer represented less than 3% of net sales in 1995, minimizing risks of dependence on major customers. The loss of any one customer would not have a material adverse effect on the Company's business. End users are classified by whether their primary applications for the Company's products are "mobile" or "industrial."

Mobile applications involve equipment that generally is not fixed in place, such as construction, agricultural and utility equipment. Mobile customers were the original users of screw-in cartridge valves due to the premium that these

industries place on considerations of space, weight and cost. Mobile customers currently account for approximately 65% of the Company's net sales. Mobile customers include JLG Industries, Genie, Altec and Simon Telelect (manlifts and aerial platforms); Komatsu Galion, Gomaco, Kawasaki, JCB, Clark Melroe and John Deere (construction equipment); Emergency One (fire rescue equipment); FMC (material handling equipment); Atlas Copco and Fletcher Mining Equipment (mining equipment); and Varco (oil field equipment).

Industrial applications involve equipment that generally is fixed in place in factories or processing plants. Examples include presses, injection molding equipment and machine tools. The requirements of the industrial marketplace are more demanding than most mobile applications since industrial equipment typically operates at significantly higher cycles. The Company's products are designed to withstand these operating imperatives, and industrial applications currently account for approximately 35% of the Company's net sales. Many conventional valve designs still are used in industrial applications and represent substitution opportunities for the Company's products. Industrial customers include Cincinnati Inc., Motch and Giddings & Lewis (machine tools); Cincinnati Milacron, Autojector and Mitsubishi (injection molding equipment); NRM McNeil (tire presses); Morgan Engineering (steel process plant equipment); and Beloit (paper process plant equipment).

The Company's distributors are not authorized to approve the use of its products in any of the following applications: (i) any product that comes under the Federal Highway Safety Act, such as steering or braking systems for passenger-carrying vehicles or on-highway trucks, (ii) aircraft or space vehicles, (iii) ordnance equipment, (iv) life support equipment, and (v) any product that, when sold, would be subject to the rules and regulations of the United States Nuclear Regulatory Commission. These "application limitations" have alleviated the need for the Company to maintain the internal bureaucracy necessary to conduct business in these market segments.

## COMPETITION

The hydraulic valve industry is highly fragmented and intensely competitive. The Company has a large number of competitors, some of which are full-line producers and others that are niche suppliers like the Company. Most competitors market globally. Full-line producers have the ability to provide total hydraulic systems to customers, including components functionally similar to those manufactured by the Company. There has been some consolidation activity in recent years, with large, full-line producers filling out their

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product lines with the acquisition of smaller, privately held screw-in cartridge valve producers. The Company believes that it competes based upon quality, reliability, price, value, speed of delivery and technological characteristics. The Company estimates that the following competitors represent more than 50% of the world-wide sales of non-aerospace, screw-in hydraulic cartridge valves: Oil Control SpA, Hydraforce, Inc., Vickers Incorporated, Danfoss Fluid Power, Dana Corp., Compact Controls, Inc., Sterling Hydraulics, Inc. and Parker-Hannifin Corp.

Most of the Company's screw-in cartridge valve competitors produce screw-in cartridge valves that fit an industry common cavity that allows their products to be interchangeable. The industry common cavity is not supported by any national or global standards organizations. The International Standards Organization (ISO) recently developed a standard screw-in cartridge cavity that is different from the industry common cavity. The Company does not manufacture a product that fits either the industry common or the ISO standard cavity. Currently, no major competitor produces products that conform to the ISO standard. See "Risk Factors -- Potential Marketplace Acceptance of Industry Standards."

The manifold business is also highly fragmented and intensely competitive. All of the major screw-in cartridge valve manufacturers either manufacture manifolds or have sources that they use on a regular basis. In addition, there are a number of independent manifold suppliers that produce manifolds incorporating various manufacturers' screw-in cartridge valves, including those made by the Company. Finally, there are many small, independent machine shops that produce manifolds at very competitive prices. Competition in the manifold business is based upon quality, price, relationships based on proximity to the customer, and speed of delivery.

## EMPLOYEES

As of October 1, 1996, the Company had approximately 410 full-time employees in the United States, approximately 70 in England and 10 in Germany. Over 80% of its employees are in manufacturing functions, over 10% are in engineering and marketing functions, and the remainder are in other support functions. None of the employees in any operating unit are represented by a union and the Company believes that relations with its employees are good.

Employees are paid either hourly or with an annual salary at rates that are competitive with other companies in the industry and geographic area. The combination of competitive salary, above average health and retirement plans, and a safe and pleasant working environment discourages employee turnover and encourages efficient, high-quality production.

The Company recognizes the need for continuing employee education to allow the workforce to remain effective in today's rapidly changing technological environment. Significant time is dedicated to education programs that assist employees in understanding technology and the change it brings to their jobs. The Company also offers tuition reimbursement programs that encourage employees to continue the education process outside the workplace.

## PROPERTIES

The Company owns two manufacturing facilities (Sarasota, Florida, and Coventry, England) with two additional facilities under construction (Sarasota, Florida and Erkelenz, Germany). The existing Sarasota plant has approximately 66,000 square feet, with additional acreage at the site that can accommodate future expansion. The Coventry plant is comprised of 25,000 square feet, with additional acreage at the site that can accommodate future expansion.

The new plant in Sarasota, located approximately two miles from the existing facility, will offer an additional 60,000 square feet of capacity and will be used initially for manifold manufacturing. Approximately 85 personnel from the existing plant will move to the new plant once it is completed. The new facility in Germany will offer approximately 42,000 square feet of capacity for future product manufacturing needs. Initially, the German facility will utilize a small percentage of available space to assemble cartridge valves and manifolds; the Company intends to sublease all or a portion of the unused space.

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## PATENTS AND TRADEMARKS

The Company believes that the growth of its business will be dependent upon the quality and functional performance of its products and its relationship with the marketplace, rather than the extent of its patents and trademarks. The Company's principal trademark is registered globally in the following countries: Australia, Canada, France, Germany, Italy, Japan, Korea, Mexico, Spain, Sweden, Switzerland, the United Kingdom and the United States. While the Company believes that its patents have significant value, the loss of any single patent would not have a material adverse effect on the Company.

## LEGAL PROCEEDINGS

The Company is not a party to any material legal proceedings other than routine litigation incidental to its business.

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## MANAGEMENT

### DIRECTORS, EXECUTIVE OFFICERS AND KEY EMPLOYEES

The following table sets forth certain information regarding the Directors, Executive Officers and certain key employees of the Company:

<TABLE>

<CAPTION>

NAME	AGE	POSITION
------	-----	----------

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<S>

<C> <C>

Robert E. Koski.....	67	Chairman of the Board of Directors
Clyde G. Nixon.....	61	President, Chief Executive Officer, Director
Robert J. Devereaux.....	65	Vice President
Jeffrey Cooper.....	55	Engineering Manager
Russell G. Copeman.....	57	Manufacturing Manager
Richard J. Dobbyn.....	53	Chief Financial Officer
Peter G. Robson.....	53	General Manager, Sun Hydraulics Limited
Arthur B. Bodley.....	78	Director
James G. March.....	68	Director
Curtis J. Timm.....	68	Director
Taco van Tijn.....	72	Director
David N. Wormley.....	57	Director

MR. KOSKI is a co-founder of the Company and has served as its Chairman of the Board since it began operations in 1970. He was also its President and Chief Executive Officer from that time until November 1988. He is a graduate of Dartmouth College and past Chairman of the Board of the National Fluid Power Association. Mr. Koski has over 35 years experience in the fluid power industry, and has served as Chairman of the Fluid Power Systems and Technology Division of the American Society of Mechanical Engineers, and as a member of the Board of Directors of the National Association of Manufacturers.

MR. NIXON joined the Company in January 1988, and was named its President and Chief Executive Officer in November 1988. From September 1985, to January 1988, he served as Vice President of Cross & Trecker Corporation and was President of Warner & Swasey Company, its wholly-owned subsidiary. From 1964 to 1985, he served in various management capacities with Brown & Sharpe Manufacturing Corporation, most recently as Vice President of its fluid power division and President of Double A Products Company, its wholly-owned subsidiary. Mr. Nixon is a graduate of Cornell University and the Harvard Business School, and he currently serves as First Vice Chairman of the Board of the National Fluid Power Association. Mr. Nixon has over 29 years experience in the fluid power industry.

MR. DEVEREAUX joined the Company as head of manufacturing operations and processes in June 1979. He was named Vice President in January 1991. From 1957 to 1979, he served in various management capacities with Continental Group and its subsidiaries Continental Can Corporation and Bondware/Crest. Mr. Devereaux is an engineering graduate of Rensselaer Polytechnical Institute. Mr. Devereaux has over 17 years experience in the fluid power industry.

MR. COOPER joined the Company in December 1990, as an engineer and has been Engineering Manager since September 1991. From August 1987, to December 1990, he was Engineering Manager, Mobile Valves, of Vickers, Incorporated, a wholly-owned subsidiary of Trinova Corporation, and from September 1979 to August 1986, he served as Vice President of Engineering for Double A Products Company. Mr. Cooper is an engineering graduate of Willesden College of Technology, London, England. Mr. Cooper has over 28 years experience in the fluid power industry.

MR. COPEMAN joined the Company in July 1996, as Manufacturing Manager, in charge of manufacturing operations and processes. From January 1996, to July 1996, Mr. Copeman was the principal of Copeman Consulting, and performed consulting services for the Company from March 1996 to July 1996. From January 1994, to October 1995, Mr. Copeman was a partner with Coopers & Lybrand, Australia; from July 1989, to December 1993, he was a Director of Coopers & Lybrand's International Manufacturing Practice. From January 1985, to July 1989, he served in various management positions with Vickers,

Incorporated, most recently as Vice President. From August 1967, to January 1985, he served in various management positions with Double A Products Company, most recently as Vice President. Mr. Copeman is a Certified Manufacturing Engineer and a graduate of Georgia Institute of Technology and the Krannert Business School of Purdue University. Mr. Copeman has over 22 years experience in the fluid power industry.

MR. DOBBYN joined the Company in October 1995, and was named Chief Financial Officer in July 1996. From June 1995 to October 1995, Mr. Dobbyn served as the Controller of Protek Electronics. From July 1994 to June 1995, he served as the Fiscal Director of a non-profit child care agency. From September



1984 to July 1994, Mr. Dobbyn was Senior Vice President-Finance and Administration for Lorai Data Systems, formerly Fairchild Weston Systems, a Schlumberger company. Mr. Dobbyn is a Certified Public Accountant and a graduate of Boston College.

MR. ROBSON has served as a Director of Sun Hydraulics Limited, Coventry, England, since May 1993, and has been employed by the Company as the General Manager of its United Kingdom operations since 1982. Mr. Robson is a Chartered Engineer and a graduate of Coventry University. Mr. Robson has over 30 years experience in the fluid power industry.

MR. BODLEY has served as President and Chief Executive Officer of Atlas Fluid Components Company, Inc., a fluid power distributorship in Akron, Ohio, since January 1966. Mr. Bodley has over 30 years experience in the fluid power industry. He has served as a Director of the Company since January 1973.

DR. MARCH is a Professor Emeritus at Stanford University, Palo Alto, California. He was a senior member of the faculty at Stanford University and the Stanford Business School from September 1970, to August 1995, and is the author of numerous books and articles on organizational behavior and decision making. From September 1964, to August 1970, Dr. March was a Professor of Psychology and Sociology at the University of California, Irvine, where he was Dean of the School of Social Sciences from 1964 to 1969. Dr. March served as a Director of the Company from 1989 to 1992, and rejoined the Company's Board of Directors in November 1995. He also is a member of the Board of Directors of Wally Industries and Chair of the Citicorp Behavioral Sciences Research Council. Dr. March is a graduate of the University of Wisconsin and received his Ph.D. from Yale University.

MR. TIMM is a private investor and was a founding partner of the law firm of Icard, Merrill, Cullis, Timm, Furen & Ginsburg, Sarasota, Florida, where he practiced law from 1958 to 1989. He is a graduate of the University of Minnesota and its law school and has served as a Director of the Company since April 1970.

MR. VAN TIJN is an attorney (solicitor), practicing law in London, England, since May 1971. He has been a Director of the Company since February 1989, and the principal statutory officer of Sun Hydraulik Holdings Limited since January 1991.

DR. WORMLEY is the Dean of the Engineering School at Pennsylvania State University, where he has taught since 1992. He previously was a member of the engineering faculty at the Massachusetts Institute of Technology. Dr. Wormley is Vice-Chair of the National Science Foundation Engineering Directorate Advisory Committee. Dr. Wormley has served as a Director of the Company since December 1992. He is an engineer and earned his Ph.D. from the Massachusetts Institute of Technology.

The Board of Directors currently consists of seven members. The Company's Articles of Incorporation divides the Board of Directors into three classes, with each class holding office for a three-year period. The terms of Messrs. Bodley, Koski and March expire in 1997; the terms of Messrs. Nixon and Timm expire in 1998; and the terms of Messrs. van Tijn and Wormley expire in 1999. Officers are elected annually by and serve at the discretion of the Board of Directors. Mr. Koski and Dr. March are step-brothers.

Directors who are not officers of the Company are paid \$2,500 for attendance at each meeting of the Board of Directors, as well as each meeting of each Board committee on which they serve when the committee meeting is not held within one day of a meeting of the Board of Directors. Directors are also reimbursed for their expenses incurred in connection with their attendance at such meetings. In January 1995, the Company paid Mr. Timm the final \$12,500 of a total \$25,000 consulting fee for preparation of a report analyzing certain structural, legal and tax issues relating to the Company's business activities.

The Company has established a Compensation Committee, comprised of Dr. March, Mr. Timm and Dr. Wormley. The functions of the Compensation Committee are to review and approve annual salaries and bonuses for all Officers, review, approve and recommend to the Board of Directors the terms and conditions of all employee benefit plans or changes thereto, administer the Company's stock option

plans and carry out the responsibilities required by the rules of the Securities and Exchange Commission (the "Commission").

The Company expects that the Board of Directors will establish an Audit Committee and an Executive Committee. The members of each committee are expected to be determined at the first meeting of the Board of Directors following the closing of the Offering.

The functions of the Audit Committee will be to recommend annually to the Board of Directors the appointment of the independent public accountants of the Company, discuss and review the scope of and the fees for the prospective annual audit, to review the results thereof with the independent public accountants, review and approve non-audit services of the independent public accountants, review compliance with existing major accounting and financial policies of the Company, review the adequacy of the financial organization of the Company, review management's procedures and policies relative to the adequacy of the Company's internal accounting control, review compliance with federal and state laws relating to accounting practices and review and approve (with the concurrence of a majority of the disinterested Directors of the Company) transactions, if any, with affiliated parties.

The Executive Committee, to the fullest extent allowed by Florida law and subject to the powers and authority delegated to the Audit Committee and the Compensation Committee, will have and may exercise all the powers and authority of the Board of Directors in the management of the business and affairs of the Company during intervals between meetings of the Board of Directors.

#### COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION IN COMPENSATION DECISIONS

The Board of Directors of the Company determined the compensation, including salary and bonus, of the Executive Officers of the Company for the fiscal year ended December 31, 1995, and for the current fiscal year through the date hereof. Following the Offering, it is expected that the Compensation Committee of the Board of Directors will determine the compensation of the Company's Executive Officers. See "Management -- Directors, Executive Officers and Key Employees."

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#### EXECUTIVE COMPENSATION

The following table is a summary of the compensation paid or accrued by the Company for the last three fiscal years, for services in all capacities to the Company's Chief Executive Officer and its other three Executive Officers who earned more than \$100,000 from the Company in 1995 (the "Named Executive Officers").

#### SUMMARY COMPENSATION TABLE

<TABLE>  
<CAPTION>

NAME AND PRINCIPAL POSITION	ANNUAL COMPENSATION		LONG TERM COMPENSATION		OTHER ANNUAL COMPENSATION(2)
	----- YEAR		AWARDS -- SALARY	OPTIONS/SARS (#)(1)	
<S>	<C>	<C>	<C>	<C>	
Robert E. Koski,..... Chairman of the Board of Directors	1995	\$106,000	--		\$28,033(3)
	1994	106,000	--		18,837
	1993	106,000	--	13,056	
Clyde G. Nixon,..... President and Chief Executive Officer	1995	165,000	110,739		21,807
	1994	150,000	--		30,827(4)
	1993	142,500	--	13,229	
Robert J. Devereaux..... Vice President	1995	123,500	--		19,771
	1994	118,500	--		19,171
	1993	113,000	55,369	13,959	
Jeffrey Cooper..... Engineering Manager	1995	110,500	--		10,280
	1994	105,000	--		9,840
	1993	98,000	55,369	5,364	

</TABLE>

- 
- (1) Represents phantom stock compensation award.
  - (2) Certain perquisites were provided to certain of the Named Executive Officers, but in no event did the value of the perquisites provided in any year exceed 10% of the amount of the executive's salary for that year, except with respect to Mr. Koski (see note 3) and Mr. Nixon (see note 4). All other amounts shown in this column reflect contributions made by the Company on behalf of the employee to the Company's 401(k) plan.
  - (3) Includes payment by the Company of certain professional fees on behalf of Mr. Koski.
  - (4) Includes payment by the Company of certain club dues on behalf of Mr. Nixon.

OPTION/SAR GRANTS IN LAST FISCAL YEAR

<TABLE>  
<CAPTION>

NAME (A)	INDIVIDUAL GRANTS ----- PERCENT OF NUMBER OF TOTAL SECURITIES OPTIONS UNDERLYING GRANTED TO OPTIONS EMPLOYEES EXERCISE OR GRANTED IN FISCAL YEAR (\$/SH) DATE				POTENTIAL REALIZABLE VALUE AT ASSUMED ANNUAL RATES OF STOCK PRICE APPRECIATION FOR OPTION TERM (1) ----- 5% (\$) 10% (\$)		
	(#) (B)	YEAR (C)	(D)	(E)	DATE (F)	5% (\$) (G)	10% (\$)
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Robert E. Koski.....	0	--	--	--	--	--	--
Clyde G. Nixon.....	110,739	80%	\$3.36	7/1/05	\$234,486	\$591,798	
Robert J. Devereaux.....	0	--	--	--	--	--	--
Jeffrey Cooper.....	0	--	--	--	--	--	--

</TABLE>

- 
- (1) The 5% and 10% assumed annual rates of stock price appreciation are provided in compliance with Regulation S-K under the Securities Exchange Act of 1934. The Company does not necessarily believe that these appreciation calculations are indicative of actual future stock option values or that the price of Common Stock will appreciate at such rates.

AGGREGATED OPTION/SAR EXERCISES IN LAST FISCAL YEAR AND FISCAL YEAR END OPTION VALUES

<TABLE>  
<CAPTION>

NAME (A)	SHARES ACQUIRED ON EXERCISE (#) (B)	VALUE REALIZED (\$) (C)	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS/SARS AT FISCAL YEAR-END (#) EXERCISABLE/ UNEXERCISABLE (D)		VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS/SARS AT FISCAL YEAR-END (\$) EXERCISABLE/ UNEXERCISABLE(1) (E)	
			(D)	(E)	(E)	(1)
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Robert E. Koski.....	0	--	0/0	0/0		
Clyde G. Nixon.....	21,006	\$ 239,840	7,021/134,084	\$ 71,160/109,441		
Robert J. Devereaux.....	10,508	129,410	27,998/33,221	110,300/76,500		
Jeffrey Cooper.....	0	--	22,148/33,221	51,000/76,500		

</TABLE>

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- (1) In the absence of a trading market for the Common Stock, value is based upon the difference between book value per share at December 31, 1995 and the

exercise price.

## STOCK OPTION PLAN

The Company adopted the Sun Hydraulics Corporation 1996 Stock Option Plan (the "Plan") in September 1996. The Company may issue up to 1,000,000 shares of Common Stock to participants in the Plan. The Plan has a term of ten years.

The Plan authorizes the Company's Compensation Committee to grant options ("Options") to purchase shares of the Company's Common Stock to Directors, Officers and employees of the Company. The purposes of the Plan are to enable the Company to attract and retain qualified persons to serve as Directors, Officers and employees and to align the interests of such persons with the interests of stockholders by giving them a personal interest in the value of the Company's Common Stock.

Options granted to eligible employees under the Plan may be Options that are intended to qualify as "Incentive Stock Options" within the meaning of Section 422 of the Code or Options that are not intended to so qualify ("Nonstatutory Options"). Options granted to members of the Board of Directors who are not also employees of the Company will be Nonstatutory Options.

If the Option is designated as an Incentive Stock Option, the purchase price of the Common Stock that is the subject of such Option may be not less than the fair market value of the Common Stock on the date the Option is granted. Additionally, no Incentive Stock Option may be granted to any employee, who, at the time of such grant, owns more than 10% of the stock of the Company or of any subsidiary, unless at the time such Option is granted the exercise price is at least 110% of the fair market value of the Common Stock and the term of the Option is for five years or less. If the Option is a Nonstatutory Option, the purchase price may be equal to or less than the fair market value of the Common Stock on the date the Option is granted, as the Compensation Committee shall determine. No person may receive in any year Options to purchase more than 150,000 shares of Common Stock. The exercise price is payable at the time of exercise (i) in cash, (ii) by the delivery of shares of Common Stock having a fair market value equal to the exercise price, (iii) with a promissory note for part of the option price, or (iv) in such other manner as the Compensation Committee may approve. Any grant may provide for payment of the exercise price from the proceeds of sale through a broker on the date of exercise of some or all of the shares of Common Stock to which the exercise relates.

No Options may be exercised more than 10 years from the date of grant. Each employee's or Director's stock option agreement may specify the period of continuous service with the Company that is necessary before the Option will become exercisable. Except in the case of an employee who is permanently and totally disabled, if the Option is an Incentive Stock Option, it will be exercisable only if the recipient is an employee of either the Company or a subsidiary corporation at all times during the period beginning on the date of the grant of the Option and ending on a date which is no later than three months before the date of such exercise,

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all as specified in the employee's or Director's stock option agreement. Successive grants may be made to the same recipient regardless of whether Options previously granted to him or her remain unexercised.

No Option granted under the Plan is transferable by a participant except by will or the laws of descent and distribution. Options may not be exercised during a participant's lifetime except by the participant or, in the event of the participant's incapacity, by the participant's guardian or legal representative acting in a fiduciary capacity on behalf of the participant under state law and court supervision.

The Plan may be amended from time to time by the Board of Directors in such respects as it deems advisable. Further approval by the stockholders of the Company will be required for any amendment that would (i) increase the aggregate number of shares of Common Stock that may be issued under the Plan, (ii) materially change the classes of persons eligible to participate in the Plan, or (iii) otherwise cause Rule 16b-3 under the Exchange Act to cease to be applicable to the Plan. No amendment may change the Plan so as to cause any

Option intended to be an Incentive Stock Option to fail to meet the Internal Revenue Code requirements for an Incentive Stock Option. No amendment may change any rights an Option holder may have under any outstanding Option without the written consent of the holder of the Option. The Board may at any time terminate or discontinue the Plan.

The Company has granted to the four independent Directors who joined the Board of Directors prior to 1994 Nonstatutory Options under the Plan to purchase 14,700 shares of Common Stock. Such options have an exercise price of \$3.00 per share, a term of 10 years and are immediately exercisable. The Company intends to grant Incentive Stock Options to purchase 100,000 shares of Common Stock under the Plan to two Executive Officers of the Company following the Offering, with an exercise price equal to the initial public offering price of the Common Stock. The Options will vest over varying periods of time and have a term of 10 years. In connection with the termination of certain phantom stock compensation agreements in September 1996, the Company granted Nonstatutory Options to purchase 305,260 shares of Common Stock under the Plan to eight employees, including four Executive Officers of the Company. Such Options have exercise prices ranging from \$3.00 to \$5.05, with a weighted average price of \$3.95. Such options are all immediately exercisable and have a term of 10 years. The Company also has committed to grant Incentive Stock Options to purchase 189,348 shares of Common Stock under the Plan to such employees following the Offering at an exercise price equal to the initial public offering price of the Common Stock. Such Options will vest over varying periods of time, up to five years, and will have a term of 10 years. See "The Reorganization."

#### CERTAIN TRANSACTIONS

The information set forth herein briefly describes transactions over the past three years between the Company and its Directors, Officers and 5% stockholders. Management of the Company believes that such transactions have been on terms no less favorable to the Company than those that could have been obtained from unaffiliated parties. These transactions have been approved by a majority of the Company's disinterested Directors. Future transactions, if any, with affiliated parties will be approved by a majority of the Company's disinterested Directors and the Audit Committee (after the Offering) and will be on terms no less favorable to the Company than those that could be obtained from unaffiliated parties.

#### ORGANIZATION OF SUNOPTech, LTD.

In October 1995, the Company contributed certain intangible assets to SunOpTech, Ltd. ("SunOpTech"), a limited partnership formed to further the development of manufacturing software. In January 1996, the Company distributed to its stockholders the 65% limited partnership interest in SunOpTech which it received in exchange for the contributed intangible assets. Robert E. Koski owns 51% of the common stock of the general partner of SunOpTech, and Messrs. Koski and Clyde G. Nixon are members of the board of directors of the general partner. The Company currently has no ownership interest in SunOpTech.

The Company entered into a contract with SunOpTech for a 35-month term beginning November 1995, for the development of computer software and computer support to the Company. The Company will pay approximately \$955,000 over the contract term, provide office space and equipment and reimburse

SunOpTech for reasonable expenses related to the software development. During 1995, the Company paid fees of \$90,000 and expenses of \$25,000 under the agreement, and provided certain administrative support to SunOpTech at no charge. The software is still in the development stage but is being utilized in the Company's plants in Sarasota and Germany. Under its agreement with SunOpTech, the Company has a perpetual, nonexclusive license to use the software, as well as any future enhancements, without charge other than the development and support fees to be provided during the 35-month term of the agreement.

#### SUNINCO MERGER

On June 28, 1996, Suninco, Inc. ("Suninco") was merged into the Company.

Prior to the merger, the Company and Suninco were controlled by the same group of stockholders and were operated as a common enterprise, with Suninco as the owner and lessor of the Company's Sarasota, Florida, manufacturing plant and certain equipment utilized by the Company at that location. The relative values of the Company and Suninco in the merger were established by appraisals conducted for this purpose. In structuring the merger, the Company concluded that, based upon such appraisals, the issuance of 178,426 shares of Common Stock to the former Suninco stockholders represented fair value for the acquired assets of Suninco.

#### ATLAS FLUID COMPONENTS COMPANY, INC.

Arthur B. Bodley, a Director of the Company, is the President, Chief Executive Officer and controlling stockholder of Atlas Fluid Components Company, Inc. ("Atlas"), a fluid power distributorship in Akron, Ohio, that purchases and sells the Company's products pursuant to one of the Company's standard distributor agreements. Atlas purchased approximately \$1.3 million, \$1.2 million and \$1.1 million of products from the Company in fiscal 1995, 1994 and 1993, respectively.

#### INDEMNIFICATION AGREEMENTS

For a description of limitations on liability of the Company's Directors and certain indemnification arrangements with respect to the Company's Directors and Officers, see "Description of Capital Stock -- Directors' Liability." Further, the Company has entered into indemnity agreements with all of its Directors and Officers for the indemnification and advancing of expenses to such persons to the full extent permitted by law. The Company intends to execute such indemnity agreements with its future Officers and Directors. The Company maintains insurance for the benefit of its Officers and Directors insuring such persons against certain liabilities arising in connection with their service as Officers and Directors of the Company and its subsidiaries, including certain liabilities under the securities laws.

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#### PRINCIPAL STOCKHOLDERS

The following table sets forth information with respect to the beneficial ownership of the Company's outstanding Common Stock as of the consummation of the Reorganization and as adjusted to reflect the sale of the Common Stock offered hereby by (i) each person or entity known by the Company to be the beneficial owner of more than 5% of the outstanding shares of Common Stock, (ii) each Director and Named Executive Officer of the Company, and (iii) all Directors and Executive Officers of the Company as a group. Except as otherwise indicated, the persons listed below have sole voting and investment power with respect to all shares of Common Stock owned by them, except to the extent such power may be shared with a spouse. The table assumes that the persons listed do not purchase any shares of Common Stock in the Offering and that the Underwriters' over-allotment option is exercised in full.

<TABLE>  
<CAPTION>

NAME AND ADDRESS(1)	SHARES BENEFICIALLY OWNED PRIOR TO OFFERING		SHARES TO BE BENEFICIALLY OWNED AFTER OFFERING	
	NUMBER	PERCENT(2)	NUMBER	PERCENT(2)
<S> Koski Family Limited Partnership..... 5619 Preston Oaks Road Dallas, Texas 75240	<C> 2,258,543	<C> 56.5	<C> 2,258,543	<C> 35.8
Christine L. Koski(3)..... 5619 Preston Oaks Road Dallas, Texas 75240	2,322,835	58.1	2,322,835	36.9
Robert C. Koski(3)..... 315 Sycamore Street Decatur, Georgia 30030	2,258,546	56.5	2,258,546	35.8
Thomas L. Koski(3)..... Six New Street	2,258,546	56.5	2,258,546	35.8

East Norwalk, Connecticut 06855				
Robert E. Koski(4).....	2,544,927	63.6	2,544,927	40.4
Beverly Koski(4).....	2,544,927	63.6	2,544,927	40.4
Robert S. and Ann R. Ferrell(5).....	420,437	10.5	420,437	6.7
5924 Cranbrook Way, #101 Naples, Florida 34112				
Robert J. Devereaux(6).....	250,200	6.2	250,200	3.9
Clyde G. Nixon(7).....	211,637	5.2	211,637	3.3
Curtis J. Timm(8).....	97,284	2.4	97,284	1.5
Peter G. Robson(9).....	76,308	1.9	76,308	1.2
James G. March(10).....	53,572	1.3	53,572	*
Jeffrey Cooper(9).....	49,109	1.2	49,109	*
Arthur B. Bodley(8).....	13,860	*	13,860	*
Taco van Tijn(8).....	8,920	*	8,920	*
David N. Wormley(11).....	3,940	*	3,940	*
Russell G. Copeman.....	0	--	0	--
Richard J. Dobbyn.....	0	--	0	--
All Directors and Executive Officers as a Group (12 persons).....	3,309,757	76.8	3,309,757	50.1

</TABLE>

\* Less than 1%.

(1) Unless otherwise indicated, the address of each of the persons listed who own more than 5% of the Company's Common Stock is 1500 West University Parkway, Sarasota, Florida 34243.

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(2) Based on 4,000,000 shares of Common Stock outstanding prior to the Offering and 6,300,000 shares of Common Stock outstanding immediately after the Offering. Pursuant to the rules of the Commission, certain shares of Common Stock which a person has the right to acquire within 60 days of the date hereof pursuant to the exercise of stock options are deemed to be outstanding for the purpose of computing the percentage ownership of such person but are not deemed outstanding for the purpose of computing the percentage ownership of any other person.

(3) Includes 2,258,546 shares owned by the Koski Family Limited Partnership, over which Christine L. Koski, Robert C. Koski, Thomas L. Koski, Robert E. Koski and Beverly Koski share dispositive power. Each of the foregoing individuals has the sole right to vote 451,709 shares of Common Stock held by the Koski Family Limited Partnership. Christine L. Koski, Robert C. Koski and Thomas L. Koski are the adult children of Robert E. Koski and Beverly Koski.

(4) Includes 151,216 shares owned by Beverly Koski and 135,165 shares owned by Robert E. Koski. Beverly Koski is the spouse of Robert E. Koski.

(5) Includes 240,125 shares owned by the Robert S. Ferrell Trust, of which Robert S. Ferrell is the sole trustee, and 180,312 shares owned by the Ann R. Ferrell Trust, of which Ann R. Ferrell is the sole trustee. Robert S. Ferrell is the spouse of Ann R. Ferrell.

(6) Includes 139,871 shares owned by the Robert J. Devereaux Trust, of which Robert J. Devereaux is the sole trustee, and 52,500 shares owned by the Christine C. Devereaux Trust, of which Christine C. Devereaux is the sole trustee. Robert J. Devereaux is the spouse of Christine C. Devereaux. Also includes 57,829 shares which will be subject to options exercisable by Mr. Devereaux within 60 days which the Company has granted or committed to grant immediately following the Offering in connection with the amendment of certain phantom stock compensation agreements. See "The Reorganization."

(7) Includes 107,349 shares which are owned jointly by Mr. Nixon and his spouse. Also includes 104,288 shares which will be subject to options exercisable by Mr. Nixon within 60 days which the Company has granted or committed to grant immediately following the Offering in connection with the amendment of certain phantom stock compensation agreements. See "The Reorganization."

(8) Includes 3,920 shares subject to currently exercisable options.

(9) Represents shares which will be subject to options exercisable within 60 days which the Company has granted or committed to grant immediately

following the Offering in connection with the amendment of certain phantom stock compensation agreements. See "The Reorganization."

(10) Shares are owned jointly by Dr. March and his spouse.

(11) Includes 2,940 shares subject to currently exercisable options.

## THE REORGANIZATION

Immediately prior to the Offering, the Company will effect a 9.90373 for 1 stock split of its capital stock. As a result, the Company's 366,043 outstanding shares will be converted into 3,625,190 shares of Common Stock. The Company at the same time will acquire all of the 320,315 outstanding shares of capital stock of Sun Hydraulik Holdings Limited, a private limited company organized under the Laws of England and Wales ("SHHL"), pursuant to an exchange offer made by the Company to all of the stockholders of SHHL (the "Reorganization"). Pursuant to the terms of the exchange offer, the Company will issue 1.17013 shares of Common Stock (for a total of 374,810 shares of Common Stock) and \$0.16 in cash for each share of stock of SHHL acquired by it.

Prior to the Reorganization, the Company and SHHL were controlled by the same group of stockholders and were operated as a common enterprise, with all of the Company's European operations carried out through SHHL. The Company began operation in 1970 in Sarasota, Florida; SHHL's operations began in Europe in 1982. SHHL (through subsidiaries in England and Germany) and the Company conduct all of the business and hold all of the assets described as the Company's in this Prospectus. The relative values of the Company and SHHL for purposes of the Reorganization were established by appraisals conducted for this purpose. These appraisals also were used to establish the relative values of the Company and Suninco, Inc. for the June 1996 merger of those two corporations. See "Certain Transactions -- Suninco Merger."

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After the Reorganization, the stockholders of the Company and SHHL will own approximately 4,000,000 shares of the Company's Common Stock. No registration rights have been granted to the SHHL stockholders, and the shares of the Company's Common Stock issued to them in the Reorganization will be "restricted securities" under the Securities Act of 1933. See "Shares Eligible for Future Sale." The Reorganization is contingent upon the closing of the Offering and will be effective immediately prior thereto.

The stockholders of the Company and SHHL will own approximately 2/3 of the Company's outstanding shares after the Offering (assuming that the Underwriters' over-allotment option is not exercised). In structuring the Reorganization, the Company concluded that, based upon the appraisals of the two companies, the issuance of 374,810 shares represented fair value for the acquired assets and operations of SHHL. Although the combined stockholders' equity of the Company and SHHL as of September 30, 1996, was approximately \$24 million, the Company determined the combined value of the SHHL shares and the shares of Common Stock already outstanding to be in the \$38 million to \$46 million range, based upon the per share price range for the Offering. The Company based its determination primarily on its appraisal of the earning capacity of the combined entities as a going concern in light of negotiations with the Underwriters, rather than on underlying asset values.

In September 1996, in connection with the termination of certain individual phantom stock compensation agreements, the Company issued to eight employees of the Company and SHHL, including four Executive Officers of the Company, Options to purchase 305,260 shares of Common Stock. The exercise prices for such Options range from \$3.00 to \$5.05, with a weighted average of \$3.95. Such Options are all immediately exercisable and have a term of 10 years. The Company also has committed to issue to such employees Incentive Stock Options to purchase 189,348 shares of Common Stock following the Offering at the initial public offering



price of the Common Stock, and such Incentive Stock Options will vest over varying periods of up to five years.

Unless otherwise specified herein, references to the "Company" mean Sun Hydraulics Corporation after giving effect to the acquisition of SHHL in the Reorganization.

#### DESCRIPTION OF CAPITAL STOCK

The authorized capital stock of the Company consists of (i) 20,000,000 shares of Common Stock, \$0.001 par value per share, and (ii) 2,000,000 shares of preferred stock, \$0.001 par value per share (the "Preferred Stock").

#### COMMON STOCK

Holders of shares of Common Stock are entitled to one vote per share on all matters to be voted upon by the stockholders. Subject to the prior rights of the holders of Preferred Stock, if any, holders of Common Stock are entitled to receive dividends when, as and if declared by the Board of Directors from funds legally available therefor, and to share ratably in the assets of the Company legally available for distribution to the stockholders in the event of liquidation or dissolution. The Common Stock has no preemptive rights or redemption privileges. The Common Stock does not have cumulative voting rights, which means the holder or holders of more than half of the shares voting for the election of Directors can elect all the Directors then being elected. All the outstanding shares of Common Stock are, and the shares to be sold in the Offering when issued and paid for will be, fully paid and not liable for further call or assessment. After giving effect to the Reorganization, the Company will have 24 holders of record of Common Stock.

#### PREFERRED STOCK

The Company is authorized to issue 2,000,000 shares of Preferred Stock. The Preferred Stock may be issued from time to time in one or more series, and the Board of Directors is authorized to fix the dividend rights, dividend rates, conversion or exchange rights, voting rights, rights and terms of redemption (including sinking fund provisions), redemption price or prices, the liquidation preferences and any other rights, preferences, privileges and restrictions of any series of Preferred Stock and the number of shares constituting

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such series and the designation thereof. The Company has no present plans to issue any shares of Preferred Stock.

Depending upon the rights of such Preferred Stock, the issuance of Preferred Stock could have an adverse effect on holders of Common Stock by delaying or preventing a change in control of the Company, making removal of the present management of the Company more difficult or resulting in restrictions upon the payment of dividends and other distributions to the holders of Common Stock.

#### DIRECTORS' LIABILITY

As authorized by the Florida Business Corporation Act ("FBCA"), the Articles of Incorporation of the Company (the "Articles") limit the liability of Directors to the Company for monetary damages. The effect of this provision in the Articles is to eliminate the rights of the Company and its stockholders (through stockholders' derivative suits on behalf of the Company) to recover monetary damages from Directors for breaches of their fiduciary duties as Directors (including breaches resulting from negligent behavior), except in certain circumstances involving wrongful acts, such as the breach of a Director's duty of loyalty or acts or omissions which involve intentional misconduct or a knowing violation of law. Further, the Articles contain provisions to indemnify the Company's Directors and Officers to the full extent permitted by the FBCA. These provisions do not limit or eliminate the rights of the Company or any stockholder to seek non-monetary relief such as an injunction or rescission in the event of a breach of a Director's fiduciary duty. These provisions will not alter the liability of Directors under federal securities

laws. The Company believes that these provisions will assist the Company in attracting and retaining qualified individuals to serve as Directors.

## CERTAIN PROVISIONS OF FLORIDA LAW

The Company is subject to several anti-takeover provisions under Florida law that apply to a public corporation organized under Florida law, unless the corporation has elected to opt out of those provisions in its articles of incorporation or bylaws. The Company has not elected to opt out of those provisions. The FBCA prohibits the voting of shares in a publicly-held Florida corporation that are acquired in a "control share acquisition" unless the holders of a majority of the corporation's voting shares (exclusive of shares held by officers of the corporation, inside directors, or the acquiring party) approve the granting of voting rights as to the shares acquired in the control share acquisition. A "control share acquisition" is defined as an acquisition that immediately thereafter entitles the acquiring party to vote in the election of directors within each of the following ranges of voting power: (i) one-fifth or more but less than one-third of such voting power, (ii) one-third or more but less than a majority of such voting power, and (iii) more than a majority of such voting power.

The FBCA also contains an "affiliated transaction" provision that prohibits a publicly-held Florida corporation from engaging in a broad range of business combinations or other extraordinary corporate transactions with an "interested shareholder" unless (i) the transaction is approved by a majority of disinterested directors before the person becomes an interested shareholder, (ii) the interested shareholder has owned at least 80% of the corporation's outstanding voting shares for at least five years, or (iii) the transaction is approved by the holders of two-thirds of the corporation's voting shares other than those owned by the interested shareholder. An interested shareholder is defined as a person who together with affiliates and associates beneficially owns more than 10% of the corporation's outstanding voting shares.

## ANTI-TAKEOVER EFFECTS OF PROVISIONS OF THE COMPANY'S ARTICLES AND BYLAWS

Certain provisions of the Articles and the Bylaws of the Company (the "Bylaws") could have an anti-takeover effect. These provisions are intended to enhance the likelihood of continuity and stability in the composition of the Board of Directors of the Company and in the policies formulated by the Board of Directors and to discourage certain types of transactions, described below, which may involve an actual or threatened change of control of the Company. The provisions are designed to reduce the vulnerability of the Company to an unsolicited proposal for a takeover of the Company that does not contemplate the acquisition of all of its outstanding shares or an unsolicited proposal for the restructuring or sale of all or part of the

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Company. The provisions are also intended to discourage certain tactics that may be used in proxy fights. The Board of Directors believes that, as a general rule, such takeover proposals would not be in the best interests of the Company and its stockholders.

### Articles of Incorporation

Classified Board of Directors. The Articles provide for the Board of Directors to be divided into three classes of Directors serving staggered three-year terms. As a result, approximately one-third of the Board of Directors will be elected each year. The Board of Directors believes that a classified

Board of Directors will help to assure the continuity and stability of the Board of Directors and the business strategies and policies of the Company as determined by the Board of Directors.

The classified board provision could have the effect of discouraging a third party from making a tender offer or otherwise attempting to obtain control of the Company, even though such an attempt might be beneficial to the Company and its stockholders. In addition, the classified board provision could delay stockholders who do not agree with the policies of the Board of Directors from removing a majority of the Board for two years, unless they can show cause and obtain the requisite vote.

**Special Meetings of Stockholders.** The Articles provide that special meetings of stockholders of the Company may be called only by the Chairman, the President, a majority of the members of the Board of Directors or by the holders of 50% of the outstanding stock entitled to vote on an issue proposed to be considered at the special meeting. The Articles also prohibit the taking of stockholder action by written consent without a meeting if there are more than 30 stockholders of record. This provision will make it more difficult for stockholders to take action opposed by the Board of Directors.

**Amendment of Certain Provisions of the Articles.** The Articles generally require the affirmative vote of the holders of at least 80% of the outstanding voting stock in order to amend its provisions, including any provisions concerning (i) the classified board, (ii) the amendment of the Bylaws, (iii) the authority of stockholders to act by written consent, (iv) indemnification, (v) the liability of Directors, (vi) the calling of special meetings of the stockholders, and (vii) the supermajority voting requirements described in this paragraph. These voting requirements will make it more difficult for stockholders to make changes in the Articles which would be designed to facilitate the exercise of control over the Company. In addition, the requirement for approval by at least an 80% stockholder vote will enable the holders of a minority of the voting securities of the Company to prevent the holders of a majority or more of such securities from amending such provisions of the Articles.

**Number of Directors; Removal.** The Articles provide that the Board of Directors will consist of that number of Directors as shall be fixed from time to time by resolution adopted by a majority of the Directors then in office. Subject to the rights of the holders of any series of Preferred Stock then outstanding, the Articles provide that Directors of the Company may be removed only for cause and only by the affirmative vote of holders of a majority of the outstanding shares of voting stock. This provision will preclude a stockholder from removing incumbent Directors without cause and simultaneously gaining control of the Board of Directors by filling the vacancies created by such removal with its own nominees.

## Bylaws

**Advance Notice Requirements for Stockholder Proposals and Director Nominations.** The Bylaws establish an advance notice procedure for the nomination, other than by or at the direction of the Board of Directors or a committee thereof, of candidates for election as Director as well as for other stockholder proposals to be considered at stockholders' meetings.

Notice of stockholder proposals and Director nominations must be timely given in writing to the Secretary of the Company prior to the meeting at which the matters are to be acted upon or at which the Directors are to be elected. To be timely, notice must be received at the principal executive offices of the Company not less than 60 nor more than 90 days prior to the meeting of stockholders; provided, however, that in the event that less than 70 days' notice or prior public disclosure of the date of the meeting is given or made

received not later than the close of business on the tenth day following the day on which such notice of the date of the meeting was mailed or public disclosure of the date of the meeting was made, whichever first occurs.

A stockholder's notice to the Secretary with respect to a stockholder proposal shall set forth as to each matter the stockholder proposes to bring before the meeting (i) a brief description of the business desired to be brought before the meeting, (ii) the reasons for conducting such business at the meeting, (iii) the name and address of the stockholder proposing such business, (iv) the class or series and number of shares of stock of the Company which are owned beneficially or of record by such stockholder, (v) a description of all arrangements or understandings between such stockholder and any other person or persons (including their names) in connection with the proposal of such business by such stockholder and any material interest of such stockholder in such business and (vi) a representation that such stockholder intends to appear in person or by proxy at the annual meeting to bring such business before the meeting. A stockholder's notice to the Secretary with respect to a Director nomination shall set forth (i) certain information about the nominee, (ii) the consent of the nominee to serve as a Director if elected, (iii) the name and address of the nominating stockholder, (iv) the class or series and number of shares of stock of the Company which are beneficially owned by such stockholder, (v) a description of all arrangements or understandings between such stockholder and each proposed nominee and any other person pursuant to which the nominations are to be made, (vi) a representation that such stockholder intends to appear in person or by proxy at the meeting to nominate the persons named and (vii) certain other information.

The purpose of requiring advance notice is to afford the Board of Directors an opportunity to consider the qualifications of the proposed nominees or the merits of other stockholder proposals and, to the extent deemed necessary or desirable by the Board of Directors, to inform stockholders about those matters.

#### TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for the Company's Common Stock is SunTrust Bank, Atlanta, Atlanta, Georgia.

#### SHARES ELIGIBLE FOR FUTURE SALE

Prior to this Offering, there has not been any public market for securities of the Company. No predictions can be made as to the effect, if any, that market sales of shares or the availability of shares for sale will have on the market price prevailing from time to time. Nevertheless, sales of substantial amounts of Common Stock in the public market could adversely affect the prevailing market price.

There will be 6,000,000 shares of Common Stock outstanding immediately following consummation of the Offering (6,300,000 shares if the Underwriters' over-allotment option is exercised in full). The 2,000,000 shares of Common Stock offered hereby (plus an additional 300,000 shares if the Underwriters' over-allotment option is exercised in full) will be freely tradeable without restriction or registration under the Securities Act by persons other than "affiliates" (as defined in the Securities Act) of the Company. Shares purchased by affiliates will be subject to the resale limitations of Rule 144 promulgated under the Securities Act ("Rule 144") described below. The remaining shares of Common Stock will be "restricted securities" under the Securities Act and may only be sold pursuant to an effective registration statement under the Securities Act or an applicable exemption from the registration requirements of the Securities Act. Of such shares, and without consideration of the contractual restrictions described below, (i) 817,664 shares will be available for immediate sale in the public market without restriction pursuant to paragraph (k) of Rule 144, (ii) 2,629,100 shares will be eligible for sale in reliance upon Rule 144 and Rule 701 under the Securities Act commencing 90 days after the Company has been subject to certain of the reporting requirements of the Exchange Act (subject to certain conditions), (iii) 178,426 shares issued in connection with the merger of Suninco, Inc. into the Company in June 1996 will become eligible for sale in reliance upon Rule 144 upon the expiration of the two-year holding period imposed by Rule 144 in July 1998, and (iv) the 374,810 shares issued in

connection with the Reorganization will be eligible for sale in reliance upon Rule 144 upon the expiration of the two-year holding period imposed by Rule 144, which will expire on the date which is two

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years from the date of the consummation of the Reorganization. There are no stockholders who have the right to require the Company to register any shares of Common Stock held by them.

In general, under Rule 144 as currently in effect, a person who has beneficially owned "restricted securities" for at least two years, including a person who may be deemed an affiliate of the Company, is entitled to sell within any three month period a number of shares of Common Stock that does not exceed the greater of 1% of the then outstanding shares of Common Stock of the Company and the average weekly trading volume of the Common Stock on the Nasdaq National Market during the four calendar weeks preceding such sale. Sales under Rule 144 are further subject to certain restrictions relating to manner of sale, notice and the availability of current public information about the Company. Pursuant to paragraph (k) of Rule 144, a person who is not an affiliate of the Company at any time during the 90 days preceding a sale and who has beneficially owned shares of Common Stock for at least three years, is entitled to sell such shares without regard to the volume limitations, manner of sale provisions, notice or other requirements of Rule 144. Further, Rule 144A under the Securities Act as currently in effect permits the immediate sale of restricted shares to certain qualified institutional buyers without regard to the volume limitations described above.

In general, under Rule 701 of the Securities Act as currently in effect, any employee, consultant or advisor of the Company who purchased shares from the Company in connection with a compensatory stock or option plan or other written compensatory agreement is entitled to resell such shares without compliance with the public information, holding period, volume limitation or notice provisions of Rule 144, and affiliates are entitled to sell their Rule 701 shares without having to comply with Rule 144's holding period restrictions, in each case commencing 90 days after the Company becomes subject to the reporting requirements of Section 13 of the Exchange Act. Rule 701 is available for stockholders of the Company as to all shares issued pursuant to the exercise of options granted prior to the Offering.

All holders of more than 5% of the Common Stock and all Directors and Executive Officers have entered into agreements with the Underwriters ("Lock-up Agreements") in which they have agreed not to offer, sell, contract to sell, grant any option to purchase or otherwise dispose of any shares of Common Stock owned by them (a total of 3,492,248 shares) or any securities convertible into or exercisable or exchangeable for such Common Stock or in any other manner transfer all or a portion of the economic consequences associated with the ownership of such Common Stock for a period of 180 days after the date of this Prospectus without the prior written consent of A.G. Edwards & Sons, Inc.

Upon completion of the Offering, the Company intends to file a registration statement on Form S-8 to register up to 1,000,000 shares of Common Stock reserved for issuance pursuant to the Company's 1996 Stock Option Plan. Such registration statement is expected to become effective upon filing. As of September 30, 1996, there were options to purchase 319,960 shares of Common Stock for prices ranging from \$3.00 to \$5.05 outstanding under the Company's 1996 Stock Option Plan (including options to acquire 269,346 shares granted to Executive Officers and Directors that are subject to the Lock-up Agreements described above) and the Company has committed to issue immediately after the consummation of the Offering options to purchase an additional 289,348 shares of Common Stock at the initial public offering price of the Common Stock (including options to acquire 257,953 shares granted to Executive Officers and Directors that are subject to the Lock-up Agreements described above). See

UNDERWRITING

The Underwriters named below have severally agreed with the Company, subject to the terms and conditions of the Underwriting Agreement, to purchase the respective numbers of shares of Common Stock set forth opposite their names below:

<TABLE>  
<CAPTION>

UNDERWRITERS	NUMBER OF SHARES
-----	-----
<S>	<C>
A.G. Edwards & Sons, Inc.....	
Robert W. Baird & Co. Incorporated.....	
	-----
Total.....	2,000,000
	=====

</TABLE>

The Underwriting Agreement provides that the Underwriters are obligated to purchase all of the shares of Common Stock, if any are purchased.

The Company has been advised by A.G. Edwards & Sons, Inc. and Robert W. Baird & Co. Incorporated, the representatives of the Underwriters (the "Representatives"), that the Underwriters propose to offer the Common Stock to the public at the offering price set forth on the cover page of this Prospectus and to certain dealers at such price less a concession not in excess of \$ per share and that the Underwriters and such dealers may reallocate a discount of not in excess of \$ per share to other dealers. The public offering price and the concession and discount to dealers may be changed by the Representatives after the Offering.

The Company has granted the Underwriters an option, expiring at the close of business on the 30th day subsequent to the date of the Underwriting Agreement, to purchase up to 300,000 additional shares of Common Stock at the public offering price, less the underwriting discount set forth on the cover page of this Prospectus. The Underwriters may exercise such option solely to cover over-allotments, if any, in the sale of the shares. To the extent the Underwriters exercise such option, each of the Underwriters will have a firm commitment, subject to certain conditions, to purchase approximately the same percentage of the option shares as the number of shares set forth opposite each Underwriter's name in the preceding table bears to 2,000,000, and the Company will be obligated to sell such shares to the Underwriters.

The Company has agreed to indemnify the Underwriters against certain liabilities, including liabilities under the Securities Act.

The Company, all Directors and Executive Officers of the Company and all holders of more than 5% of the Common Stock prior to the Offering have agreed that they will not, directly or indirectly, offer, sell or otherwise dispose of any shares of Common Stock or any securities convertible into or exercisable or exchangeable for, or any rights to purchase or acquire, Common Stock for a period of 180 days after the date of this Prospectus without the prior written consent of A.G. Edwards & Sons, Inc.

The Representatives have advised the Company that they do not intend to confirm sales to any account over which they exercise discretionary authority.

Prior to the Offering, there has been no public market for the Common Stock. The public offering price for the Common Stock was determined by negotiation among the Company and the Representatives. Among the factors considered in determining the public offering price was the history of and the future prospects for the Company and the industry in which it operates, the past and present operating results of the Company and the trends of such results, an assessment of the Company's management, the general condition for the securities markets at the time of the Offering and the prices for similar securities of

comparable companies.

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## LEGAL MATTERS

The validity of the securities offered hereby will be passed upon for the Company by Shumaker, Loop & Kendrick, LLP, Tampa, Florida. Counsel for the Underwriters is Nelson Mullins Riley & Scarborough, L.L.P., Atlanta, Georgia.

## EXPERTS

The financial statements as of December 31, 1995 and 1994 and for each of the three years in the period ended December 31, 1995, included in this Prospectus have been so included in reliance on the report of Price Waterhouse LLP, independent certified public accountants, given on the authority of such firm as experts in auditing and accounting.

## ADDITIONAL INFORMATION

This Prospectus constitutes a part of a Registration Statement on Form S-1 filed by the Company with the Commission under the Securities Act through the Electronic Data Gathering and Retrieval ("EDGAR") system with respect to the Common Stock offered hereby. This Prospectus omits certain of the information contained in the Registration Statement, and reference is hereby made to the Registration Statement and related exhibits and schedules for further information with respect to the Company and the Common Stock offered hereby. Any statements contained herein concerning the provisions of any document are not necessarily complete, and in each such instance reference is made to the copy of such document filed as an exhibit to the Registration Statement. Each such statement is qualified in its entirety by such reference. The Registration Statement and the exhibits and schedules forming a part thereof can be inspected and copied at the public reference facilities maintained by the Commission at Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549, and should also be available for inspection and copying at the following regional offices of the Commission: 7 World Trade Center, Suite 1300, New York, New York 10048; and Northwestern Atrium Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661-2511. Copies of such material can be obtained from the Public Reference Section of the Commission, 450 Fifth Street, N.W., Washington, D.C. 20549, at prescribed rates. Registration statements, reports, proxy and information statements filed through the EDGAR system are publicly available through the Commission's Internet web site at "<http://www.sec.gov>".

As a result of the Offering, the Company will be subject to the informational requirements of the Exchange Act and, in accordance therewith, will file reports and other information with the Commission on a periodic basis. The Company intends to furnish to its stockholders annual reports, containing audited financial statements and a report thereon expressed by independent certified public accountants, and quarterly reports for the first three fiscal quarters of each fiscal year, containing certain unaudited interim financial information.

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## INDEX TO FINANCIAL STATEMENTS

### COMBINED FINANCIAL STATEMENTS OF SUN HYDRAULICS CORPORATION

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</TABLE>

## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors and Shareholders  
of Sun Hydraulics Corporation, Suninco, Inc.,  
and Sun Hydraulik Holdings Limited,

(collectively "Sun Hydraulics Corporation")

In our opinion, the accompanying combined balance sheets and the related combined statements of income, of changes in shareholders' equity and of cash flows present fairly, in all material respects, the financial position of Sun Hydraulics Corporation (the "Company") at December 31, 1995 and 1994, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1995, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

Price Waterhouse LLP  
Tampa, Florida  
September 30, 1996, except as to Note 16,  
which is dated October 5, 1996

## SUN HYDRAULICS CORPORATION

## COMBINED BALANCE SHEETS

<TABLE>  
<CAPTION>

	DECEMBER 31,		PRO FORMA	
	1994	1995	SEPTEMBER 30, 1996	SEPTEMBER 30, 1996
	-----		-----	
	(UNAUDITED)		(UNAUDITED)	
	(IN THOUSANDS OF DOLLARS)			
<S>	<C>	<C>	<C>	<C>
ASSETS				
Current assets:				
Cash and cash equivalents.....	\$ 2,371	\$ 2,434	\$ 1,187	\$ 1,187
Accounts receivable, net of allowance for doubtful accounts of \$64, \$40 and \$62.....	3,095	3,574	4,266	4,266
Inventories.....	3,799	4,478	4,377	4,377
Income taxes receivable, net.....	91	--	--	--
Other current assets.....	438	222	151	151
	-----	-----	-----	-----
Total current assets.....	9,794	10,708	9,981	9,981
Property, plant and equipment, net.....	18,051	23,129	33,547	33,547
Deferred tax asset.....	--	--	269	269
Other assets.....	23	27	167	167
	-----	-----	-----	-----
	\$27,868	\$33,864	\$43,964	\$43,964
	=====	=====	=====	=====

## LIABILITIES AND SHAREHOLDERS' EQUITY



Current liabilities:				
Accounts payable.....	\$ 1,846	\$ 2,992	\$ 2,165	\$ 2,165
Accrued expenses.....	908	1,188	1,930	1,930
Long-term debt due within one year.....	551	495	1,118	1,118
Notes payable to related parties due within one year.....	516	574	632	632
Accrued distributions to shareholders.....	888	643	--	9,905
Income taxes payable, net.....	--	490	1,072	1,072
Total current liabilities.....	4,709	6,382	6,917	16,822
Long-term debt due after one year.....	3,821	2,553	10,707	10,707
Notes payable to related parties due after one year.....	3,137	2,564	2,081	2,081
Deferred income taxes.....	194	84	98	2,043
Other liabilities.....	383	752	131	131
Total liabilities.....	12,244	12,335	19,934	31,784
Commitments & contingencies (Notes 5, 7 and 15)				
Shareholders' equity:				
Capital stock.....	2,181	2,181	2,179	4
Capital in excess of par value.....	848	997	2,810	4,985
Retained earnings.....	12,969	18,676	19,427	7,577
Equity adjustment for foreign currency translation.....	(374)	(325)	(386)	(386)
Total shareholders' equity.....	15,624	21,529	24,030	12,180
	\$27,868	\$33,864	\$43,964	\$43,964

</TABLE>

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

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SUN HYDRAULICS CORPORATION

COMBINED STATEMENTS OF INCOME

<TABLE>

<CAPTION>

	NINE MONTHS ENDED				
	YEAR ENDED DECEMBER 31,		SEPTEMBER 30,		
	1993	1994	1995	1995	1996
	-----				
	(UNAUDITED) (UNAUDITED)				
	(IN THOUSANDS OF DOLLARS EXCEPT PER SHARE DATA)				
	<C>	<C>	<C>	<C>	<C>
Net sales.....	\$32,431	\$42,853	\$55,388	\$42,718	\$41,233
Cost of sales.....	21,971	27,512	34,581	26,361	27,903
Gross profit.....	10,460	15,341	20,807	16,357	13,330
Selling, engineering and administrative expense.....	7,346	8,605	10,578	7,652	9,288
Operating income.....	3,114	6,736	10,229	8,705	4,042
Interest expense.....	931	859	814	612	678
Miscellaneous (income) expense.....	249	66	(79)	(81)	107
Income before income taxes.....	1,934	5,811	9,494	8,174	3,257
Income tax provision (benefit).....	(148)	408	633	478	727
Net income.....	\$ 2,082	\$ 5,403	\$ 8,861	\$ 7,696	\$ 2,530

Pro forma income data (unaudited):

Income before income taxes, as reported.....	\$ 1,934	\$ 5,811	\$ 9,494	\$ 8,174	\$ 3,257
--	----------	----------	----------	----------	----------

Pro forma income tax provision.....	604	2,738	3,611	3,069	1,255
Pro forma net income.....	\$ 1,330	\$ 3,073	\$ 5,883	\$ 5,105	\$ 2,002
Pro forma net income per share.....		\$ 1.13		\$ 0.38	
Average shares outstanding.....		5,217		5,307	

</TABLE>

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

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SUN HYDRAULICS CORPORATION

COMBINED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

<TABLE>  
<CAPTION>

	EQUITY ADJUSTMENT FOR					
	CAPITAL IN STOCK	EXCESS OF PAR VALUE	FOREIGN RETAINED EARNINGS	CURRENCY TRANSLATION		TOTAL
	(IN THOUSANDS OF DOLLARS)					
	<C>	<C>	<C>	<C>	<C>	
Balance, December 31, 1992.....	\$ 2,181	\$ 438	\$ 8,801	\$ (453)		\$10,967
Exercise of stock options.....	34			34		
Adjustment for foreign currency translation.....				(229)	(229)	
Net income.....		2,082	2,082			
Distributions to shareholders.....			(803)	(803)		
Balance, December 31, 1993.....	2,181	472	10,080	(682)		12,051
Exercise of stock options.....	105			105		
Adjustment for foreign currency translation.....				308	308	
Net income.....		5,403	5,403			
Distributions to shareholders.....			(2,514)	(2,514)		
Realized tax benefit on debt exchange (see Note 9).....	271		271			
Balance, December 31, 1994.....	2,181	848	12,969	(374)		15,624
Exercise of stock options.....	149			149		
Adjustment for foreign currency translation.....				49	49	
Net income.....		8,861	8,861			
Distributions to shareholders.....			(3,154)	(3,154)		
Balance, December 31, 1995.....	2,181	997	18,676	(325)		21,529
Unaudited:						
Issuance of common stock.....		92		92		
Issuance of stock options.....	2,110			2,110		
Exercise of stock options.....	69			69		
Repurchase of shares.....	(41)			(41)		
Exchange of shares in merger (Note 1).....	(2)	(417)	604		185	
Adjustment for foreign currency translation.....				(61)	(61)	
Net income.....		2,530	2,530			
Distributions to shareholders.....			(2,383)	(2,383)		
Balance, September 30, 1996 (unaudited).....	\$ 2,179	\$ 2,810	\$ 19,427	\$ (386)		\$24,030

</TABLE>

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

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SUN HYDRAULICS CORPORATION

COMBINED STATEMENTS OF CASH FLOWS

<TABLE>  
<CAPTION>

	YEAR ENDED DECEMBER 31,			NINE MONTHS ENDED SEPTEMBER 30,	
	1993	1994	1995	1995	1996
			(UNAUDITED)		(UNAUDITED)
	(IN THOUSANDS OF DOLLARS)				
<S>	<C>	<C>	<C>	<C>	<C>
Cash flows from operating activities:					
Net income.....	\$ 2,082	\$ 5,403	\$ 8,861	\$ 7,696	\$ 2,530
Adjustments to reconcile net income to net cash provided by operating activities:					
Depreciation.....	2,112	2,197	2,556	1,803	2,288
Issuance of stock options.....					2,110
Other.....	--	--	--	92	
(Benefit from)/provision for deferred income taxes.....	(28)	57	(110)	195	(353)
Realized tax benefit on debt exchange.....		--	271	--	--
(Increase) decrease in:					
Accounts receivable.....	(245)	(937)	(479)	(1,891)	(692)
Inventories.....	(303)	(765)	(679)	(367)	101
Income tax receivable, net.....	(119)	101	91	91	--
Other current assets.....	143	(161)	216	438	71
Other assets.....	4	(11)	(4)	(72)	(140)
Increase (decrease) in:					
Accounts payable.....	67	1,014	1,146	344	(827)
Accrued expenses.....	(39)	(5)	280	958	742
Income taxes payable, net.....	--	--	490	(84)	582
Other liabilities.....	(138)	100	369	533	(621)
Net cash provided by operating activities.....	3,536	7,264	12,737	9,644	5,883
Cash flows from investing activities:					
Capital expenditures.....	(3,005)	(5,130)	(7,657)	(5,316)	(12,423)
Proceeds from dispositions of equipment.....	281	--	23	--	--
Net cash used in investing activities....	(2,724)	(5,130)	(7,634)	(5,316)	(12,423)
Cash flows from financing activities:					
Proceeds from long-term debt.....	2,727	1,850	3,337	2,987	13,519
Repayment of long-term debt.....	(1,773)	(1,563)	(4,661)	(4,537)	(4,743)
Proceeds from notes payable to related parties.....	355	1,940	--	--	--
Repayment of notes payable to related parties...	(381)	(2,386)	(515)	(380)	(424)
Proceeds from exercise of employee stock options.....	34	105	149	7	69
Repurchase of shares.....	--	--	--	--	(41)
Distributions to shareholders.....	(791)	(1,900)	(3,399)	(3,398)	(3,026)
Net cash provided by (used in) financing activities.....	171	(1,954)	(5,089)	(5,321)	5,354
Foreign currency translation adjustment.....		(229)	308	49	115
Net increase (decrease) in cash and cash equivalents.....	754	488	63	(878)	(1,247)
Cash and cash equivalents, beginning of year.....	1,129	1,883	2,371	2,371	2,434
Cash and cash equivalents, end of year.....	\$ 1,883	\$ 2,371	\$ 2,434	\$ 1,493	\$ 1,187
Supplemental disclosure of cash flow information:					
Cash paid (received) during the year for:					
Interest (net of amounts capitalized).....	\$ 923	\$ 875	\$ 815	\$ 663	\$ 706

Income taxes.....	\$ 169	\$ (223)	\$ 109	\$ 8	\$ 506
-------------------	--------	----------	--------	------	--------

</TABLE>

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

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SUN HYDRAULICS CORPORATION

NOTES TO THE COMBINED FINANCIAL STATEMENTS  
(IN THOUSANDS OF DOLLARS EXCEPT SHARE AND PER SHARE DATA)

1. ORGANIZATION

The combined financial statements of Sun Hydraulics Corporation (the "Company") consists of the financial position and results of operations of Sun Hydraulics Corporation ("Sun Hydraulics"), Suninco, Inc. ("Suninco") and Sun Hydraulik Holdings Limited ("Sun Holdings"). Sun Hydraulics and Suninco completed a merger on June 28, 1996 by exchanging Sun Hydraulics common stock for all of the outstanding stock of Suninco. The share exchange, as it applied to the control group, was accounted for in a manner similar to a pooling of interests. The remaining exchange of shares held by the minority shareholders was accounted for under the purchase method, see Note 2.

Sun Hydraulics plans to issue 374,810 shares of common stock in exchange for all of the issued and outstanding stock of Sun Holdings (the Reorganization). The Reorganization, as it applies to the control group, will be accounted for in a manner similar to a pooling of interests. The remaining exchange of shares held by the minority shareholders will be accounted for under the purchase method, see Note 2.

In conjunction with the Reorganization, the Company's Board of Directors approved an initial public offering of the Company's common stock. The Company intends to file a Registration Statement on Form S-1 with the Securities and Exchange Commission. The Reorganization will be effective immediately prior to the consummation of the initial public offering by the Company. The effects of the Reorganization, the S Corporation distribution (see Note 2) and a charge to recognize deferred income taxes (see Note 11) are reflected in the unaudited pro forma balance sheet as of September 30, 1996.

The Company designs, manufactures and sells screw-in cartridge valves and manifolds used in hydraulic systems, and has facilities in the United States, the United Kingdom and Germany. Sun Hydraulics, located in Sarasota, Florida, designs, manufactures and sells through independent distributors in the United States. Sun Holdings was formed to provide a holding company vehicle for the European market operations. Its subsidiaries are Sun Hydraulics Limited (a British corporation, "Sun Ltd.") and Sun Hydraulik GmbH (a German corporation, "GmbH"). Sun Ltd. was originally formed in 1985, and operates a manufacturing and distribution facility located in Coventry, England. GmbH was incorporated on January 1, 1991 as a wholly-owned subsidiary of Sun Holdings to market the Company's products in German-speaking European markets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies followed in the preparation of the Company's combined financial statements is set forth below:

Principles of Combination

The combined financial statements include the accounts and operations of Sun Hydraulics, Suninco and Sun Holdings. All significant intercompany accounts and transactions are eliminated in combination.

Cash and Cash Equivalents

The Company considers all short-term highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Inventories

Inventories are valued at the lower of cost or market, cost being determined on a first-in, first-out basis.

Other Current Assets

Other current assets consist primarily of prepaid insurance and advances to suppliers.

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SUN HYDRAULICS CORPORATION

NOTES TO THE COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

Property, Plant and Equipment

Property, plant and equipment is stated at cost. Expenditures for repairs and improvements that significantly add to the productive capacity or extend the useful life of an asset are capitalized. Repairs and maintenance are expensed as incurred. Depreciation is computed using the straight line method over the following useful lives:

<TABLE>
<CAPTION>

	YEARS
	----
<S>	<C>
Machinery and equipment.....	4-12
Furniture and fixtures.....	4-10
Leasehold improvements.....	5-12
Land improvements.....	10-15
Buildings.....	40

</TABLE>

During 1995, the Company adopted Statement of Financial Accounting Standards No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of. Management periodically evaluates long-lived assets for potential impairment, and will reserve for impairment whenever events or changes in circumstances indicate the carrying amount of the assets may not be fully recoverable. As of December 31, 1995, management does not believe that an impairment reserve is required.

Other Liabilities

Other liabilities consists of accrued compensation earned under the Company's phantom stock option plans (the "Plans"). Compensation cost is measured as the amount by which the market value, as defined in the Plans, of the stock on the measurement date exceeds the market value on the date the phantom stock options are granted. The market value is defined in the Plans as the higher of: the last arms length sale price of said stock between unrelated parties if there has been a sale in the preceding six months period or the book value of said stock. Compensation cost is accrued over the service period and is adjusted in periods subsequent to the measurement date for changes in the market value of the stock (see Note 13).

Revenue Recognition

Sales are recognized when products are shipped. Sales incentives are granted to customers based upon the volume of purchases. These sales incentives are recorded at the time of sales as a reduction of gross sales.

Research and Development Expense

Included in selling, engineering and administrative expense are amounts incurred for research and development of the Company's manufacturing processes and related software which approximated \$1,061, \$1,276 and \$1,337 for the years ended December 31, 1993, 1994 and 1995, respectively.

#### Advertising Costs

The Company expenses the costs for advertising and promotional literature during the year incurred. Included in selling, engineering and administrative expense are amounts incurred for advertising and promotional literature which approximated \$562, \$791 and \$792 for the years ended December 31, 1993, 1994 and 1995, respectively.

#### Foreign Currency Translation and Transactions

The Company follows the translation policy provided by Statement of Financial Accounting Standards No. 52, Foreign Currency Translation. The Pound Sterling is the functional currency of Sun Ltd. The Deutsche Mark is the functional currency of GmbH. The U.S. Dollar is the functional currency for all other

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### SUN HYDRAULICS CORPORATION

#### NOTES TO THE COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

companies and the reporting currency for the combined group. The assets and liabilities of Sun Ltd. and GmbH are translated at the exchange rate in effect at the balance sheet date, while income and expense items are translated at the average annual rate of exchange for the period. The resulting unrealized translation gains and losses are included in the component of shareholders' equity designated "Equity Adjustment for Foreign Currency Translation". Realized gains and losses from foreign currency transactions are included in miscellaneous income.

#### Income Taxes

The Company follows the income tax policy provided by Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes. This Statement provides for a liability approach under which deferred income taxes are provided based upon enacted tax laws and rates applicable to the periods in which the taxes become payable. These differences result from items reported differently for financial reporting and income tax purposes, primarily depreciation and phantom stock compensation.

Sun Hydraulics elected to be taxed under the S Corporation provisions of the Internal Revenue Code. Historically, the shareholders of Sun Hydraulics included their pro rata share of income or loss in their individual returns. A portion of the distributions to shareholders was related to their individual income tax liabilities, resulting from S Corporation taxable earnings (see Note 10). Effective with the consummation of the Reorganization (see Note 1), Sun Hydraulics' S Corporation status will be converted to C Corporation status and Sun Hydraulics' subsequent earnings will be subject to corporate taxes. Accordingly, for informational purposes, the financial statements include an unaudited pro forma income tax provision which would have been recorded as if Sun Hydraulics had been an C Corporation, based on the tax laws in effect during those periods.

#### Stock-Based Compensation

The Company will adopt Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation during 1996. Upon adoption, the Company intends to retain the intrinsic value method of accounting for stock-based compensation and disclose pro forma net income.

#### Share Exchanges

The share exchange between Suninco and Sun Hydraulics as described in Note 1, as it applied to the control group, was accounted for in a manner similar to a pooling of interests. The remaining exchange of shares held by the minority shareholders was accounted for at the fair market values of the proportionate share of related assets and liabilities. The fair market value of the minority interest shares in excess of net book value were allocated to Suninco's long-term assets on a pro-rata basis, resulting in an increase of \$38 and \$245 to land and building, respectively. The share exchange which will occur between Sun Holdings and Sun Hydraulics (see Note 1) will be accounted for in the same manner, but is not expected to result in a material adjustment to the related assets and liabilities.

#### Pro Forma Balance Sheet Information (unaudited)

The effects of the Reorganization, the S Corporation distribution of \$9,905 and a charge associated with the provision for deferred income taxes of \$1,945 which the Company will recognize upon its termination of S Corporation status (see Note 11) are reflected in the unaudited pro forma balance sheet as of September 30, 1996.

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## SUN HYDRAULICS CORPORATION

### NOTES TO THE COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

#### Pro Forma Net Income Per Share (unaudited)

The computation of primary pro forma earnings per share is based on the weighted average number of outstanding common shares during the period plus common stock equivalents, if dilutive, consisting of certain shares subject to stock options, after giving effect to the proposed Reorganization (see Note 1) and issuance of stock options (see Note 16). The assumed exercise of dilutive stock options less the number of treasury shares assumed to be purchased from the proceeds were calculated using the book value of the Company prior to 1994 and the appraised fair market value of the Company from 1995 forward. Additionally, the weighted average number of outstanding common shares includes the effects of the incremental number of shares required to fund the distribution to S Corporation shareholders.

#### Management Estimates and Assumptions

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### Interim Financial Information

The interim financial data includes the accounts and operations of Sun Hydraulics and Sun Holdings. The interim financial data is unaudited; however, in the opinion of the Company, the interim data includes all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the results of the interim period and are prepared on the same basis as the audited annual financial statements.

### 3. FAIR VALUE OF INVESTMENTS

In 1995, the Company adopted Statement of Financial Accounting Standards 107, Disclosures about the Fair Value of Financial Instruments, which requires disclosure of information about the fair value of certain financial instruments for which it is practicable to estimate that value. For purposes of the following disclosure, the fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation. The following methods and

assumptions were used to estimate the fair value of each class of financial instruments:

The carrying amounts of cash and cash equivalents, accounts receivable, other current assets, accounts payable, accrued expenses and other liabilities approximate fair value because of the short maturity of those instruments.

The carrying amount of long-term debt approximates fair value, as the interest rates on the debt approximate rates currently available to the Company for debt with similar terms and remaining maturities.

The fair value of the notes payable to related parties is estimated based on the current rates offered to the Company for similar debt. The estimated fair value of the Company's related party debt is \$3,572 at December 31, 1995.

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SUN HYDRAULICS CORPORATION

NOTES TO THE COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

4. INVENTORIES

The components of inventory are summarized as follows:

<TABLE>  
<CAPTION>

	DECEMBER 31,			SEPTEMBER 30,		
	1994	1995	1996	1994	1995	1996
	-----					
	(UNAUDITED)					
	<C>			<C>		
<S>						
Raw materials.....	\$ 81	\$ 127	\$ 151			
Work in process.....	2,612	3,236	3,102			
Finished goods.....	1,106	1,115	1,124			
	-----	-----	-----			
	\$3,799	\$4,478	\$ 4,377			
	=====	=====	=====			

</TABLE>

5. PROPERTY, PLANT AND EQUIPMENT

The components of property, plant and equipment are summarized as follows:

<TABLE>  
<CAPTION>

	DECEMBER 31,			SEPTEMBER 30,		
	1994	1995	1996	1994	1995	1996
	-----					
	(UNAUDITED)					
	<C>			<C>		
<S>						
Machinery and equipment.....	\$17,905	\$ 20,666	\$ 24,186			
Furniture and fixtures.....	3,145	4,221	4,237			
Buildings.....	4,819	4,861	5,183			
Leasehold improvements.....	248	285	337			
	-----	-----	-----			
	26,117	30,033	33,943			
Less-accumulated depreciation.....	(9,462)	(11,684)	(13,075)			
	-----	-----	-----			
Construction in progress.....	16,655	18,349	20,868			
Land.....	920	3,414	11,288			
	-----	-----	-----			
	\$18,051	\$ 23,129	\$ 33,547			
	=====	=====	=====			

</TABLE>



During 1995, the Company purchased land for \$461 and began construction of a new production facility in Sarasota, Florida. Management believes the aggregate cost of the new production facility will approximate \$9,300. As of December 31, 1995, the Company had capital expenditure purchase commitments outstanding of approximately \$1,500 related to the construction of the new facility.

Also during 1995, the Company purchased land in Erkelenz, Germany for approximately \$429 for construction of a new distribution facility. Management believes the aggregate cost of the facility will approximate \$2,600.

In April 1996, the Company signed a financing commitment in the amount of \$2,400 for the new distribution facility in Erkelenz. Construction contracts for structural components, building erection and roof construction in the total amount of \$2,716 have been entered into by the Company.

During 1996, the Company renegotiated existing bank financing to increase availability of funds by approximately \$9,500 at 8.25% for the construction of the new production facility in Sarasota.

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SUN HYDRAULICS CORPORATION

NOTES TO THE COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

6. ACCRUED EXPENSES

The components of accrued expenses are summarized as follows:

<TABLE>  
<CAPTION>

	DECEMBER 31,			SEPTEMBER 30,
	1994	1995	1996	
	----	-----	-----	-----
	(UNAUDITED)			
<S>	<C>	<C>	<C>	<C>
Compensation.....	\$746	\$863	\$991	
Taxes.....	--	--	265	
Insurance.....	--	--	218	
Interest.....	134	111	102	
Other accrued expenses.....		28	214	354
	-----	-----	-----	-----
	\$908	\$1,188	\$1,930	
	=====	=====	=====	

</TABLE>

Accrued compensation consists primarily of salaries and wages, commissions, employee 401(k) withholdings and employer 401(k) matching contributions.

7. LONG-TERM DEBT

The components of long-term debt are summarized as follows:

<TABLE>  
<CAPTION>

	DECEMBER 31,			SEPTEMBER 30,
	1994	1995	1996	
	----	-----	-----	-----
	(UNAUDITED)			
<S>	<C>	<C>	<C>	<C>
Lines of credit agreements, interest payable at lender determined rates (9.50% and 8.50% at December 31, 1994 and 1995 and 8.25% at September 30, 1996).....	\$1,345	\$38	\$300	
Secured equipment loan, interest only payable monthly at 10.25% in 1994 and 1995 and 8.25% in 1996, converting to a five year note on final draw down.....	--	443	2,955	

9% mortgage note payable secured by real property due in monthly principal and interest installments of \$20 with the balance due in a balloon payment on January 9, 1997.....	1,797	1,714	2,395
Variable rate mortgage note (9.5% and 13% at December 31, 1994 and 1995) secured by real property, principal and interest payable in monthly installments of \$8 through 2007.....	562	511	--
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.....	585	277	78
Construction lines of credit at 8.25% and 6.47% to be converted to mortgage notes payable at 8.25% and 6.47% between 12 and 15 years.....	--	--	6,097
Capital lease obligations at varying interest rates from 8.45% to 12.45% through 1999.....	83	65	--
	-----	-----	-----
	4,372	3,048	11,825
Less amounts due within one year.....	(551)	(495)	(1,118)
	-----	-----	-----
	\$3,821	\$2,553	\$10,707
	=====	=====	=====

</TABLE>

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SUN HYDRAULICS CORPORATION

NOTES TO THE COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

The remaining principal payments are due as follows: 1997 - \$299; 1998 - \$268; 1999 - \$284; 2000 - \$111; 2001 and thereafter - \$1,591.

The Company has a \$1,700 revolving credit agreement, secured by all inventory and accounts, which bears interest at the lender's prime rate and has a maturity date of March 1, 1997. At September 30, 1996, \$1,400 of this amount was available to the Company. The agreement requires Sun Hydraulics to maintain certain financial ratios and places certain limitations on fixed asset expenditures. Although the Company currently is in compliance with the limitation on fixed asset expenditures, a waiver of this limitation as of September 30, 1995 for the remainder of fiscal 1995 was required and obtained from the bank.

In January 1995, the Company obtained a loan for capital equipment expenditures with a limit of \$775 at a fixed interest rate of 10.25%, with interest only for the first year, converting to a five year amortization with monthly principal and interest payments of \$13. As of December 31, 1995, the Company had drawn \$443 on this equipment line of credit. In May 1996, the loan was converted to a seven-year term loan and additional funds were advanced, resulting in a total outstanding balance of approximately \$3,063 with monthly principal and interest payments of approximately \$50.

Subsequent to year end, the 9% mortgage note was increased by approximately \$794 and the interest rate reduced to 8.25%. Also, a 10-year mortgage note of \$6,187 was obtained at a fixed interest rate of 8.25%. Terms on the new mortgage note are interest-only on the balance drawn down until construction is completed and then conversion to a 10-year note with a 15-year amortization schedule.

Subsequent to September 30, 1996, the Company began negotiating a new unsecured revolving credit facility which will provide a maximum availability of \$10,000, payable on demand with a floating interest rate. Terms relating to the potential credit agreement currently are under discussion and have not been established.

8. CAPITAL STOCK

At December 31, 1994 and 1995, prior to the effects of the Reorganization (see Note 1), the combined par value of common stock consisted of the following:

<TABLE>

<CAPTION>

	DECEMBER 31,	
	1994	1995
<S>	<C>	<C>
Sun Hydraulics Corporation.....	\$ 3	\$ 3
Suninco, Inc.....	3	3
Sun Hydraulik Holdings Limited.....	2,175	2,175
	\$2,181	\$2,181

</TABLE>

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SUN HYDRAULICS CORPORATION

NOTES TO THE COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

Other information by entity, prior to the effects of the Reorganization, is as follows:

<TABLE>  
<CAPTION>

	DECEMBER 31,	
	1994	1995
<S>	<C>	<C>
Sun Hydraulics Corporation		
Par value per share.....	\$ 0.01	\$ 0.01
Shares authorized.....	1,000,000	1,000,000
Shares issued and outstanding.....	333,315	342,815
Suninco, Inc.		
Par value per share.....	\$ 0.01	\$ 0.01
Shares authorized.....	1,000,000	1,000,000
Shares issued and outstanding.....	293,235	302,735
Sun Hydraulik Holdings Limited		
Par value per share.....	\$ 6.81	\$ 6.81
Shares authorized.....	421,052	421,052
Shares issued and outstanding.....	319,315	319,315

</TABLE>

9. RELATED PARTIES

Notes Payable to Related Parties

Notes payable to related parties include the following:

<TABLE>  
<CAPTION>

	DECEMBER 31,		SEPTEMBER 30,
	1994	1995	1996
			(UNAUDITED)
<S>	<C>	<C>	<C>
15% unsecured notes payable repurchase and retirement of stock, quarterly principal and interest installments ranging from \$43 to \$142 through 2001.....	\$3,338	\$2,849	\$ 2,445
10% unsecured notes payable for phantom compensation quarterly principal and interest payments of \$14 payable through 2002.....	315	289	268
	3,653	3,138	2,713
Less amounts due within one year.....	(516)	(574)	(632)
	\$3,137	\$2,564	\$ 2,081

</TABLE>

The 15% notes payable for the repurchase and retirement of stock represent the repurchase of shares of common stock from four retired employees, one employee of retirement age who was still employed by the Company at the time the shares were repurchased, and nine former shareholders.

#### Other Related Party Transactions

During 1995, Sun Hydraulics Real Estate, Ltd. ("Sun Real Estate"), a limited partnership was formed to hold the real property and building for a manufacturing facility located in Sarasota, Florida. During 1995, land was purchased and construction on the facility was underway at year end. Upon completion, management anticipated that the land and building would be leased to Sun Hydraulics. Sun Hydraulics owned a 1% general partnership interest and a 99% limited partnership interest in Sun Real Estate at December 31, 1995. The financial position and results of operations of Sun Real Estate are included in the combined accounts of Sun

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### SUN HYDRAULICS CORPORATION

#### NOTES TO THE COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

Hydraulics at December 31, 1995. Subsequent to year end, Sun Real Estate was dissolved, and the net assets were distributed to Sun Hydraulics.

On October 31, 1995, Sun Hydraulics contributed certain intangible assets to SunOpTech Limited ("SunOpTech"), a limited partnership formed to further the development of manufacturing software used in the Company's production processes. In exchange for the contributed intangible assets, Sun Hydraulics received a 1% general partnership interest and a 65% limited partnership interest in SunOpTech. This investment is accounted for under the equity method, and is included in other assets at a net balance of \$6 at December 31, 1995. The founders of SunOpTech, Inc., which owns the remaining 1% managing general partnership interest in SunOpTech, also own a 33% limited partnership interest in SunOpTech. Subsequent to year end, Sun Hydraulics distributed its limited partnership interests to its individual shareholders. Effective July 1, 1996, the Company withdrew as general partner from SunOpTech.

During 1995, Sun Hydraulics entered into a 35 month agreement with SunOpTech for the development of computer software and computer support to Sun Hydraulics. In exchange, Sun Hydraulics will pay approximately \$955 over the three year period, provide office space and equipment and reimburse SunOpTech for reasonable expenses related to the software development. During 1995, \$90 was paid to SunOpTech under the agreement. Future payments are scheduled as follows: 1996 -- \$510; 1997 -- \$325 and 1998 -- \$30. For the year ended December 31, 1995, Sun Hydraulics paid expenses of SunOpTech of \$25. Additionally, Sun Hydraulics provided certain administrative support to SunOpTech at no charge. All of these expenses are included in selling, engineering and administrative expenses.

Effective July 1, 1994, Sun Hydraulics and Suninco agreed to an exchange of debt instruments. The realized tax benefit on the transaction of \$271 was treated for financial statement purposes as a capital contribution, resulting in an increase to capital in excess of par value.

A Director of the Company is the President, Chief Executive Officer and controlling stockholder of a fluid power distributorship that purchases and sells the Company's products pursuant to one of the Company's standard distributor agreements. This distributorship purchased approximately \$1,060, \$1,250 and \$1,310 of products from the Company in fiscal 1993, 1994 and 1995, respectively.

#### 10. DISTRIBUTIONS TO SHAREHOLDERS

The Company declared distributions of \$803, \$2,514 and \$3,154 to shareholders in 1993, 1994 and 1995, respectively, a portion of which was to fund shareholders' individual income tax liabilities related to the S Corporation taxable earnings.

In 1996, the Company has paid \$2,383 in distributions. Approximately half of the distributions in 1996 have been to fund shareholders' individual income tax liabilities related to the S Corporation taxable earnings.

The Company plans to distribute all of Sun Hydraulics' previously undistributed retained earnings as of the consummation of the Reorganization (see Note 1).

#### 11. INCOME TAXES

Pretax income from continuing operations for the years ended December 31, is taxed under the following jurisdictions:

<TABLE>

<CAPTION>

	YEARS ENDED DECEMBER 31,		
	-----		
	1993	1994	1995
	-----		
<S>	<C>	<C>	<C>
United States.....	\$1,636	\$4,914	\$7,489
Foreign.....	298	897	2,005
	-----		
Total.....	\$1,934	\$5,811	\$9,494
	=====	=====	=====

</TABLE>

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#### SUN HYDRAULICS CORPORATION

#### NOTES TO THE COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

The income tax provision (benefit) consists of the following:

<TABLE>

<CAPTION>

	YEARS ENDED DECEMBER 31,		
	-----		
	1993	1994	1995
	-----		
<S>	<C>	<C>	<C>
Current tax expense (benefit):			
United States.....	\$(146)	\$197	\$ (3)
State and local.....	--	--	--
Foreign.....	26	154	746
	-----		
Total current.....	(120)	351	743
	-----		
Deferred tax expense (benefit):			
United States.....	(32)	(82)	(88)
State and local.....	(15)	(37)	(16)
Foreign.....	19	176	(6)
	-----		
Total deferred.....	(28)	57	(110)
	-----		
Total income tax provision (benefit).....	\$(148)	\$408	\$ 633
	=====	=====	=====

</TABLE>

The reconciliation between the effective income tax rate and the U.S. federal statutory rate is as follows:

<TABLE>

<CAPTION>

	YEARS ENDED DECEMBER 31,		
	-----		
	1993	1994	1995
	-----		
<S>	<C>	<C>	<C>
U.S. federal taxes at statutory rate.....	\$ 658	\$ 1,976	\$ 3,228

Increase (decrease):			
Foreign income taxed at higher (lower) rates.....	(59)	12	28
Book/tax basis differences on disposed equipment.....	(61)	131	--
Taxable gain eliminated from book income.....	--	127	--
S Corporation income.....	(665)	(1,839)	(2,684)
Nondeductible items.....	8	45	46
State and local taxes, net.....	(15)	(37)	(16)
Other.....	(14)	(7)	31
	-----	-----	-----
Income tax provision (benefit).....	\$(148)	\$ 408	\$ 633
	=====	=====	=====

</TABLE>

Deferred tax assets and liabilities at December 31 are as follows:

<TABLE>

<CAPTION>

	DECEMBER 31,	
	-----	-----
	1994	1995
	----	----
<S>	<C>	<C>
Deferred taxes, non-current:		
Assets		
Phantom stock compensation.....	\$142	\$218
Florida NOL carryforward.....	14	15
	----	----
Deferred tax asset, non-current.....	\$156	\$233
	=====	=====
Liabilities		
Depreciation differences.....	\$346	\$317
Other.....	4	--
	----	----
Deferred tax liability, non-current.....	\$350	\$317
	=====	=====
Net deferred tax liability, non-current.....	\$194	\$ 84
	=====	=====

</TABLE>

At December 31, 1995, the Company has a Florida income tax net operating loss carryforward of approximately \$413 available to offset future taxable income. These carryforwards expire through 2010 as

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SUN HYDRAULICS CORPORATION

NOTES TO THE COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

follows: 2008 -- \$176; 2009 -- \$132; and 2010 -- \$105. Utilization of these carryforwards may be limited in the event of certain ownership changes.

Upon termination of its S Corporation status (see Note 1), the Company will be required to recognize deferred income taxes for cumulative temporary differences between income for financial and tax reporting purposes. Had the termination occurred at September 30, 1996, the deferred income tax liability, calculated in accordance with Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes, would have approximated \$1,945.

Pro Forma Taxes

The reconciliation between the effective income tax rate and the U.S. federal statutory rate is as follows:

<TABLE>

<CAPTION>

	YEARS ENDED DECEMBER 31,		
	-----	-----	-----
	1993	1994	1995
	----	----	----
<S>	<C>	<C>	<C>

U.S. federal taxes at statutory rate.....	\$658	\$1,976	\$3,228
Increase (decrease):			
Foreign income taxed at higher (lower) rates.....	(59)	12	28
Book/tax basis differences on disposed equipment.....	(61)	131	--
Taxable gain eliminated from book income.....	--	127	--
Nondeductible items.....	16	72	81
State and local taxes, net.....	64	427	243
Other.....	(14)	(7)	31
Income tax provision (benefit).....	\$604	\$2,738	\$3,611

</TABLE>

Pro forma deferred tax assets and liabilities at September 30, 1996 are as follows:

<TABLE>

<S>	<C>
Pro forma deferred taxes, non-current:	
Assets	
Phantom stock compensation.....	\$ 509
Florida NOL carryforward.....	126
Pro forma deferred tax asset, non-current.....	\$ 635
Liabilities	
Depreciation differences.....	\$2,580
Deferred liability related to purchase accounting.....	98
Pro forma deferred tax liability, non-current.....	\$2,678
Pro forma net deferred tax liability, non-current.....	\$2,043

</TABLE>

## 12. STOCK OPTION PLANS

Sun Hydraulics and Suninco have granted options under qualified incentive stock option plans to certain employees which are exercisable at a price equal to the fair market value, as defined in the agreement, on the date of the grant. No shares are available for granting at December 31, 1993, 1994 or 1995. The following

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### SUN HYDRAULICS CORPORATION

#### NOTES TO THE COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

reflects the combined activity of the plans, prior to the Reorganization (see Note 1), for the three years ended December 31, 1995:

<TABLE>

<CAPTION>

	1993	1994	1995		
	AVERAGE EXERCISE PRICE		AVERAGE EXERCISE PRICE		AVERAGE EXERCISE PRICE
	SHARES	PRICE	SHARES	PRICE	SHARES PRICE
<S>	<C>	<C>	<C>	<C>	<C>
Outstanding at January 1,.....	53,000	\$ 6.76	44,000	\$ 7.37	27,000 \$ 8.12
Exercised.....	(9,000)	3.81	(17,000)	6.17	(19,000) 7.83
Outstanding at December 31,.....	44,000	\$ 7.37	27,000	\$ 8.12	8,000 \$ 8.83
Exercisable at December 31,.....	24,000		13,000		2,000

</TABLE>

At December 31, 1995, 4,000 options under the plans were outstanding to purchase shares at \$6.50 per share and 4,000 shares were outstanding under the plans to purchase shares at \$11.15.

Options become exercisable to purchase shares of stock subsequent to December 31, 1995 as follows: 1996 -- 0 shares and 1997 -- 6,000 shares.

During May 1996, the Board of Directors approved the acceleration of the 6,000 options which were to become exercisable in 1997 effective immediately. As of the end of July 1996, all qualified stock options have been exercised. In September of 1996, additional stock options were issued (see Note 16).

### 13. EMPLOYEE BENEFITS

The Company has a defined contribution retirement plan covering substantially all of its eligible United States employees. Employer contributions under the retirement plan amounted to approximately \$537, \$796 and \$901 during 1993, 1994 and 1995, respectively.

The Company has a medical benefit trust to provide for health care coverage to substantially all eligible United States employees. Employer contributions to the trust amounted to approximately \$991, \$1,242 and \$1,490 during 1993, 1994 and 1995, respectively. Long-term disability and life insurance benefits are also provided to employees, the premiums for which are paid directly by Sun Hydraulics. Payments amounted to approximately \$111, \$110 and \$132 for 1993, 1994 and 1995, respectively.

The Company provides supplemental pension benefits to its employees of foreign operations in addition to mandatory benefits included in local country payroll tax statutes. These supplemental pension benefits amounted to approximately \$33, \$43 and \$56 during 1993, 1994 and 1995, respectively.

The Company has phantom stock agreements with certain employees. Under these agreements, 92,801 phantom options are deemed vested, as defined in the agreements, at various dates from October 1, 1987 to July 1, 2005. At December 31, 1995, all phantom options remained outstanding and 60,951 phantom options were deemed vested at prices ranging from \$2.35 to \$24.72 per share. Approximately \$379 and \$732 is included in other liabilities under these agreements at December 31, 1994 and 1995, respectively. Compensation expense related to these phantom options of \$175, \$105 and \$353 is included in selling, engineering and administrative expense in 1993, 1994 and 1995, respectively. Effective September 30, 1996 the Board of Directors of the Company approved a plan to replace the phantom stock agreements (see Note 16).

Effective January 1, 1993, Suninco issued a 10 year note payable of \$355 at 10% interest, with principal and interest payments due quarterly beginning on April 1, 1993, in settlement of 10,000 phantom options which were deemed vested.

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## SUN HYDRAULICS CORPORATION

### NOTES TO THE COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

#### 14. INFORMATION ABOUT THE COMPANY'S OPERATIONS IN DIFFERENT GEOGRAPHIC AREAS

The individual companies comprising the Company operate predominantly in a single industry as manufacturers and distributors of hydraulic components. The companies are multinational with operations in the United States, the United Kingdom and Germany. Intercompany transfers between geographic areas are accounted for based on sales prices that approximate those to third parties. In computing earnings from operations for the foreign companies, no allocations of general corporate expenses, interest or income taxes have been made.

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

Geographic information is as follows:



<TABLE>  
<CAPTION>

	UNITED STATES	UNITED KINGDOM	GERMANY	ELIMINATION	COMBINED
<S>	<C>	<C>	<C>	<C>	<C>
1993					
Sales to unaffiliated customers.....	\$25,692	\$4,457	\$2,282	--	\$32,431
Intercompany sales.....	3,686	767	--	\$(4,453)	0
Operating profits.....	2,739	133	242	--	3,114
Identifiable assets.....	15,097	3,851	878	(903)	18,923
Depreciation expense.....	1,729	356	27	--	2,112
Capital expenditures.....	2,592	331	82	--	3,005
1994					
Sales to unaffiliated customers.....	\$33,284	\$6,590	\$2,979	--	\$42,853
Intercompany sales.....	5,297	1,119	--	\$(6,416)	0
Operating profits.....	5,753	676	307	--	6,736
Identifiable assets.....	22,486	4,828	1,036	(482)	27,868
Depreciation expense.....	1,746	406	45	--	2,197
Capital expenditures.....	4,355	739	36	--	5,130
1995					
Sales to unaffiliated customers.....	\$43,099	\$8,300	\$3,989	--	\$55,388
Intercompany sales.....	5,940	1,470	--	\$(7,410)	0
Operating profits.....	8,090	1,446	693	--	10,229
Identifiable assets.....	27,212	5,414	1,813	(575)	33,864
Depreciation expense.....	1,961	531	64	--	2,556
Capital expenditures.....	6,230	700	727	--	7,657

</TABLE>

Total liabilities attributable to foreign operations were \$2,123, \$2,493 and \$2,674 at December 31, 1993, 1994 and 1995, respectively. Net foreign currency gains (losses) reflected in results of operations were \$10, (\$19) and (\$45) for the year ended 1993, 1994 and 1995, respectively. Operating income is total sales and other operating income less operating expenses. In computing geographic operating income, 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 \$3,092, \$4,589 and \$6,468 during 1993, 1994 and 1995, respectively.

#### 15. COMMITMENTS AND CONTINGENCIES

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

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### SUN HYDRAULICS CORPORATION

#### NOTES TO THE COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

#### 16. SUBSEQUENT EVENTS

Effective September 30, 1996, the Board of Directors of the Company approved a plan to replace the phantom stock agreements by issuing 305,260 nonqualified stock options on September 30, 1996, and committing to issue 189,348 qualified incentive stock options upon the closing of the Reorganization. Exercise prices of the nonqualified options will range from \$3.00 to \$5.05. The employees will be immediately vested in their nonqualified options upon issuance. The qualified options will vest over periods up to five years. The Company recognized a charge in the nine months ended September 30, 1996 related to termination of the phantom stock agreements of approximately \$1,270.

Also effective September 30, 1996, the Company granted 14,700 nonqualified stock options to four Directors. These options have an exercise price of \$3.00 per share, a term of 10 years and are immediately exercisable. The Company recognized a charge during the nine months ended September 30, 1996 of

approximately \$110 in connection with the issuance of these options.

The Company has committed to grant 100,000 qualified incentive stock options to two executive officers of the Company following the Offering (see Note 1).

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[Photographs and text on this page overlay outlines of schematic design drawings of various unidentified cartridge valves and manifolds.]

[Photograph of the exterior of the Company's existing factory in Sarasota, Florida]

Main manufacturing facility in Sarasota, Florida.

[Photograph of the interior of the Company's offices in Sarasota, Florida]

Open office environment encourages employee communication and involvement.

[Photograph of a portion of the interior of the Company's factory in Sarasota, Florida]

Extensive use of CNC machines and factory automation ensures products are consistently replicated.

=====

NO DEALER, SALESPERSON OR ANY OTHER PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS OTHER THAN THOSE CONTAINED IN THIS PROSPECTUS IN CONNECTION WITH THE OFFER MADE BY THIS PROSPECTUS AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE COMPANY OR ANY OF THE UNDERWRITERS. THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF ANY OFFER TO BUY ANY SECURITY OTHER THAN THE SHARES OF COMMON STOCK OFFERED BY THIS PROSPECTUS, NOR DOES IT CONSTITUTE AN OFFER TO SELL OR A SOLICITATION OF ANY OFFER TO BUY THE SHARES OF COMMON STOCK BY ANYONE IN ANY JURISDICTION IN WHICH SUCH AN OFFER OR SOLICITATION IS NOT AUTHORIZED, OR IN WHICH THE PERSON MAKING SUCH OFFER OR SOLICITATION IS NOT QUALIFIED TO DO SO, OR TO ANY PERSON TO WHOM IT IS UNLAWFUL TO MAKE SUCH OFFER OR SOLICITATION. NEITHER THE DELIVERY OF THIS PROSPECTUS NOR ANY SALE MADE HEREUNDER SHALL, UNDER ANY CIRCUMSTANCES, CREATE ANY IMPLICATION THAT THE INFORMATION CONTAINED HEREIN IS CORRECT AS OF ANY TIME SUBSEQUENT TO THE DATE HEREOF.

-----  
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-----

UNTIL , 1997, (25 DAYS AFTER THE DATE OF THIS PROSPECTUS) ALL DEALERS EFFECTING TRANSACTIONS IN THE REGISTERED SECURITIES, WHETHER OR NOT PARTICIPATING IN THIS DISTRIBUTION, MAY BE REQUIRED TO DELIVER A PROSPECTUS. THIS DELIVERY REQUIREMENT IS IN ADDITION TO THE OBLIGATION OF DEALERS TO DELIVER A PROSPECTUS WHEN ACTING AS UNDERWRITERS AND WITH RESPECT TO THEIR UNSOLD ALLOTMENTS OR SUBSCRIPTIONS.

=====

2,000,000 SHARES  
 (SUN HYDRAULICS LOGO)(R)

COMMON STOCK

-----

PROSPECTUS

-----

A.G. EDWARDS & SONS, INC.

ROBERT W. BAIRD & CO.  
 INCORPORATED

JANUARY , 1997

=====

PART II.  
 INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 13. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION.

The Company estimates that expenses payable by it in connection with the Offering described in this Registration Statement (other than the underwriting discount) will be as follows:

<TABLE>	<S>	<C>
Securities and Exchange Commission registration fee.....		8,015
NASD filing fee.....	3,145	
Nasdaq National Market listing fee.....	33,290	
Printing expenses.....	150,000	
Accounting fees and expenses.....	350,000	
Legal fees and expenses.....	350,000	
Fees and expenses (including legal fees) for qualifications under state securities laws.....	25,000	
Registrar and Transfer Agent's fees and expenses.....		10,000
Miscellaneous.....	20,550	
		-----
Total.....	\$950,000	
		=====

</TABLE>

All amounts except the Securities and Exchange Commission registration fee, the NASD filing fee and the Nasdaq National Market listing fee are estimated.

ITEM 14. INDEMNIFICATION OF DIRECTORS AND OFFICERS.

Section 607.0850 of the Florida Business Corporation Act ("FBCA") empowers a corporation, subject to certain limitations, to indemnify its Directors and Officers against expenses (including attorneys' fees, judgments, fines and certain settlements) actually and reasonably incurred by them in connection with

any suit or proceeding to which they are a party so long as they acted in good faith and in a manner reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to a criminal action or proceeding, so long as they had no reasonable cause to believe their conduct to have been unlawful. The Company's Articles of Incorporation and Bylaws provide that the Company shall indemnify its Directors, Officers, employees and agents to the fullest extent permitted by Section 607.0850 of the FBCA, as now existing or as may hereafter be amended.

Section 607.0831 of the FBCA eliminates a director's liability to a corporation or its stockholders for monetary damages for breaches of fiduciary duty except for breaches of the duty of loyalty, acts or omissions not in good faith or involving intentional misconduct or knowing violation of the law, and the unlawful purchase or redemption of stock or payment of unlawful dividends or the receipt of improper personal benefits. In addition, the Board of Directors of the Company has approved the execution by the Company of indemnification agreements with the Directors and certain Officers of the Company, the form of which has been filed as an exhibit to this Registration Statement.

The Company carries Directors' and Officers' liability insurance.

#### ITEM 15. RECENT SALES OF UNREGISTERED SECURITIES.

Between September 1, 1993 and the date of the filing of this Registration Statement, the Company issued the following securities that were not registered under the Act:

SHC issued 264,549 shares of its common stock upon the exercise of employee stock options as follows: in 1993, 44,567 shares of SHC's common stock were purchased for \$.001 per share; in 1994, 64,374 shares were purchased for \$.66 per share and 19,807 shares were purchased for \$.001 per share; in 1995, 74,278 shares were purchased for \$.66 per share, and 19,808 shares were purchased for \$.001 per share; and in 1996, 41,715 shares of SHC's common stock were purchased for an average of \$1.68 per share. The board of directors of SHC deemed the exercise prices of these stock options to be the fair market value of the shares at the time of their issuance.

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On June 28, 1996, pursuant to an agreement and plan of merger, Suninco, Inc. was merged with and into SHC. SHC and Suninco, Inc. were controlled by the same group of stockholders and were operated as a common enterprise. In the merger, all of the issued and outstanding shares of Suninco, Inc.'s common stock were cancelled, and the stockholders of Suninco, Inc. received 178,426 newly issued shares of SHC's common stock.

In January 1996, SHC issued 9,904 shares of common stock, and in September 1996, SHHL issued 1,170 ordinary shares, to Curtis J. Timm. These companies were obligated to issue such shares to Mr. Timm prior to October 1993; however, they inadvertently were not issued. The shares had been granted in consideration for Mr. Timm's agreement at the time the companies were organized to serve as a member of the Board of Directors.

The Company relied upon the exemption from registration contained in Section 4(2) of the Securities Act of 1933, as amended, with respect to the issuance of the shares of Common Stock described in the above paragraphs. The certificates representing such shares are restricted as to transfer and are marked with restricted transfer legends. There were no underwriters involved in any of the foregoing transactions.

#### ITEM 16. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

(A) EXHIBITS:

EXHIBIT INDEX

<TABLE>

<CAPTION>

EXHIBIT

NUMBER

EXHIBIT DESCRIPTION

<C> <C> <S>

- 1.1 -- Form of Underwriting Agreement.
- 2.1 -- Amendment to Recommended Offer by Sun Hydraulics Corporation to acquire the whole of the issued share capital of Sun Hydraulik Holdings Limited, dated December 17, 1996.
- 3.1 -- Amended and Restated Articles of Incorporation of the Company.
- 3.2 -- Amended and Restated Bylaws of the Company.
- 4.1\* -- Revolving Credit Agreement, dated March 9, 1992, between Sun Hydraulics Corporation and Northern Trust Bank of Florida/Sarasota, N.A.
- 4.2\* -- Modification Agreement, dated March 25, 1993, amending Revolving Credit Agreement dated March 9, 1992, between Sun Hydraulics Corporation and Northern Trust Bank of Florida, N.A.
- 4.3\* -- Second Modification to Revolving Credit Agreement, dated May \_\_, 1995, between Sun Hydraulics Corporation and Northern Trust Bank of Florida, N.A.
- 4.4\* -- Revolving Line of Credit Renewal Note, dated May \_\_, 1995, in the amount of \$1,700,000.00 given by Sun Hydraulics Corporation to Northern Trust Bank of Florida, N.A.
- 4.5\* -- Mortgage and Security Agreement, dated January 9, 1992, between Suninco, Inc., Sun Hydraulics Corporation, and Northern Trust Bank of Florida, N.A.
- 4.6\* -- Loan Agreement, dated March 29, 1996, between Suninco, Inc., Sun Hydraulics Corporation, and Northern Trust Bank of Florida, N.A.
- 4.7\* -- Security Agreement, dated March 29, 1996, between Suninco, Inc., Sun Hydraulics Corporation, and Northern Trust Bank of Florida, N.A.
- 4.8\* -- Modification and Additional Advance Agreement, dated March 29, 1996, between Suninco, Inc. and Northern Trust Bank of Florida, N.A.
- 4.9\* -- Consolidated Note, dated March 29, 1996, in the amount of \$2,475,000.00, given by Suninco, Inc. to Northern Trust Bank of Florida, N.A.
- 4.10\* -- Loan Agreement, dated May 20, 1996, between Sun Hydraulics Corporation and Northern Trust Bank of Florida, N.A.
- 4.11\* -- Security Agreement, dated May 20, 1996, between Sun Hydraulics Corporation and Northern Trust Bank of Florida, N.A.
- 4.12\* -- Consolidated Note, dated May 20, 1996, in the amount of \$3,063,157.00, given by Sun Hydraulics Corporation to Northern Trust Bank of Florida, N.A.

</TABLE>

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<TABLE>

<CAPTION>

EXHIBIT

NUMBER

EXHIBIT DESCRIPTION

<C> <C> <S>

- 4.13\* -- Loan Agreement, dated June 14, 1996, between Sun Hydraulics Corporation, Suninco Inc., and Northern Trust Bank of Florida, N.A.
- 4.14\* -- Mortgage, dated June 14, 1996, between Sun Hydraulics Corporation, Suninco Inc., and Northern Trust Bank of Florida, N.A.
- 4.15\* -- Security Agreement, dated June 14, 1996, between Sun Hydraulics Corporation and Northern Trust Bank of Florida, N.A.
- 4.16\* -- Promissory Note, dated June 14, 1996, in the amount of \$6,187,000.00, given by Sun Hydraulics Corporation and Suninco, Inc. to Northern Trust Bank of Florida, N.A.
- 4.17\* -- Revolving Loan Facility letter agreement, dated July 30, 1996, in the amount of L800,000, between Sun Hydraulics Ltd. and Lloyds Bank Plc.
- 4.18\* -- Overdraft and Other Facilities letter agreement, dated June 7, 1996, in an amount not to exceed L250,000, between Sun Hydraulics Ltd. and Lloyds Bank Plc.
- 4.19\* -- Mortgage, dated April 11, 1996, between Sun Hydraulik GmbH and Dresdner Bank.
- 4.20 -- Specimen of the Company's Common Stock Certificate.
- 5.1 -- Opinion of Shumaker, Loop & Kendrick, LLP as to the Common Stock being registered.
- 10.1\* -- Form of Distributor Agreement (Domestic).
- 10.2\* -- Form of Distributor Agreement (International).
- 10.3 -- 1996 Sun Hydraulics Corporation Stock Option Plan.

- 10.4 -- Form of Indemnification Agreement.
  - 11 -- Statement regarding Computation of Per Share Earnings.
  - 21 -- Subsidiaries of the Company.
  - 23.1 -- Consent of Shumaker, Loop & Kendrick, LLP (included in their opinion filed as Exhibit 5.1).
  - 23.2 -- Consent of Price Waterhouse LLP, independent certified public accountants.
  - 27.1\*\* -- Financial Data Schedule for nine months ended September 30, 1996 (For SEC purposes only).
  - 27.2\*\* -- Financial Data Schedule for year ended December 31, 1995 (For SEC purposes only).
- </TABLE>

-----

\* Previously filed in the Company's Registration Statement on Form S-1 filed on October 15, 1996 (File No. 333-14183).

\*\* Previously filed in the Pre-Effective Amendment No. 2 to the Company's Registration Statement on Form S-1 filed on November 27, 1996 (File No. 333-14183).

(B) FINANCIAL STATEMENT SCHEDULES:

All schedules are omitted because the required information is not present or is not present in amounts sufficient to require submission of the schedule or because the information required is included in the financial statements or notes thereto or the schedule is not required or inapplicable under the related instructions.

ITEM 17. UNDERTAKINGS.

(a) The undersigned Registrant hereby undertakes to provide to the Underwriters at the closing specified in the Underwriting Agreement, certificates in such denominations and registered in such names as required by the Underwriters to permit prompt delivery to each purchaser.

(b) Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such

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indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

(c) The undersigned Registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the Registrant pursuant to Rule 424(b)(1) or (4) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(2) For purposes of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

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SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Company has duly caused this Pre-effective Amendment No. 4 to the Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Sarasota, State of Florida on December 19, 1996.

SUN HYDRAULICS CORPORATION

By: /s/ CLYDE G. NIXON

-----  
 Clyde G. Nixon,  
 President and Chief Executive  
 Officer

Pursuant to the requirements of the Securities Act of 1933, this Pre-effective Amendment No. 4 to the Registration Statement has been signed by the following persons in the capacities indicated on December 19, 1996.

<TABLE>  
 <CAPTION>

SIGNATURE	TITLE
<C>	<S>
* Robert E. Koski	Chairman of the Board of Directors
/s/ CLYDE G. NIXON	President, Chief Executive Officer and Director
Clyde G. Nixon	
/s/ RICHARD J. DOBBYN	Chief Financial Officer (Principal Financial and Accounting Officer)
Richard J. Dobbyn	
* Arthur B. Bodley	Director
* James G. March	Director
* Curtis J. Timm	Director
* Taco van Tijn	Director
* David N. Wormley	Director
*By:/s/ CLYDE G. NIXON	as attorney-in-fact pursuant to the power of attorney included in the Registration Statement as originally filed on October 15, 1996.
Clyde G. Nixon	

</TABLE>

<TABLE>  
<CAPTION>

EXHIBIT NUMBER	EXHIBIT DESCRIPTION	SEQUENTIALLY NUMBERED	PAGE
<C>	<C> <S>	<C>	
1.1	-- Form of Underwriting Agreement.....		
2.1	-- Amendment to Recommended Offer by Sun Hydraulics Corporation to acquire the whole of the issued share capital of Sun Hydraulik Holdings Limited, dated December 17, 1996.		
3.1	-- Amended and Restated Articles of Incorporation of the Company.....		
3.2	-- Amended and Restated Bylaws of the Company.....		
4.1*	-- Revolving Credit Agreement, dated March 9, 1992, between Sun Hydraulics Corporation and Northern Trust Bank of Florida/Sarasota, N.A.....		
4.2*	-- Modification Agreement, dated March 25, 1993, amending Revolving Credit Agreement dated March 9, 1992, between Sun Hydraulics Corporation and Northern Trust Bank of Florida, N.A.....		
4.3*	-- Second Modification to Revolving Credit Agreement, dated May __, 1995, between Sun Hydraulics Corporation and Northern Trust Bank of Florida, N.A.....		
4.4*	-- Revolving Line of Credit Renewal Note, dated May __, 1995, in the amount of \$1,700,000.00 given by Sun Hydraulics Corporation to Northern Trust Bank of Florida, N.A.....		
4.5*	-- Mortgage and Security Agreement, dated January 9, 1992, between Suninco, Inc., Sun Hydraulics Corporation, and Northern Trust Bank of Florida, N.A.....		
4.6*	-- Loan Agreement, dated March 29, 1996, between Suninco, Inc., Sun Hydraulics Corporation, and Northern Trust Bank of Florida, N.A.....		
4.7*	-- Security Agreement, dated March 29, 1996, between Suninco, Inc., Sun Hydraulics Corporation, and Northern Trust Bank of Florida, N.A.....		
4.8*	-- Modification and Additional Advance Agreement, dated March 29, 1996, between Suninco, Inc. and Northern Trust Bank of Florida, N.A.....		
4.9*	-- Consolidated Note, dated March 29, 1996, in the amount of \$2,475,000.00, given by Suninco, Inc. to Northern Trust Bank of Florida, N.A.....		
4.10*	-- Loan Agreement, dated May 20, 1996, between Sun Hydraulics Corporation and Northern Trust Bank of Florida, N.A.....		
4.11*	-- Security Agreement, dated May 20, 1996, between Sun Hydraulics Corporation and Northern Trust Bank of Florida, N.A.....		
4.12*	-- Consolidated Note, dated May 20, 1996, in the amount of \$3,063,157.00, given by Sun Hydraulics Corporation to Northern Trust Bank of Florida, N.A.....		
4.13*	-- Loan Agreement, dated June 14, 1996, between Sun Hydraulics Corporation, Suninco Inc., and Northern Trust Bank of Florida, N.A.....		
4.14*	-- Mortgage, dated June 14, 1996, between Sun Hydraulics Corporation, Suninco Inc., and Northern Trust Bank of Florida, N.A.....		
4.15*	-- Security Agreement, dated June 14, 1996, between Sun Hydraulics Corporation and Northern Trust Bank of Florida, N.A.....		
4.16*	-- Promissory Note, dated June 14, 1996, in the amount of \$6,187,000.00, given by Sun Hydraulics Corporation and Suninco, Inc. to Northern Trust Bank of Florida, N.A. ....		
4.17*	-- Revolving Loan Facility letter agreement, dated July 30, 1996, in the amount of L800,000, between Sun Hydraulics Ltd. and Lloyds Bank Plc.....		

</TABLE>

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EXHIBIT NUMBER	EXHIBIT DESCRIPTION	SEQUENTIALLY NUMBERED	PAGE
<C>	<C> <S>	<C>	
4.18*	-- Overdraft and Other Facilities letter agreement, dated June 7, 1996, in an amount not to exceed L250,000, between Sun Hydraulics Ltd. and Lloyds Bank Plc.....		



4.19*	-- Mortgage, dated April 11, 1996, between Sun Hydraulik GmbH and Dresdner Bank.....
4.20	-- Specimen of the Company's Common Stock Certificate.....
5.1	-- Opinion of Shumaker, Loop & Kendrick, LLP as to the Common Stock being registered.....
10.1*	-- Form of Distributor Agreement (Domestic).....
10.2*	-- Form of Distributor Agreement (International).....
10.3	-- 1996 Sun Hydraulics Corporation Stock Option Plan.....
10.4	-- Form of Indemnification Agreement.....
11	-- Statement regarding Computation of Per Share Earnings.....
21	-- Subsidiaries of the Company.....
23.1	-- Consent of Shumaker, Loop & Kendrick, LLP (included in their opinion filed as Exhibit 5.1).....
23.2	-- Consent of Price Waterhouse LLP, independent certified public accountants.....
27.1**	-- Financial Data Schedule for nine months ended September 30, 1996 (For SEC purposes only).....
27.2**	-- Financial Data Schedule for year ended December 31, 1995 (For SEC purposes only).....

</TABLE>

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\* Previously filed in the Company's Registration Statement on Form S-1 filed on  
October 15, 1996 (File No. 333-14183).

\*\* Previously filed in the Pre-Effective Amendment No. 2 to the Company's  
Registration Statement on Form S-1 filed on November 27, 1996 (File No.  
333-14183).

Exhibit 1.1

2,000,000 SHARES

COMMON STOCK

(\$ .001 PAR VALUE)

UNDERWRITING AGREEMENT

\_\_\_\_\_, 1996

A.G. EDWARDS & SONS, INC.

ROBERT W. BAIRD & CO. INCORPORATED

As Representative of the Several Underwriters

c/o A.G. Edwards & Sons, Inc.

One North Jefferson Avenue

St. Louis, Missouri 63103

The undersigned, Sun Hydraulics Corporation, a Florida corporation (the "Company") and Sun Hydraulik Holdings Limited, a private limited company organized under the Laws of England and Wales ("SHHL") (the Company and SHHL are sometimes referred to collectively as the "Company Parties") hereby address you as the representatives (the "Representatives") of each of the persons, firms and corporations listed on Schedule I hereto (collectively, the "Underwriters") and hereby confirm their agreement with the several Underwriters as follows:

1. DESCRIPTION OF SHARES. The Company proposes to issue and sell to the Underwriters 2,000,000 shares of its Common Stock, par value \$.001 per share (the "Firm Shares"). Solely for the purpose of covering over-allotments in the sale of the Firm Shares, the Company further proposes to grant to the Underwriters the right to purchase up to an additional amount of shares equal to 15% of the Firm Shares (the "Option Shares"), as provided in Section 3 of this Agreement. The Firm Shares and the Option Shares are herein sometimes referred to as the "Shares" and are more fully described in the Prospectus hereinafter defined.

2. PURCHASE, SALE AND DELIVERY OF FIRM SHARES. On the basis of the representations, warranties and agreements herein contained, but subject to the terms and conditions herein set forth, the Company agrees to sell to the Underwriters, and each such Underwriter agrees, severally and not jointly, (a) to purchase from the Company, at a purchase price of \$\_\_\_\_\_ per share, the number of Firm Shares set forth opposite the name of such Underwriter in Schedule I hereto and (b) to purchase from the Company any additional number of Option Shares which such Underwriter may become obligated to purchase pursuant to Section 3 hereof.

The Company will deliver definitive certificates for the Firm Shares at the office of A.G. Edwards & Sons, Inc., 77 Water Street, New York, New York ("Edwards' Office"), or such other place as you and the Company may mutually agree upon, for the accounts of the Underwriters against payment to the Company of the purchase price for the Firm Shares sold by it to the

several Underwriters by wire transfer or certified or bank cashiers' check in clearing house funds payable to the order of the Company, and delivered to One North Jefferson Avenue, St. Louis, Missouri 63103, or at such other place as may be agreed upon between you and the Company (the "Place of Closing"), at 10:00 a.m., St. Louis time, on the third full business day following the date of this Agreement, or at such other time and date thereafter as you and the Company may agree, such time and date of payment and delivery being herein called the "Closing Date."

The certificates for the Firm Shares so to be delivered will be made available to you for inspection at Edwards' Office (or such other place as you

and the Company may mutually agree upon) at least one full business day prior to the Closing Date and will be in such names and denominations as you may request at least two full business days prior to the Closing Date.

It is understood that an Underwriter, individually, may (but shall not be obligated to) make payment on behalf of the other Underwriters whose checks shall not have been received prior to the Closing Date for Shares to be purchased by such Underwriter. Any such payment by an Underwriter shall not relieve the other Underwriters of any of their obligations hereunder.

It is understood that the Underwriters propose to offer the Shares to the public upon the terms and conditions set forth in the Registration Statement (as hereinafter defined).

3. PURCHASE, SALE AND DELIVERY OF THE OPTION SHARES. The Company hereby grants an option to the Underwriters to purchase from it up to 300,000 Option Shares on the same terms and conditions as the Firm Shares; provided, however, that such option may be exercised only for the purpose of covering any over-allotments which may be made by them in the sale of the Firm Shares. No Option Shares shall be sold or delivered unless the Firm Shares previously have been, or simultaneously are, sold and delivered.

The option is exercisable on behalf of the several Underwriters by you, as Representatives, at any time, and from time to time, before the expiration of 30 days from the date of this Agreement, for the purchase of all or part of the Option Shares covered thereby, by notice given by you to the Company in the manner provided in Section 12 hereof, setting forth the number of Option Shares as to which the Underwriters are exercising the option, and the date of delivery of said Option Shares, which date shall not be more than five business days after such notice unless otherwise agreed to by the parties. You may terminate the option at any time, as to any unexercised portion thereof, by giving written notice to the Company to such effect.

You, as Representatives, shall make such allocation of the Option Shares among the Underwriters as may be required to eliminate purchases of fractional Shares.

Delivery of the Option Shares with respect to which the options shall have been exercised shall be made to or upon your order at Edwards' Office (or at such other place as you and the Company may mutually agree upon), against payment by you of the per share purchase price to the Company by wire transfer or certified or bank cashier's check or checks, payable in clearing house funds. Such payment and delivery shall be made at 10:00 a.m., St. Louis time, on the date designated in the notice given by you as above provided for, unless some other date and time are agreed upon, which date and time of payment and delivery are called the "Option Closing Date."

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The certificates for the Option Shares so to be delivered will be made available to you for inspection at Edwards' Office at least one full business day prior to the Option Closing Date and will be in such names and denominations as you may request at least two full business days prior to the Option Closing Date. On the Option Closing Date, the Company shall provide the Underwriters such representations, warranties, opinions and covenants with respect to the Option Shares as are required to be delivered on the Closing Date with respect to the Firm Shares.

4. REPRESENTATIONS, WARRANTIES AND AGREEMENTS OF THE COMPANY AND SHHL.

(a) The Company and SHHL represent and warrant to and agree with each Underwriter that:

(i) A registration statement (Registration No. 333-14183) on Form S-1 with respect to the Shares, including a preliminary prospectus, and such amendments to such registration statement as may have been required to the date of this Agreement, has been carefully

prepared by the Company pursuant to and in conformity with the requirements of the Securities Act of 1933, as amended (the "Act"), and the Rules and Regulations (the "Rules and Regulations") of the Securities and Exchange Commission (the "Commission") thereunder and has been filed with the Commission under the Act. Copies of such registration statement, including any amendments thereto, each related preliminary prospectus (meeting the requirements of Rule 430 or 430A of the Rules and Regulations) contained therein, the exhibits, financial statements and schedules have heretofore been delivered by the Company to you. If such registration statement has not become effective under the Act, a further amendment to such registration statement, including a form of final prospectus, necessary to permit such registration statement to become effective will be filed promptly by the Company with the Commission. If such registration statement has become effective under the Act, a final prospectus containing information permitted to be omitted at the time of effectiveness by Rule 430A of the Rules and Regulations will be filed promptly by the Company with the Commission in accordance with Rule 424(b) of the Rules and Regulations. The term "Registration Statement" as used herein means the registration statement as amended at the time it becomes or became effective under the Act (the "Effective Date"), including financial statements and all exhibits and, if applicable, the information deemed to be included by Rule 430A of the Rules and Regulations. The term "Prospectus" as used herein means (i) the prospectus as first filed with the Commission pursuant to Rule 424(b) of the Rules and Regulations or, (ii) if no such filing is required, the form of final prospectus included in the Registration Statement at the Effective Date or (iii) if a Term Sheet or Abbreviated Term Sheet (as such terms are defined in Rule 434(b) and 434(c), respectively, of the Rules and Regulations) is filed with the Commission pursuant to Rule 424(b)(7) of the Rules and Regulations, the Term Sheet or Abbreviated Term Sheet and the last Preliminary Prospectus filed with the Commission prior to the time the Registration Statement became effective, taken together. The term "Preliminary Prospectus" as used herein shall mean a preliminary prospectus as contemplated by Rule 430 or 430A of the Rules and Regulations included at any time in the Registration Statement.

(ii) The Commission has not issued, and is not to the knowledge of the

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Company threatening to issue, an order preventing or suspending the use of any Preliminary Prospectus or the Prospectus nor instituted proceedings for that purpose. Each Preliminary Prospectus at its date of issue, the Registration Statement and the Prospectus and any amendments or supplements thereto contains or will contain, as the case may be, all statements which are required to be stated therein by, and in all material respects conform or will conform, as the case may be, to the requirements of, the Act and the Rules and Regulations. Neither the Registration Statement nor any amendment thereto, as of the applicable effective date, and neither the Prospectus nor any supplement thereto contains or will contain, as the case may be, any untrue statement of a material fact or omits or will omit to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; provided, however, that the Company Parties make no representation or warranty as to information contained in or omitted from the Registration Statement or the Prospectus, or any such amendment or supplement, in reliance upon, and in conformity with, written information furnished to the Company by or on behalf of the Underwriters specifically for use in the preparation thereof.

(iii) The filing of the Registration Statement and the execution and delivery of this Agreement have been duly authorized by the Board of Directors of each of the Company Parties; this Agreement

constitutes a valid and legally binding obligation of each of the Company Parties enforceable in accordance with its terms (except to the extent the enforceability of the indemnification and contribution provisions of Section 7 hereof may be limited by public policy considerations as expressed in the Act as construed by courts of competent jurisdiction; the issue and sale of the Shares by the Company and the performance of this Agreement and the consummation of the transactions herein contemplated by the Company Parties will not result in a violation of the certificate of incorporation or bylaws of either of the Company Parties or result in a breach or violation of any of the terms and provisions of, or constitute a default under, or result in the creation or imposition of any lien, charge or encumbrance upon any properties or assets of either of the Company Parties or their subsidiaries under, any statute, or under any indenture, mortgage, deed of trust, note, loan agreement, sale and leaseback arrangement or other agreement or instrument to which either of the Company Parties or any of their subsidiaries is a party or by which they are bound or to which any of the properties or assets of either of the Company Parties or their subsidiaries is subject, or any order, rule or regulation of any court or governmental agency or body having jurisdiction over either of the Company Parties or their subsidiaries or their properties, except to such extent as does not materially adversely affect the business of the Company Parties and their subsidiaries taken as a whole; no consent, approval, authorization, order, registration or qualification of or with any court or governmental agency or body is required for the consummation of the transactions herein contemplated, except such as may be required by the National Association of Securities Dealers, Inc. (the "NASD") or under the Act or Rules and Regulations or any state securities laws.

(iv) Except as described in the Prospectus, neither of the Company Parties has sustained since the date of the latest audited financial statements included in the Prospectus any material loss or interference with its business from fire, explosion, flood

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or other calamity, whether or not covered by insurance, or from any labor dispute or court or governmental action, order or decree. Except as contemplated in the Prospectus, subsequent to the respective dates as of which information is given in the Registration Statement and the Prospectus, the Company and SHHL taken as a whole have not incurred any material liabilities or material obligations, direct or contingent, other than in the ordinary course of business, or entered into any material transactions not in the ordinary course of business, and there has not been any material change in the capital stock or long-term debt of the Company and SHHL taken as a whole or any material adverse change in the condition (financial or other), net worth, business, affairs, management, prospects or results of operations of the Company and its subsidiaries taken as a whole. The Company and SHHL have filed all necessary federal, state and foreign income and franchise tax returns and paid all taxes shown as due thereon; all tax liabilities are adequately provided for on the books of the Company and SHHL except to such extent as would not materially adversely affect the business of the Company and SHHL taken as a whole; the Company and SHHL have made all necessary payroll tax payments and are current and up-to-date as of the date of this Agreement; and the Company and SHHL have no knowledge of any tax proceeding or action pending or threatened against the Company or its subsidiaries which might materially adversely affect their business or property.

(v) Except described in the Prospectus, there is not now pending or, to the knowledge of the Company, threatened or contemplated, any action, suit or proceeding to which the Company or SHHL is a party before or by any court or public, regulatory or governmental agency or body which might be expected to result (individually or in the aggregate) in any material adverse change in

the condition (financial or other), business or prospects of the Company and SHHL taken as a whole, or might be expected to materially and adversely affect (individually or in the aggregate) the properties or assets thereof; and there are no contracts or documents of the Company or SHHL which would be required to be filed as exhibits to the Registration Statement by the Act or by the Rules and Regulations which have not been filed as exhibits to the Registration Statement.

(vi) The Company has duly and validly authorized capital stock as described in the Prospectus; all outstanding shares of Common Stock of the Company and the Shares conform, or when issued will conform, to the description thereof in the Registration Statement and the Prospectus and have been, or, when issued and paid for will be, duly authorized, validly issued, fully paid and nonassessable; and the issuance of the Shares to be purchased from the Company hereunder is not subject to any preemptive or similar rights. All offers and sales of the securities of the Company Parties during the past three years were at all relevant times duly registered or exempt from the registration requirements of the Act and were duly registered or the subject of an exemption from the registration requirements of applicable state securities or Blue Sky laws. Except as set forth in the Prospectus, the Company Parties do not have outstanding, and at the Closing Date, will not have outstanding, any options to purchase, or any rights or warrants to subscribe for, or any securities or obligations convertible into, or any contracts, or commitments to issue or sell any shares of Common Stock or any such warrants, convertible securities or obligations. There are no contracts, agreements or understandings

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between the Company and any person granting such person the right to require the Company to file a registration statement under the Act with respect to any securities of the Company owned or to be owned by such person or to require the Company to include such securities in the securities registered pursuant to the Registration Statement or in any securities being registered pursuant to any other registration statement filed by the Company under the Act.

(vii) At the Closing Date, the only active subsidiaries (as defined in the Rules and Regulations) of the Company will be as provided in Exhibit 21 of the Registration Statement. The Company has been and its subsidiaries at the Closing Date will have been duly incorporated and are validly existing as corporations in good standing under the laws of the states or other jurisdictions in which they are incorporated, with full power and authority (corporate and other) to own, lease and operate their properties and conduct their businesses as described in the Registration Statement; the Company is and its subsidiaries at the Closing Date will be duly qualified to do business as foreign corporations in good standing in each state or other jurisdiction in which their ownership or leasing of property or conduct of business legally requires such qualification, except where the failure to be so qualified would not have a material adverse effect on the ability of the Company and its subsidiaries to conduct its or their business as described in the Registration Statement; at the Closing Date the outstanding shares of capital stock of the Company's subsidiaries will have been duly authorized and validly issued, are fully paid and nonassessable and will be owned by the Company free and clear of any mortgage, pledge, lien, encumbrance, charge or adverse claim and will not be the subject of any agreement or understanding with any person; and at the Closing Date no options, warrants or other rights to purchase, agreement or other obligations to issue or other rights to convert any obligations into shares of capital stock or ownership interests in the subsidiaries will be outstanding.

(viii) Price Waterhouse LLP, the accounting firm which has certified the financial statements filed with the Commission as a part of the Registration Statement, is an independent public accounting

firm within the meaning of the Act and the Rules and Regulations.

(ix) The combined financial statements and schedules of the Company, including the notes thereto, filed with and as a part of the Registration Statement, are accurate in all material respects and present fairly the combined financial position of the companies reflected therein as of the respective dates thereof and the results of operations and statements of cash flow for the respective periods covered thereby, all in conformity with generally accepted accounting principles applied on a consistent basis throughout the periods involved except as otherwise disclosed in the Prospectus. The financial and statistical data included in the Registration Statement and Prospectus present fairly the information shown therein and have been compiled on a basis consistent with that of the audited financial statements in the Registration Statement and Prospectus.

(x) Neither of the Company Parties is now or at the Closing Date will be in default with respect to any contract or agreement to which it is a party; provided that this

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representation shall not apply to defaults which in the aggregate are not materially adverse to the condition, financial or other, or the business or prospects of the Company Parties taken as a whole.

(xi) Neither of the Company Parties is now or at the Closing Date will be in violation of any other laws, ordinances or governmental rules or regulations to which it is subject, and neither the Company nor SHHL has failed to obtain any other license, permit, franchise, easement, consent, or other governmental authorization necessary to the ownership, leasing and operation of its properties or to the conduct of its business, which violation or failure would materially adversely affect the business, operations, affairs, properties, prospects, profits or condition (financial or other) of the Company and SHHL taken as a whole. Neither the Company nor SHHL has, at any time during the past five years, (A) made any unlawful contributions to any candidate for any political office, or failed fully to disclose any contribution in violation of law, or (B) made any payment to any state, federal or foreign government official, or other person charged with similar public or quasi-public duty (other than payment required or permitted by applicable law).

(xii) Except as described in the Prospectus, the Company and SHHL own or possess, or can acquire on reasonable terms, adequate patents, patent licenses, trademarks, service marks and trade names necessary to conduct the business now operated by them, and neither the Company nor SHHL has received any notice of infringement of or conflict with asserted rights of others with respect to any patents, patent licenses, trademarks, service marks or trade names which, singly or in the aggregate, if the subject of an unfavorable decision, ruling or finding, would have a material adverse effect on the conduct of the business, operations, financial condition or income of the Company and SHHL taken as a whole.

(xiii) The Company and SHHL have good and marketable title to all property owned by them, free and clear of all liens, encumbrances, restrictions and defects except such as are described in the Registration Statement or do not interfere with the use made and proposed to be made of such property; and any property held under lease or sublease by the Company or SHHL is held under valid, subsisting and enforceable leases or subleases with such exceptions as are not material and do not interfere with the use made and proposed to be made of such property by the Company and SHHL, and neither the Company nor SHHL has any notice or knowledge of any material claim of any sort which has been, or may be, asserted by anyone adverse to the Company's or SHHL's rights as lessee or sublessee under any lease or sublease described above, or affecting or questioning the Company's or SHHL's rights to the continued possession of the leased or subleased premises under any such lease or sublease in conflict with the terms

thereof.

(xiv) Except as described in the Prospectus, there is no factual basis for any action, suit or other proceeding involving the Company or SHHL or any of their material assets for any failure of the Company or SHHL, or any predecessor thereof, to comply with any requirements of federal, state or local regulation relating to air, water, solid waste management, hazardous or toxic substances, or the protection of health or the environment. Except as described in the Prospectus, none of the property owned or leased

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by the Company or SHHL is, to the best knowledge of the Company, contaminated with any waste or hazardous substances, and neither the Company nor SHHL may be deemed an "owner or operator" of a "facility" or "vessel" which owns, possesses, transports, generates or disposes of a "hazardous substance" as those terms are defined in Section 9601 of the Comprehensive Environmental Response, Compensation and Liability Act of 1980, 42 U.S.C. Section 9601 et seq.

(xv) No labor disturbance exists with the employees of the Company or SHHL or is imminent which would have a material adverse effect on the Company and SHHL taken as a whole.

(xvi) The Company has not taken and will not take, directly or indirectly, any action designed to or which might reasonably be expected to cause or result in stabilization or manipulation of the price of the Company's Common Stock, and the Company is not aware of any such action taken or to be taken by affiliates of the Company.

(xvii) The Company is not an "investment company" or a company "controlled" by an "investment company" within the meaning of the Investment Company Act of 1940, as amended.

(xviii) The Company's system of internal accounting controls taken as a whole is sufficient to meet the broad objectives of internal accounting control insofar as those objectives pertain to the prevention or detection of errors or irregularities in amounts that would be material in relation to the Company's financial statements; and, except as disclosed in the Prospectus, neither the Company nor any employee or agent of the Company has made any payment of funds of the Company or received or retained any funds in violation of any law, rule or regulation, the receipt or payment of which could have a material adverse effect on the Company.

(xix) There is no document or contract of a character required to be described in the Registration Statement or the Prospectus or to be filed as an exhibit to the Registration Statement that is not described or filed as required. All such contracts to which the Company or SHHL is a party have been duly authorized, executed and delivered by the Company or SHHL, constitute valid and binding agreements of the Company or SHHL and are enforceable against the Company or SHHL in accordance with the terms thereof.

(xx) No statement, representation, warranty or covenant made by the Company in this Agreement or made in any certificate or document required by this Agreement to be delivered to you was or will be, when made, inaccurate, untrue or incorrect in any material respect.

(xxi) No holder of securities of the Company or SHHL has rights to the registration of any securities of the Company because of the filing of the Registration Statement.



(xxii) Other than as contemplated by this Agreement, there is no broker, finder or other party that is entitled to receive from the Company or SHHL any brokerage or finder's fee or other fee or commission as a result of any of the transactions contemplated by this Agreement.

(b) Any certificate signed by any officer of the Company or SHHL and delivered to you or to counsel for the Underwriters shall be deemed a representation and warranty to each Underwriter as to the matters covered thereby.

5. **ADDITIONAL COVENANTS.** The Company covenants and agrees with the several Underwriters that:

(a) If the Registration Statement is not effective under the Act, the Company will use its best efforts to cause the Registration Statement to become effective as promptly as possible, and it will notify you, promptly after it shall receive notice thereof, of the time when the Registration Statement has become effective. The Company (i) will prepare and timely file with the Commission under Rule 424(b) of the Rules and Regulations, if required, a Prospectus containing information previously omitted at the time of effectiveness of the Registration Statement in reliance on Rule 430A of the Rules and Regulations or otherwise or a Term Sheet or Abbreviated Term Sheet, as applicable; (ii) will not file any amendment to the Registration Statement or supplement to the Prospectus of which the Underwriters shall not previously have been advised and furnished with a copy or to which the Underwriters shall have reasonably objected in writing or which is not in compliance with the Rules and Regulations; and (iii) will promptly notify you after it shall have received notice thereof of the time when any amendment to the Registration Statement becomes effective or when any supplement to the Prospectus has been filed.

(b) The Company will advise the Underwriters promptly, after it shall receive notice or obtain knowledge thereof, of any request of the Commission for amendment of the Registration Statement or for supplement to the Prospectus or for any additional information, or of the issuance by the Commission of any stop order suspending the effectiveness of the Registration Statement or the use of the Prospectus or of the institution or threatening of any proceedings for that purpose, and the Company will use its best efforts to prevent the issuance of any such stop order preventing or suspending the use of the Prospectus and to obtain as soon as possible the lifting thereof, if issued.

(c) The Company will cooperate with the Underwriters and their counsel in endeavoring to qualify the Shares for sale under the securities laws of such jurisdictions as they may have designated and will make such applications, file such documents, and furnish such information as may be necessary for that purpose, provided the Company shall not be required to qualify as a foreign corporation or to file a general consent to service of process in any jurisdiction where it is not now so qualified or required to file such a consent or to subject itself to taxation as doing business in any jurisdiction where it is not now so taxed. The Company will, from time to time, file such statements, reports, and other documents, as are or may be required to continue such qualifications in effect for so long a period as the Underwriters may reasonably

request.

(d) The Company will deliver to, or upon the order of, the Underwriters, without charge from time to time, as many copies of any Preliminary Prospectus as they may reasonably request. The Company will

deliver to, or upon the order of, the Underwriters without charge as many copies of the Prospectus, as it thereafter may be amended or supplemented, as they may from time to time reasonably request; provided, however, that the expense of the preparation and delivery of any Prospectus required for use after the expiration of the time period required by law for delivery by an Underwriter or dealer shall be borne by the Underwriters required to deliver such Prospectus. The Company consents to the use of such Prospectus by the Underwriters and by all dealers to whom the Shares may be sold, both in connection with the offering or sale of the Shares and for such other purposes and for such period of time thereafter as the Prospectus is required by law to be delivered in connection with the offering or sale of the Shares. The Company will deliver to the Underwriters at or before the Closing Date two signed copies of the Registration Statement and all amendments thereto including all exhibits filed therewith, and will deliver to the Underwriters such number of copies of the Registration Statement, without exhibits, and of all amendments thereto, as they may reasonably request.

(e) If, during the period in which a prospectus is required by law to be delivered by an Underwriter or dealer, any event shall occur as a result of which, in the judgment of the Company or in your judgment or in the opinion of counsel for the Underwriters, it becomes necessary to amend or supplement the Prospectus in order to make the statements therein, in light of the circumstances existing at the time the Prospectus is delivered to a purchaser, not misleading, or, if it is necessary at any time to amend or supplement the Prospectus to comply with any law, the Company promptly will prepare and file with the Commission an appropriate amendment to the Registration Statement or supplement to the Prospectus so that the Prospectus as so amended or supplemented will not, in the light of the circumstances when it is so delivered, be misleading, or so that the Prospectus will comply with law; provided, however, that the expense of the preparation and delivery of any Prospectus required for use after the expiration of the time period required by law for delivery by an Underwriter or dealer, as well as the expense of the preparation and filing of an amendment to the Registration Statement relating to such Prospectus, shall be borne by the Underwriters required to deliver such Prospectus.

(f) The Company will make generally available to its stockholders and will file as an exhibit in a report pursuant to the Securities and Exchange Act of 1934, as amended (the "1934 Act"), as soon as it is practicable to do so, but in any event not later than 90 days after the end of the period covered thereby, an earnings statement in reasonable detail, covering a period of at least 12 consecutive months beginning after the effective date of the Registration Statement, which earnings statement shall satisfy the requirements of Section 11(a) of the Act and Rule 158 of the Rules and Regulations and will advise the Underwriters in writing when such statement has been so made available.

(g) The Company will, for a period of five years from the Closing Date, deliver to the Representatives at their principal executive offices a reasonable number of copies of annual reports, quarterly reports, current reports and copies of all other documents, reports and information furnished by the Company to its stockholders or filed with any securities exchange

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pursuant to the requirements of such exchange or with the Commission pursuant to the Act or the 1934 Act. The Company will deliver to the Representatives similar reports with respect to any significant subsidiaries, as that term is defined in the Rules and Regulations, which are not consolidated in the Company's financial statements. Any report, document or other information required to be furnished under this paragraph (g) shall be furnished as soon as practicable after such report, document or information becomes available.

(h) The Company will apply the proceeds from the sale of the Shares as set forth in the description under "Use of Proceeds" in the Prospectus, which description complies in all respects with the requirements of Item 504 of Regulation S-K.

(i) The Company will supply you with copies of all correspondence to and from, and all documents issued to and by, the Commission in connection with the registration of the Shares under the Act.

(j) Prior to the Closing Date (and, if applicable, the Option Closing Date), the Company will furnish to you, as soon as they have been prepared, copies of any unaudited interim consolidated financial statements of the Company and its subsidiaries for any periods subsequent to the periods covered by the financial statements appearing in the Registration Statement and the Prospectus.

(k) Prior to the Closing Date (and, if applicable, the Option Closing Date), the Company will not issue any press releases or other communications directly or indirectly and will hold no press conferences with respect to the Company or any of its subsidiaries, the financial condition, results of operations, business, properties, assets or liabilities of the Company or any of its subsidiaries, or the offering of the Shares, without your prior written consent.

(l) The Company will use its best efforts to obtain approval for, and maintain the quotation of the Shares on, the National Association of Securities Dealers, Inc. Automated Quotation/National Market System (the "Nasdaq/NMS").

(m) Except pursuant to this Agreement or with the prior written consent of A.G. Edwards & Sons, Inc., the Company will not, and the Company has provided agreements executed by each of the Company's officers and directors and each record or beneficial owner of more than five percent (5%) of the shares of Company's Common Stock providing that none of them will, for a period of 180 days from the Effective Date, directly or indirectly, make, agree to or cause any offer, sale (including short sale but excluding any sale of shares to any employee of the Company pursuant to the exercise of options under the Company's 1996 Stock Option Plan), loan, pledge or other disposition of, or grant any options (other than options under the Company's 1996 Stock Option Plan) or other rights with respect to, or otherwise reduce any risk of ownership, directly or indirectly, of any shares of Common Stock or other capital stock of the Company, or any securities that are convertible into or exchangeable or exercisable for shares of Common Stock or other capital stock of the Company, or derivatives thereof, or request the registration of any of the foregoing.

(n) The Company and its subsidiaries will maintain and keep accurate books and

records reflecting their assets and maintain internal accounting controls which provide reasonable assurance that (1) transactions are executed in accordance with management's authorization, (2) transactions are recorded as necessary to permit the preparation of the Company's consolidated financial statements and to maintain accountability for the assets of the Company and its subsidiaries, (3) access to the assets of the Company and its subsidiaries is permitted only in accordance with management's authorization, and (4) the recorded accounts of the assets of the Company and its subsidiaries are compared with existing assets at reasonable intervals.

(o) If at any time during the 25 day period after the Registration Statement is declared effective, any rumor, publication or event relating to or affecting the Company shall occur as a result of which, in your opinion, the market price for the Shares has been or is likely to be materially affected (regardless of whether such rumor, publication or event necessitates a supplement to or amendment of the Prospectus), the Company will, after written notice from you advising it as to the effect set forth above, prepare, consult with you concerning the substance of and disseminate a press release or other public statement, reasonably satisfactory to you, responding to or commenting on such rumor, publication or event.

6. CONDITIONS OF UNDERWRITERS' OBLIGATIONS. The several obligations of the Underwriters to purchase and pay for the Shares, as provided

herein, shall be subject to the accuracy in all material respects, as of the date hereof and as of the Closing Date (and, if applicable, the Option Closing Date), of the representations and warranties of the Company contained herein, to the performance in all material respects by the Company of its covenants and obligations hereunder, and to the following additional conditions:

(a) All filings required by Rule 424 and Rule 430A of the Rules and Regulations shall have been made. No stop order suspending the effectiveness of the Registration Statement, as amended from time to time, shall have been issued and no proceeding for that purpose shall have been initiated or, to the knowledge of the Company or any Underwriter, threatened or contemplated by the Commission, and any request of the Commission for additional information (to be included in the Registration Statement or the Prospectus or otherwise) shall have been complied with to the reasonable satisfaction of the Underwriters.

(b) No Underwriter shall have disclosed in writing to the Company on or prior to the Closing Date (and, if applicable, the Option Closing Date), that the Registration Statement or Prospectus or any amendment or supplement thereto contains an untrue statement of fact which, in the opinion of counsel to the Underwriters, is material, or omits to state a fact which, in the opinion of such counsel, is material and is required to be stated therein or is necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

(c) On the Closing Date (and, if applicable, the Option Closing Date), you shall have received the opinion of counsel for the Company, addressed to you and dated the Closing Date (and, if applicable, the Option Closing Date), to the effect that:

(i) The Company and its subsidiaries have been duly incorporated and are validly existing as corporations in good standing under the laws of the states or other jurisdictions in which they are incorporated, with full power and authority (corporate and

other) to own, lease and operate their properties and conduct their business as described in the Registration Statement; the Company and its subsidiaries are duly qualified to do business as foreign corporations in good standing in each state or other jurisdiction in which their ownership or leasing of property or conduct of business legally requires such qualification, except where the failure to be so qualified would not have a material adverse effect on the ability of the Company and its subsidiaries to conduct its or their business as described in the Registration Statement; and the outstanding shares of capital stock of the Company's subsidiaries have been duly authorized and validly issued, are fully paid and nonassessable and, to the knowledge of such counsel, are owned by the Company free and clear of any mortgage, pledge, lien, encumbrance, charge or adverse claim and are not the subject of any agreement or understanding with any person; to the knowledge of such counsel, no options, warrants or other rights to purchase, agreement or other obligations to issue or other rights to convert any obligations into shares of capital stock or ownership interests in the subsidiaries are outstanding.

(ii) The Company has duly and validly authorized capital stock as set forth under the heading "Capitalization" in the Prospectus; all outstanding shares of Common Stock of the Company and the Shares conform to the description thereof in the Prospectus under the heading "Description of Capital Stock", and the outstanding shares of Common Stock have been duly authorized and are validly issued, fully paid and non-assessable; the Shares to be sold by the Company have been duly authorized and, when delivered and paid for in accordance with this Agreement, will be validly issued, fully paid and non-assessable, and the stockholders of the Company have no preemptive rights with respect to the Shares. To the knowledge of such counsel, all offers and sales of the Company's securities during the past three

years were at all relevant times duly registered or exempt from the registration requirements of the Act and were duly registered or the subject of an exemption from the registration requirements of applicable state securities or Blue Sky laws.

(iii) Such counsel has been advised by the staff of the Commission that the Registration Statement has become effective under the Act and, to the knowledge of such counsel after due inquiry, no stop order suspending the effectiveness of the Registration Statement has been issued and no proceedings for that purpose have been instituted or are pending or contemplated under the Act.

(iv) The Registration Statement and the Prospectus, and each amendment or supplement thereto, as of their respective effective or issue date, comply as to form and appear on their face to be appropriately responsive in all material respects to the requirements of the Act and the applicable rules and regulations (except that such counsel need express no opinion as to the financial statements or other financial data).

(v) The descriptions in the Registration Statement and Prospectus of contracts and other documents filed as exhibits to the Registration Statement are accurate in all material respects; to the knowledge of such counsel, all other material agreements between the Company and third parties expressly referenced in the Prospectus are legal, valid and binding obligations of the Company.

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(vi) To the knowledge of such counsel, no authorization, approval, consent, order, registration or qualification of or with of any court or governmental body, authority or agency is required with respect to the Company in connection with the transactions contemplated by this Agreement, except such as may be required under the Act or the Rules and Regulations or as may be required by the NASD or under state securities laws in connection with the purchase and distribution of the Shares by the Underwriters.

(vii) The filing of the Registration Statement has been duly authorized by the Board of Directors of the Company. The performance of this Agreement and the consummation of the transactions herein contemplated will not result in a violation of the Company's certificate of incorporation or bylaws or, to the knowledge of such counsel, result in a breach or violation of any of the terms and provisions of, or constitute a default under, or result in the creation or imposition of any lien, charge or encumbrance upon any properties or assets of the Company and its subsidiaries under, any statute, or under any indenture, mortgage, deed of trust, note, loan agreement, sale and leaseback arrangement, or any other agreement or instrument known to such counsel to which the Company or any of its subsidiaries is a party or by which they are bound or to which any of the properties or assets of the Company or its subsidiaries are subject, or any order, rule or regulation known to such counsel of any court or governmental agency or body having jurisdiction over the Company or its subsidiaries or their properties, except, in the case of any such violation, breach, default, creation or imposition, to such extent as does not materially adversely affect the business of the Company and its subsidiaries taken as a whole.

(viii) To the knowledge of such counsel, (A) there are no material (individually, or in the aggregate) legal, governmental or regulatory proceedings pending or threatened to which the Company or any subsidiary is a party or of which the business or properties of the Company or any subsidiary is the subject which are not disclosed in the Registration Statement and Prospectus; (B) there are no contracts or documents of a character required to be described in the Registration Statement or the Prospectus or to be filed as an exhibit

to the Registration Statement which are not described or filed as required; and (C) there are no statutes or regulations required to be described in the Registration Statement or Prospectus which are not described as required.

(ix) To the knowledge of such counsel, the Company and each of its subsidiaries hold all licenses, certificates, permits and approvals from all state, federal and other regulatory authorities, and have satisfied in all material respects the requirements imposed by regulatory bodies, administrative agencies or other governmental bodies, agencies or officials, that are required for the Company and its subsidiaries lawfully to own, lease and operate its properties and conduct its business as described in the Prospectus, and, to the knowledge of such counsel, each of the Company and its subsidiaries is conducting its business in compliance in all material respects with all of the laws, rules and regulations of each jurisdiction in which it conducts its business.

(x) The statements made in the Registration Statement under the captions "Dividend Policy", "Capitalization", and "Description of Capital Stock", to the extent that

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they constitute summaries of documents referred to therein or matters of law or legal conclusions, have been reviewed by such counsel and are accurate summaries and fairly present the information disclosed therein.

(xi) The Company is not an "investment company" or a company "controlled" by an "investment company" within the meaning of the Investment Company Act of 1940, as amended.

(xii) There are no contracts, agreements or understandings known to such counsel between the Company and any person granting such person the right to require the Company to file a registration statement under the Act with respect to any securities of the Company owned or to be owned by such person or to require the Company to include such securities in the securities registered pursuant to the Registration Statement or in any securities being registered pursuant to any other registration statement filed by the Company under the Act.

(xiii) This Agreement has been duly authorized, executed and delivered by the Company and constitutes a valid and legally binding obligation of the Company enforceable in accordance with its terms, except (A) as such enforceability may be limited by bankruptcy, insolvency, reorganization, fraudulent conveyance or similar laws now or hereafter in effect relating to creditors' rights or debtors' obligations generally; (B) that the remedies of specific performance and injunctive and other forms of relief are subject to general equitable principles, whether enforcement is sought at law or in equity, and that such enforcement may be subject to the discretion of the court before which any proceedings therefor may be brought; and (C) as rights to indemnity and contribution may be limited by state or Federal laws relating to securities or the policies underlying such laws.

Such counsel shall confirm that in the course of its duties in connection with the preparation of the Registration Statement and Prospectus, nothing came to such counsel's attention that would lead them to believe that either the Registration Statement or Prospectus or any amendment or supplement thereto (other than the financial statements or other financial data as to which such counsel need express no opinion) contains any untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

In rendering the foregoing opinion, such counsel may rely, provided that the opinion shall state that you and they are entitled to so rely, as to all matters of fact, upon certificates and written statements of the executive officers of, and accountants for, the Company and various public officials.

(d) You shall have received on the Closing Date (and, if applicable, the Option Closing Date), from Nelson Mullins Riley & Scarborough, L.L.P., counsel to the Underwriters, such opinion or opinions, dated the Closing Date (and, if applicable, the Option Closing Date) with respect to the incorporation of the Company, the validity of the Shares, the Registration

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Statement, the Prospectus and other related matters as you may reasonably require; the Company shall have furnished to such counsel such documents as they reasonably request for the purpose of enabling them to pass on such matters.

(e) You shall have received at or prior to the Closing Date from Nelson Mullins Riley & Scarborough, L.L.P., a memorandum or memoranda, in form and substance satisfactory to you, with respect to the qualification for offering and sale by the Underwriters of the Shares under state securities or Blue Sky laws of such jurisdictions as the Underwriters may have designated to the Company.

(f) On the business day immediately preceding the date of this Agreement and on the Closing Date (and, if applicable, the Option Closing Date), you shall have received from Price Waterhouse LLP, a letter or letters, dated the date of this Agreement and the Closing Date (and, if applicable, the Option Closing Date), respectively, in form and substance satisfactory to you, confirming that they are independent public accountants with respect to the Company within the meaning of the Act and the published Rules and Regulations, and the answer to Item 509 of Regulation S-K set forth in the Registration Statement is correct insofar as it relates to them, and stating to the effect set forth in Schedule II hereto.

(g) Except as contemplated in the Prospectus, (i) neither of the Company Parties and none of their subsidiaries shall have sustained since the date of the latest audited financial statements included in the Prospectus any loss or interference with its business from fire, explosion, flood or other calamity, whether or not covered by insurance, or from any labor dispute or court or governmental action, order or decree; and (ii) subsequent to the respective dates as of which information is given in the Registration Statement and the Prospectus, neither of the Company Parties and none of their subsidiaries shall have incurred any liability or obligation, direct or contingent, or entered into transactions, and there shall not have been any change in the capital stock or long-term debt of either of the Company Parties or any of their subsidiaries or any change in the condition (financial or other), net worth, business, affairs, management, prospects or results of operations of either of the Company Parties or any of their subsidiaries, the effect of which, in any such case described in clause (i) or (ii), is in your judgment so material or adverse as to make it impracticable or inadvisable to proceed with the public offering or the delivery of the Shares being delivered on such Closing Date (and, if applicable, the Option Closing Date) on the terms and in the manner contemplated in the Prospectus.

(h) There shall not have occurred any of the following: (i) a suspension or material limitation in trading in securities generally on the New York Stock Exchange or the American Stock Exchange or the establishing on such exchanges by the Commission or by such exchanges of minimum or maximum prices which are in force and effect on the date hereof; (ii) a general moratorium on commercial banking activities declared by either federal or state authorities; (iii) the outbreak or escalation of hostilities involving the United States or the declaration by the United States of a national emergency or war, if the effect of any such event specified in this clause (iii) in your judgment makes it impracticable or inadvisable to proceed with the public offering or the

delivery of the Shares in the manner contemplated in the Prospectus; (iv) any calamity or crisis, change in national, international or world affairs, act of God, change in the

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international or domestic markets, or change in the existing financial, political or economic conditions in the United States or elsewhere, if the effect of any such event specified in this clause (iv) makes it impracticable or inadvisable to proceed with the public offering or the delivery of the Shares in the manner contemplated in the Prospectus; or (v) the enactment, publication, decree, or other promulgation of any federal or state statute, regulation, rule, or order of any court or other governmental authority, or the taking of any action by any federal, state or local government or agency in respect of fiscal or monetary affairs, if the effect of any such event specified in this clause (v) in your judgment makes it impracticable or inadvisable to proceed with the public offering or the delivery of the Shares in the manner contemplated in the Prospectus.

(i) You shall have received certificates, dated the Closing Date (and, if applicable, the Option Closing Date) and signed by the President and the Chief Financial Officer of the Company stating that (i) they have carefully examined the Registration Statement and the Prospectus as amended or supplemented and nothing has come to their attention that would lead them to believe that either the Registration Statement or the Prospectus, or any amendment or supplement thereto as of their respective effective or issue dates, contained, and the Prospectus as amended or supplemented at such Closing Date, contains any untrue statement of a material fact, or omits to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading, and, that (ii) all representations and warranties made herein by the Company are true and correct in all material respects at such Closing Date, with the same effect as if made on and as of such Closing Date, and all agreements herein to be performed by the Company on or prior to such Closing Date have been duly performed in all material respects.

(j) The Company shall not have failed, refused, or been unable, at or prior to the Closing Date (and, if applicable, the Option Closing Date) to have performed in all material respects any agreement on its part to be performed or any of the conditions herein contained and required to be performed or satisfied by it at or prior to such Closing Date.

(k) The Company shall have furnished to you at the Closing Date (and, if applicable, the Option Closing Date) such other certificates as you may have reasonably requested as to the accuracy, on and as of such Closing Date, of the representations and warranties of the Company herein and as to the performance by the Company of its obligations hereunder.

(l) The Shares shall have been approved for trading upon official notice of issuance on the Nasdaq/NMS.

(m) The agreements mentioned in Section 5(m) shall be in full force and effect.

(n) The Reorganization shall have been consummated.

All such opinions, certificates, letters and documents will be in compliance with the provisions hereof only if they are reasonably satisfactory to you and to Nelson Mullins Riley & Scarborough, L.L.P., counsel for the several Underwriters. The Company will furnish you with such conformed copies of such opinions, certificates, letters and documents as you may request.

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If any of the conditions specified above in this Section 6 shall not have been satisfied at or prior to the Closing Date (and, if applicable, the Option Closing Date) or waived by you in writing, this Agreement may be terminated by you on notice to the Company.

7. INDEMNIFICATION. (a) The Company will indemnify and hold harmless each Underwriter, the directors, officers, employees and agents of each Underwriter and each person, if any, who controls any Underwriter within the meaning of the Act, against any losses, claims, damages or liabilities, joint or several, to which such Underwriter or such controlling person may become subject, under the Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon an untrue statement or alleged untrue statement of a material fact contained in the Registration Statement, any Preliminary Prospectus, the Prospectus, or any amendment or supplement thereto, or in any blue sky application or other document executed by the Company or based on any information furnished in writing by the Company, filed in any jurisdiction in order to qualify any or all of the Shares under the securities laws thereof ("Blue Sky Application"), or arise out of or are based upon the omission or alleged omission therein of a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading; and will reimburse each Underwriter and each such controlling person for any legal or other expenses reasonably incurred by such Underwriter or such controlling person in connection with investigating or defending any such loss, claim, damage, liability or action; provided, however, that the Company shall not be liable in any such case to the extent that any such loss, claim, damage or liability arises out of or is based upon an untrue statement or alleged untrue statement or omission or alleged omission made in the Registration Statement, such Preliminary Prospectus or the Prospectus, or such amendment or supplement, or any Blue Sky Application in reliance upon and in conformity with written information furnished to the Company by you or by any Underwriter through you, specifically for use in the preparation thereof; and provided, further, that if any Preliminary Prospectus or the Prospectus contained any alleged untrue statement or allegedly omitted to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading and such statement or omission shall have been corrected in a revised Preliminary Prospectus or in the Prospectus or in an amended or supplemented Prospectus, the Company shall not be liable to any Underwriter or controlling person under this subsection (a) with respect to such alleged untrue statement or alleged omission to the extent that any such loss, claim, damage or liability of such Underwriter or controlling person results from the fact that such Underwriter sold Shares to a person to whom there was not sent or given, at or prior to the written confirmation of such sale, such revised Preliminary Prospectus or Prospectus or amended or supplemented Prospectus. This indemnity agreement shall be in addition to any liabilities which the Company may otherwise have.

(b) Each Underwriter will indemnify and hold harmless the Company, each of its directors, each of its officers who have signed the Registration Statement and each person, if any, who controls the Company within the meaning of the Act, against any losses, claims, damages or liabilities, joint or several, to which the Company or any such director, officer or controlling person may become subject, under the Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon any untrue statement or alleged untrue statement of any material fact contained in the Registration Statement, any Preliminary Prospectus, the Prospectus, any amendment or supplement thereto, or any Blue Sky

Application or arise out of or are based upon the omission or the alleged omission therein of a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading, in each case to the extent, but only to the extent, that such untrue statement or alleged untrue statement or omission or alleged

omission was made in the Registration Statement, such Preliminary Prospectus or the Prospectus, such amendment or supplement, or any Blue Sky Application in reliance upon and in conformity with written information furnished to the Company by any such Underwriter specifically for use in the preparation thereof; and will reimburse any legal or other expenses reasonably incurred by the Company or any such director, officer or controlling person in connection with investigating or defending any such loss, claim, damage, liability or action. The Company acknowledges that the statements set forth under the heading "Underwriting" in any Preliminary Prospectus and the Prospectus constitute the only information relating to the Underwriters furnished in writing to the Company by the Underwriters expressly for inclusion in the Registration Statement, any Preliminary Prospectus or the Prospectus.

(c) Any person (as defined in the Act) which proposes to assert the right to be indemnified under this Section 7 shall, within ten days after receipt of notice of commencement of any action, suit or proceeding against such party in respect of which a claim is to be made against an indemnifying party under this Section 7, notify each such indemnifying party of the commencement of such action, suit or proceeding, enclosing a copy of all papers served, but the omission so to notify such indemnifying party of any such action, suit or proceeding shall not relieve such indemnifying party from any liability which it may have to any indemnified party otherwise than under this Section 7. In case any such action, suit or proceeding shall be brought against any indemnified party and it shall notify the indemnifying party of the commencement thereof, the indemnifying party shall be entitled to participate in, and, to the extent that it shall wish, jointly with any other indemnifying party, similarly notified, to assume the defense thereof, with counsel reasonably satisfactory to such indemnified party, and after notice from the indemnifying party to such indemnified party of its election so to assume the defense thereof, the indemnifying party shall not be liable to such indemnified party for any legal or other expenses, other than reasonable costs of investigation, subsequently incurred by such indemnified party in connection with the defense thereof. The indemnified party shall have the right to employ its own counsel in any such action, but the fees and expenses of such counsel shall be at the expense of such indemnified party unless (i) the employment of counsel by such indemnified party at the expense of the indemnifying party has been authorized by the indemnifying party, (ii) the indemnified party shall have been advised by such counsel in a written opinion that there may be a conflict of interest between the indemnifying party and the indemnified party in the conduct of the defense, or certain aspects of the defense, of such action (in which case the indemnifying party shall not have the right to direct the defense of such action with respect to those matters or aspects of the defense on which a conflict exists or may exist on behalf of the indemnified party) or (iii) the indemnifying party shall not in fact have employed counsel to assume the defense of such action, in any of which events such fees and expenses to the extent applicable shall be borne by the indemnifying party. An indemnifying party shall not be liable for any settlement of any action or claim effected without its consent. Each indemnified party, as a condition of such indemnity, shall cooperate in good faith with the indemnifying party in the defense of any such action or claim.

(d) If the indemnification provided for in this Section 7 is for any reason, other than pursuant to the terms thereof, judicially determined (by the entry of a final judgment or decree by a court of competent jurisdiction and the expiration of time to appeal or the denial of the last right to appeal) to be unavailable to an indemnified party under subsections (a), (b) or (c) above in respect of any losses, claims, damages or liabilities (or actions in respect thereof) referred to therein, then each indemnifying party shall, in lieu of indemnifying such indemnified party, contribute to the amount paid or payable by such indemnified party as a result of such losses, claims, damages or liabilities (or actions in respect thereof) in such proportion as is appropriate to reflect the relative benefits received by the Company and the Underwriters from the offering of the Shares. If, however, the allocation provided by the immediately preceding sentence is not permitted by applicable law, then each indemnifying party shall contribute to such amount paid or

payable by such indemnified party in such proportion as is appropriate to reflect not only such relative benefits but also the relative fault, as applicable, of the Company and the Underwriters in connection with the statements or omissions which resulted in such losses, claims, damages or liabilities (or actions in respect thereof), as well as other relevant equitable considerations. The relative benefits received by, as applicable, the Company and the Underwriters shall be deemed to be in the same proportion as the total net proceeds from the offering (before deducting expenses) received by the Company bear to the total underwriting discounts and commissions received by the Underwriters, in each case as set forth in the table on the cover page of the Prospectus. The relative fault shall be determined by reference to, among other things, whether the untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Company or the Underwriters and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. The Company and the Underwriters agree that it would not be just and equitable if contributions pursuant to this subsection (d) were determined by pro rata allocation (even if the Underwriters were treated as one entity for such purpose) or by any other method of allocation which does not take account of the equitable considerations referred to above in this subsection (d). The amount paid or payable by an indemnified party as a result of the losses, claims, damages or liabilities (or actions in respect thereof) referred to above in this subsection (d) shall be deemed to include any legal or other expenses reasonably incurred by such indemnified party in connection with investigating or defending any such action or claim. Notwithstanding the provisions of this subsection (d), no Underwriter shall be required to contribute any amount in excess of the underwriting discounts and commissions applicable to the Shares purchased by such Underwriter. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. The Underwriters' obligations in this subsection (d) to contribute are several in proportion to their respective underwriting obligations and not joint.

8. REPRESENTATIONS AND AGREEMENTS TO SURVIVE DELIVERY. All representations, warranties, and agreements of the Company contained in Sections 7 and 11 herein or in certificates delivered pursuant hereto, and the agreements of the Underwriters contained in Section 7 hereof, shall remain operative and in full force and effect regardless of any termination or cancellation of this Agreement or any investigation made by or on behalf of any Underwriter, the Company or other indemnified party and shall survive delivery of the Shares to the Underwriters hereunder.

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9. SUBSTITUTION OF UNDERWRITERS. (a) If any Underwriter shall default in its obligation to purchase the Shares which it has agreed to purchase hereunder, you may in your discretion arrange for you or another party or other parties to purchase such Shares on the terms contained herein. If within thirty-six hours after such default by any Underwriter you do not arrange for the purchase of such Shares, then the Company shall be entitled to a further period of thirty-six hours within which to procure another party or parties reasonably satisfactory to you to purchase such Shares on such terms. In the event that, within the respective prescribed periods, you notify the Company that you have so arranged for the purchase of such Shares, or the Company notifies you that it has so arranged for the purchase of such Shares, you or the Company shall have the right to postpone the Closing Date for a period of not more than seven days, in order to effect whatever changes may thereby be made necessary in the Registration Statement or the Prospectus, or in any other documents or arrangements, and the Company agrees to file promptly any amendments to the Registration Statement or the Prospectus which in your opinion may thereby be made necessary. The term "Underwriter" as used in this Agreement shall include any persons substituted under this Section 9 with like effect as if such person had originally been a party to this Agreement with respect to such Shares.

(b) If, after giving effect to any arrangements for the purchase of the Shares of a defaulting Underwriter or Underwriters made by you or the Company as provided in subsection (a) above, the aggregate number of Shares which remains unpurchased does not exceed one tenth of the total Shares to be sold on the Closing Date, then the Company shall have the right to require each non-defaulting Underwriter to purchase the Shares which such Underwriter agreed to purchase hereunder and, in addition, to require each non-defaulting Underwriter to purchase its pro rata share (based on the number of Shares which such Underwriter agreed to purchase hereunder) of the Shares of such defaulting Underwriter or Underwriters for which such arrangements have not been made; but nothing herein shall relieve a defaulting Underwriter from liability for its default.

(c) If, after giving effect to any arrangements for the purchase of the Shares of a defaulting Underwriter or Underwriters made by you or the Company as provided in subsection (a) above, the number of Shares which remains unpurchased exceeds one tenth of the total Shares to be sold on the Closing Date, or if the Company shall not exercise the right described in subsection (b) above to require the non-defaulting Underwriters to purchase Shares of the defaulting Underwriter or Underwriters, then this Agreement shall thereupon terminate, without liability on the part of any non-defaulting Underwriter or the Company except for the expenses to be borne by the Company and the Underwriters as provided in Section 11 hereof and the indemnity and contribution agreements in Section 7 hereof; but nothing herein shall relieve a defaulting Underwriter from liability for its default.

10. EFFECTIVE DATE AND TERMINATION. (a) This Agreement shall become effective at 1:00 p.m., St. Louis time, on the first business day following the effective date of the Registration Statement, or at such earlier time after the effective date of the Registration Statement as you in your discretion shall first release the Shares for offering to the public; provided, however, that the provisions of Section 7 and 11 shall at all times be effective. For the purposes of this Section 10(a), the Shares shall be deemed to have been released to the public upon release by you of the publication of a newspaper advertisement relating to the Shares or

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upon release of telegrams, facsimile transmissions or letters offering the Shares for sale to securities dealers, whichever shall first occur.

(b) In the event that the Company refuses or fails to perform hereunder, this Agreement may be terminated by you at any time before it becomes effective in accordance with Section 10(a) by notice to the Company; provided, however, that the provisions of this Section 10 and of Section 7 and Section 11 hereof shall at all times be effective. In the event of any termination of this Agreement pursuant to Section 9 or this Section 10(b) hereof, the Company shall not then be under any liability to any Underwriter except as provided in Section 7 or Section 11 hereof.

(c) This Agreement may be terminated by you at any time at or prior to the Closing Date by notice to the Company if any condition specified in Section 6 hereof shall not have been satisfied on or prior to the Closing Date. Any such termination shall be without liability of any party to any other party except as provided in Sections 7 and 11 hereof.

(d) This Agreement also may be terminated by you, by notice to the Company as to any obligation of the Underwriters to purchase the Option Shares, if any condition specified in Section 6 hereof shall not have been satisfied at or prior to the Option Closing Date or as provided in Section 9 of this Agreement.

If you terminate this Agreement as provided in Sections 10(b), 10(c) or 10(d), you shall notify the Company by telephone or telegram, confirmed by letter.

11. COSTS AND EXPENSES. The Company Parties will bear and pay the costs and expenses incident to the registration of the Shares and public offering thereof, including, without limitation, (a) the fees and expenses of

the Company's accountants and the fees and expenses of counsel for the Company, (b) the preparation, printing, filing, delivery and shipping of the Registration Statement, each Preliminary Prospectus, the Prospectus and any amendments or supplements thereto (except as otherwise expressly provided in Section 5(d) or (e) hereof) and the printing, delivery and shipping of this Agreement, the Agreement Among Underwriters, the Selected Dealer Agreement, Underwriters' Questionnaires and Powers of Attorney and Blue Sky Memoranda, (c) the furnishing of copies of such documents (except as otherwise expressly provided in Section 5(d) or (e) hereof) to the Underwriters, (d) the registration or qualification of the Shares for offering and sale under the securities laws of the various states, including the reasonable fees and disbursements of Underwriters' counsel relating to such registration or qualification, (e) the fees payable to the NASD and the Commission in connection with their review of the proposed offering of the Shares, (f) all printing and engraving costs related to preparation of the certificates for the Shares, including transfer agent and registrar fees, (g) all initial transfer taxes, if any, (h) all fees and expenses relating to the authorization of the Shares for trading on Nasdaq/NMS, (i) all travel expenses, including air fare and accommodation expenses, of representatives of the Company in connection with the offering of the Shares and (j) all of the other costs and expenses incident to the performance by the Company of the registration and offering of the Shares; provided, however, that the Underwriters will bear and pay the fees and expenses of the Underwriters' counsel (other than fees and disbursements relating to the registration or qualification of the Shares for offering and sale under the securities

laws of the various states and clearance with the NASD), the Underwriters' out-of-pocket expenses, and any advertising costs and expenses incurred by the Underwriters incident to the public offering of the Shares.

If this Agreement is terminated by you in accordance with the provisions of Section 10(b) or 10(c), the Company shall reimburse the Underwriters for all of their out-of-pocket expenses, including the reasonable fees and disbursements of counsel to the Underwriters.

12. NOTICES. All notices or communications hereunder, except as herein otherwise specifically provided, shall be in writing and if sent to the Underwriters shall be mailed, delivered, sent by facsimile transmission, or telegraphed and confirmed c/o A.G. Edwards & Sons, Inc. at One North Jefferson Avenue, St. Louis, Missouri 63103, Attention: Syndicate, facsimile number (314) 289-7387, or if sent to either of the Company Parties shall be mailed, delivered, sent by facsimile transmission, or telegraphed and confirmed to the Company at 1500 West University Parkway, Sarasota, Florida 34243, facsimile number (941) 355-4497. Notice to any Underwriter pursuant to Section 7 shall be mailed, delivered, sent by facsimile transmission, or telegraphed and confirmed to such Underwriter's address as it appears in the Underwriters' Questionnaire furnished in connection with the offering of the Shares or as otherwise furnished to the Company.

13. PARTIES. This Agreement shall inure to the benefit of and be binding upon the Underwriters and each of the Company Parties and their respective successors and assigns. Nothing expressed or mentioned in this Agreement is intended or shall be construed to give any person, corporation or other entity, other than the parties hereto and their respective successors and assigns and the officers, directors and other persons referred to in Section 7, any legal or equitable right, remedy or claim under or in respect of this Agreement or any provision herein contained; this Agreement and all conditions and provisions hereof being intended to be and being for the sole and exclusive benefit of the parties hereto and their respective successors and assigns and said officers, directors and other persons, and for the benefit of no other person, corporation or other entity. No purchaser of any of the Shares from any Underwriter shall be construed a successor or assign by reason merely of such purchase.

In all dealings with the Company Parties under this Agreement you shall act on behalf of each of the several Underwriters. The Company Parties

shall be entitled to act and rely upon any statement, request, notice or agreement on behalf of the Underwriters, made or given by you on behalf of the Underwriters, as if the same shall have been made or given in writing by the Underwriters.

14. COUNTERPARTS. This Agreement may be executed by any one or more of the parties hereto in any number of counterparts, each of which shall be deemed to be an original, but all such counterparts shall together constitute one and the same instrument.

15. PRONOUNS. Whenever a pronoun of any gender or number is used herein, it shall, where appropriate, be deemed to include any other gender and number.

16. APPLICABLE LAW. This Agreement shall be governed by, and construed in

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accordance with, the laws of the State of Missouri.

If the foregoing is in accordance with your understanding, please so indicate in the space provided below for that purpose, whereupon this letter shall constitute a binding agreement between the Company Parties and the Underwriters.

SUN HYDRAULICS CORPORATION

By: \_\_\_\_\_  
Title: \_\_\_\_\_

SUN HYDRAULIK HOLDINGS LIMITED

By: \_\_\_\_\_  
Title: \_\_\_\_\_

Accepted in St. Louis,  
Missouri as of the date  
first above written, on  
behalf of ourselves and each  
of the several Underwriters  
named in Schedule I hereto.

A.G. EDWARDS & SONS, INC.  
ROBERT W. BAIRD & CO. INCORPORATED

By: A.G. Edwards & Sons, Inc.

By: \_\_\_\_\_  
Title: \_\_\_\_\_



included in the Prospectus, inquiries of officials of the Company and its subsidiaries responsible for financial and accounting matters and such other inquiries and procedures as may be specified in such letter, nothing came to their attention that caused them to believe that:

(A) any material modifications should be made to the unaudited statements of consolidated income, statements of consolidated financial position and statements of consolidated cash flows included in the Prospectus for them to be in conformity with generally accepted accounting principles, or the unaudited statements of consolidated income, statements of consolidated financial position and statements of consolidated cash flows included in the Prospectus do not comply as to form in all material respects with the applicable accounting requirements of the Act and the related published Rules and Regulations thereunder.

(B) any other unaudited income statement data and balance sheet items included in the Prospectus do not agree with the corresponding items in the unaudited consolidated financial statements from which such data and items were derived, and any such unaudited data and items were not determined on a basis substantially consistent with the basis

for the corresponding amounts in the audited consolidated financial statements included in the Prospectus.

(C) the unaudited financial statements which were not included in the Prospectus but from which were derived any unaudited financial statements referred to in Clause (A) and any unaudited income statement data and balance sheet items included in the Prospectus and referred to in Clause (B) were not determined on a basis substantially consistent with the basis for the audited consolidated financial statements included in the Prospectus.

(D) any unaudited pro forma consolidated financial statements included in the Prospectus do not comply as to form in all material respects with the applicable accounting requirements of the Act and the published rules and regulations thereunder or the pro forma adjustments have not been properly applied to the historical amounts in the compilation of those statements.

(E) as of a specified date not more than five days prior to the date of such letter, there have been any changes in the consolidated capital stock or any increase in the consolidated long-term debt of the Company and its subsidiaries, or any decreases in consolidated working capital, net current assets or net assets or other items specified by the Representative, or any changes in any items specified by the Representatives, in each case as compared with amounts shown in the latest balance sheet included in the Prospectus, except in each case for changes, increases or decreases which the Prospectus discloses have occurred or may occur or which are described in such letter.

(F) for the period from the date of the latest financial statements included in the Prospectus to the specified date referred to in Clause (E) there were any decreases in consolidated net revenues or operating profit or the total or per share amounts of consolidated net income or any other changes in any other items specified by the Representatives, in each case as compared with the comparable period of the preceding year and with any other period of corresponding length specified by the Representatives, except in each case for changes, decreases or increases which the Prospectus discloses have occurred or may occur or which are described in such letter.

(iv) In addition to the audit referred to in their report(s) included in the Prospectus and the limited procedures, inspection of minute books, inquiries and other procedures referred to in paragraph (iii) above, they have carried out certain specified procedures, not constituting an audit in accordance with generally accepted auditing standards, with respect to certain amounts, percentages and financial information specified by the Representatives, which are derived from the general accounting records of the



Company and its subsidiaries for the periods covered by their reports and any interim or other periods since the latest period covered by their reports, which appear in the Prospectus, or in Part II of, or in exhibits and schedules to, the Registration Statement specified by the Representatives, and have compared certain of such amounts, percentages and financial information with the accounting records of the Company and its subsidiaries and have found them to be in agreement.

Exhibit 2.1

AMENDMENT TO RECOMMENDED OFFER BY SUN HYDRAULICS INCORPORATED, A DELAWARE CORPORATION ("SHI"), TO ACQUIRE THE WHOLE OF THE ISSUED SHARE CAPITAL OF SUN HYDRAULIK HOLDINGS LIMITED ("HOLDINGS").

WHEREAS, on November 13, 1996, SHI made a written offer to all of the holders of the ordinary shares of L.4.75 each and L.1 each to acquire such shares in exchange for its shares of common stock and cash;

WHEREAS, it was anticipated that SHI would also acquire all of the issued and outstanding shares of common stock of Sun Hydraulics Corporation, a Florida corporation ("SHC"), pursuant to a Plan of Share Exchange and immediately thereafter consummate an initial public offering of 2,000,000 shares of SHI common stock;

WHEREAS, SHI has been prevented from carrying out the foregoing plans due to regulatory impediments in the United States and, therefore, the Boards of Directors of SHI, SHC and Holdings have agreed to restructure the proposed business combination of SHC and Holdings as an acquisition of the outstanding shares of Holdings directly by SHC in exchange for SHC common stock and cash, instead of by SHI for its common stock and cash, to be followed by an initial public offering of SHC stock by SHC;

WHEREAS, SHI has assigned its rights under the Recommended Offer by SHI, dated November 13, 1996, to SHC; and

WHEREAS, SHC has extended the Acceptance Time and Date until January 7, 1997, in order to give the shareholders of Holdings notice of the foregoing and an ability to withdraw their acceptance of the Offer, if they so desire;

NOW, THEREFORE, the Offer is varied and amended to read as follows:

The terms of this Offer are recommended by all the directors of Holdings.

All acceptances of this Offer must be received by 4:00 p.m. on January 7, 1997. The procedure for acceptance is set out in clause C.5.

CONTENTS

- A. DEFINITIONS
  - B. OFFER
  - C. CONDITIONS AND DETAILS OF OFFER
  - D. OTHER INFORMATION
  - E. DOCUMENTS ACCOMPANYING THE OFFER
  - F. DOCUMENTS AVAILABLE FOR INSPECTION
- ANNEX - FORM OF ACCEPTANCE

A. DEFINITIONS

A.1 "SHC" means Sun Hydraulics Corporation, a Florida corporation, having its registered office at c/o Gregory C. Yadley, 101 E. Kennedy Boulevard, Suite 2800, Tampa, Florida 33602 (which is the offeror for the purpose of the Offer).

A.2 "Holdings" means Sun Hydraulik Holdings Limited (No. 2537433), a company duly incorporated under the laws of England and Wales having its registered office at the offices of Messrs. Taco van Tijn, 71-73 Carter Lane, London EC4V 5EQ.

A.3 "the Offer" means the Recommended Offer of SHI, as assigned to SHC, as amended by and restated in this document.

A.4 "the Sale Shares" means the 320,315 ordinary shares of L.4.75 each and

2 ordinary shares of L.1 each in the capital of Holdings with all rights attaching to them including all dividends and other distributions made after the date of this document.

A.5 "SHC Shares" means shares of the common stock, par value \$.001 per share, of SHC.

A.6 "the Companies Act" means the Companies Act of 1985 of the United Kingdom.

A.7 "the Date of the Offer" means November 13, 1996.

A.8 "the Acceptance Time and Date" means 4:00 p.m. on January 7, 1997, or such later date or dates as SHC from time to time decides and gives notice to Holdings' shareholders.

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## B. OFFER

From: Sun Hydraulics Corporation ("SHC"), as  
assignee of Sun Hydraulics Incorporated  
1500 West University Parkway  
Sarasota, FL 34243

Directors: Arthur B. Bodley  
Robert E. Koski  
James G. March  
Clyde G. Nixon  
Curtis J. Timm  
Taco van Tijn  
David N. Wormley

To: each of the shareholders of ordinary shares of L.4.75  
and L.1 each respectively in the capital of Holdings.

### B.1 Date of the Offer

November 13, 1996, being the date on which the Recommended Offer of SHI was issued to the shareholders of Holdings.

### B.2 Offer

SHC, as assignee of SHI, offers to buy the whole of the issued share capital of Holdings on the terms set forth in this document.

### B.3 Consideration

1.17013042 SHC Shares and US\$0.16 for every one ordinary share of L.4.75 or L.1 par value in the capital of Holdings.

### B.4 Acceptance

The Offer is open for acceptance until the Acceptance Time and Date but will lapse under clause C.2 of this document if the conditions mentioned in that clause are not duly satisfied.

Acceptances, including acceptances already sent to SHI, may be revoked and withdrawn by written notice to SHC at any time prior to the Acceptance Time and Date.

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## B.5 Conditions of Offer

The Offer is subject to the terms and conditions contained in the whole of this document and the forms of acceptance and transfer and the instructions to them.

## C. CONDITIONS AND DETAILS OF OFFER

### C.1 Title of Sale Shares

The Sale Shares are to be transferred free from all liens, charges, equities and encumbrances. Signature and delivery of the enclosed form of acceptance will constitute a warranty by the accepting shareholder to that effect in respect of the Sale Shares for which the Offer is accepted.

### C.2 Offer Conditional on Acceptances and Approval

C.2.1 This Offer is conditional on valid acceptances being received by SHC at or before the Acceptance Time and Date in respect of 90% of the Sale Shares but the Offer will not become unconditional unless SHC has acquired or agreed to acquire pursuant to the Offer

C.2.1.1. shares carrying more than 90% of the voting rights then exercisable in general meetings of Holdings; and

C.2.1.2. shares carrying more than 90% of the votes attributable to the equity share capital of Holdings.

### C.3 Lapse of Offer

The Offer will lapse if the acceptances and approval conditions in clause C.2 above fail to be satisfied by the respective dates mentioned in clause C.2.

### C.4 Announcement

SHC shall give notice to the shareholders of the acceptance of shares but failure to give such notice shall not cause the Offer or the acceptances of shares to be ineffective.

### C.5 Procedure for acceptance of Offer

C.5.1 Shareholders who wish to accept the Offer must do so by completing and signing the enclosed form of acceptance and transfer in accordance with the instructions on it. Shareholders who have already completed and returned to SHI a form of acceptance and transfer need not complete an additional form. All forms received by SHI have been

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delivered to SHC in connection with the assignment by SHI of all of its rights under the Offer to SHC.

C.5.2 For shareholders who have not already completed and returned a form of acceptance and transfer, completed forms (together with share certificates) for the number of shares in respect of which a shareholder wishes to accept the Offer should be returned to SHC at 1500 West University Parkway, Sarasota, FL 34243, to arrive not later than the Acceptance Time and Date.

### C.6 Settlement

If the Offer becomes unconditional and the forms of acceptance and transfer are completely satisfactory and in order, then share certificates for the appropriate number of SHC Shares and the appropriate cash consideration will be sent to shareholders by first-class prepaid post at their risk within 10 days

of the Offer becoming unconditional.

#### D. OTHER INFORMATION

##### D.1 Basis for offer

The purpose of SHC's offer to acquire the Sale Shares is to effect a reorganization whereby Holdings will become a wholly-owned subsidiary of SHC and the existing shareholders of Holdings will receive SHC Shares and cash in exchange for their Holdings shares.

The exchange ratio for SHC's offer to acquire the Sale Shares is based on the relative fair market values of Holdings and SHC, as determined by Sheldrick, McGehee & Kohler in valuation reports prepared with respect to the entities (the "Appraisals"). The Appraisals, conducted by Sheldrick, McGehee & Kohler with respect to SHC, Holdings and Suninco, Inc. ("Suninco") as of December 31, 1995, were delivered on May 22, 1996. Suninco was merged with and into SHC as of June 28, 1996. In that transaction, the former Suninco shareholders received newly issued SHC Shares using an exchange ratio based on the relative fair market values of SHC and Suninco, as determined by the Appraisals. Using those same relative values, SHC (following the Suninco merger) represented approximately 91% of the combined value of SHC and Holdings, and Holdings represented the remaining approximately 9%. SHC currently has a total of 366,043 shares issued and outstanding; however, immediately prior to the consummation of the Offer, SHC will effect a stock split of the outstanding SHC Shares, resulting in a total of 3,625,190 SHC Shares being issued and outstanding. Assuming all of the Sale Shares are tendered pursuant to the Offer and acquired by SHC, SHC will issue a total of 374,810 SHC Shares in exchange therefor, and will thereafter have a total of 4,000,000 shares issued and outstanding. SHC also has filed a registration statement with the Securities and Exchange Commission for the public sale of an additional 2,000,000 SHC Shares (2,300,000 shares if the "over-allotment option"

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granted to the underwriters is exercised) immediately following the consummation of the Offer (the "Sun IPO").

##### D.2 Compulsory acquisition of shares

If the Offer is accepted in respect of 90% of the Sale Shares and becomes unconditional under subparagraph C.2.2 above, SHC reserves the right to exercise its rights to compulsorily acquire the remainder of the Sale Shares under the Companies Act, Part XIII A.

##### D.3 Fractional shares

No fractional shares, nor certificates therefor, shall be issued by SHC. The issuance of SHC Shares shall be in whole number nonfractional shares. Any fractional interests resulting from the acceptance of the Offer shall be rounded up or down to the nearest whole number of shares.

##### D.4 United States Income Tax Treatment

Section 367(b) of the United States Internal Revenue Code of 1986, as amended (the "Code"), imposes a "toll charge" on the transfer of stock in a foreign corporation to a United States person that would otherwise qualify for tax free treatment under Code Section 368. SHC believes that the acquisition of the Sale Shares pursuant to the Offer will qualify for tax free treatment under Code Section 351 rather than Code Section 368. Therefore, shareholders of Holdings should be taxed only to the extent of the cash consideration received by them pursuant to the Offer and not on receipt of SHC Shares. This issue, however, is not completely free from doubt. Neither SHC nor Holdings has obtained a ruling from the United States Internal Revenue Service or an opinion of counsel regarding this issue. Accordingly, each shareholder is advised to consult his or her own tax adviser.

#### D.4 Restrictions on Resale of SHC Shares

SHC Shares issued to the shareholders of Holdings will be "restricted securities" under the United States Securities Act of 1933, as amended (the "Securities Act"), and may be sold only in the United States pursuant to an effective registration statement under the Securities Act or an applicable exemption from the registration requirements of the Securities Act. Pursuant to the exemption provided by Rule 144 under the Securities Act (as presently in effect), such SHC Shares may be sold after January 1999, in accordance with the volume limitations and manner of sale provisions set forth in Rule 144. See "Shares Eligible For Future Sale" in the Preliminary Prospectus for the Sun IPO for a more complete discussion of the SHC Shares to be outstanding after consummation of the Sun IPO and a discussion of the provisions of Rule 144.

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#### E. DOCUMENTS ACCOMPANYING THE OFFER

Preliminary Prospectus dated December \_\_, 1996, describing SHC and its business (prepared on the assumptions that (i) this Offer is accepted by the holders of 100% of the Sale Shares, and (ii) the Sun IPO are completed in accordance with their respective terms).

#### F. DOCUMENTS AVAILABLE FOR INSPECTION

1. Valuation Reports of Sun Hydraulics Corporation, Sun Hydraulik Holdings Limited and Suninco, Inc., prepared by Sheldrick, McGehee & Kohler as of December 31, 1995, and delivered May 22, 1996.
2. Form of Underwriting Agreement between Sun Hydraulics Corporation and its Underwriters for the initial public offering of common stock.
3. Amended and Restated Articles of Incorporation of Sun Hydraulics Corporation.
4. Bylaws of Sun Hydraulics Corporation.
5. Revolving Credit Agreement, dated March 9, 1992, between Sun Hydraulics Corporation and Northern Trust Bank of Florida/Sarasota, N.A.
6. Modification Agreement, dated March 25, 1993, amending Revolving Credit Agreement dated March 9, 1992, between Sun Hydraulics Corporation and Northern Trust Bank of Florida, N.A.
7. Second Modification to Revolving Credit Agreement, dated May \_\_, 1995, between Sun Hydraulics Corporation and Northern Trust Bank of Florida, N.A.
8. Revolving Line of Credit Renewal Note, dated May \_\_, 1995, in the amount of \$1,700,000.00 given by Sun Hydraulics Corporation to Northern Trust Bank of Florida, N.A.
9. Mortgage and Security Agreement, dated January 9, 1992, between Suninco, Inc., Sun Hydraulics Corporation, and Northern Trust Bank of Florida, N.A.
10. Loan Agreement, dated March 29, 1996, between Suninco, Inc., Sun Hydraulics Corporation, and Northern Trust Bank of Florida, N.A.
11. Security Agreement, dated March 29, 1996, between Suninco, Inc., Sun Hydraulics Corporation, and Northern Trust Bank of Florida, N.A.
12. Modification and Additional Advance Agreement, dated March 29, 1996, between Suninco, Inc. and Northern Trust Bank of Florida,

N.A.

13. Consolidated Note, dated March 29, 1996, in the amount of \$2,475,000.00, given by Suninco, Inc. to Northern Trust Bank of Florida, N.A.

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14. Loan Agreement, dated May 20, 1996, between Sun Hydraulics Corporation and Northern Trust Bank of Florida, N.A.
15. Security Agreement, dated May 20, 1996, between Sun Hydraulics Corporation and Northern Trust Bank of Florida, N.A.
16. Consolidated Note, dated May 20, 1996, in the amount of \$3,063,157.00, given by Sun Hydraulics Corporation to Northern Trust Bank of Florida, N.A.
17. Loan Agreement, dated June 14, 1996, between Sun Hydraulics Corporation, Suninco Inc., and Northern Trust Bank of Florida, N.A.
18. Mortgage, dated June 14, 1996, between Sun Hydraulics Corporation, Suninco Inc., and Northern Trust Bank of Florida, N.A.
19. Security Agreement, dated June 14, 1996, between Sun Hydraulics Corporation and Northern Trust Bank of Florida, N.A.
20. Promissory Note, dated June 14, 1996, in the amount of \$6,187,000.00, given by Sun Hydraulics Corporation and Suninco, Inc. to Northern Trust Bank of Florida, N.A.
21. Revolving Loan Facility letter agreement, dated July 30, 1996, in the amount of L.800,000, between Sun Hydraulics Ltd. and Lloyds Bank Plc.
22. Overdraft and Other Facilities letter agreement, dated June 7, 1996, in an amount not to exceed L.250,000, between Sun Hydraulics Ltd. and Lloyds Bank Plc.
23. Mortgage, dated April 11, 1996, between Sun Hydraulik GmbH and Dresdner Bank.
24. Specimen of the Stock Certificate for shares of common stock of Sun Hydraulics Corporation
25. 1996 Sun Hydraulics Corporation Stock Option Plan.
26. Form of Indemnification Agreement for Officers and Directors of Sun Hydraulics Corporation.

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#### G. DELIVERY OF OFFER

This amended Offer is made as of this 17th day of December, 1996.

Sun Hydraulics Corporation

By: /s/ Clyde G. Nixon

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Clyde G. Nixon,  
President and Chief  
Executive Officer

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ANNEX

FORM OF ACCEPTANCE

To: The Directors  
Sun Hydraulics Corporation  
1500 West University Parkway  
Sarasota, FL 34243

I hereby accept your Offer dated November 13, 1996, as amended on December 17, 1996, for the purchase of my shares in the capital of Sun Hydraulik Holdings Limited on the terms and conditions therein stated. I accordingly enclose a signed stock transfer form and relative share certificate for my shares. If the Offer becomes unconditional, please forward to me my certificate for the consideration shares of common stock in the capital of your company and cash in the amount of \$0.16 for each of my Sun Hydraulik Holdings Limited shares acquired.

Dated \_\_\_\_\_, 1996

Signed:

.....  
Signature of shareholder

Enclosed: Signed stock transfer form  
Share certificate

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EXHIBIT 3.1

AMENDED AND RESTATED  
ARTICLES OF INCORPORATION

OF

SUN HYDRAULICS CORPORATION

Sun Hydraulics Corporation, a corporation organized and existing under the General Corporation Law of the State of Florida (the "Corporation"), does hereby certify:

I. The Corporation pursuant to the provisions of Section 607.1007 of the Florida Business Corporation Act (the "Act"), hereby adopts these Amended and Restated Articles of Incorporation which accurately restate and integrate the original Articles of Incorporation filed on December 31, 1986, and all amendments thereto that are in effect to date as permitted by Section 607.1007 of the Florida Statutes.

II. Each amendment made by these Amended and Restated Articles of Incorporation (the "Restated Articles") has been effected in conformity with the provisions of the Act, and the Restated Articles and each amendment thereto were duly approved and adopted by a majority of the shareholders of the Corporation by written consent dated December 17, 1996. Pursuant to Section 607.0704(3), within ten (10) days after the date of the written consent, notice of the majority shareholders' consent and the contents of the consent will be sent to all shareholders who had not provided their written consent to the Restated Articles.

III. The original Articles of Incorporation and all amendments and supplements thereto are hereby superseded by the Restated Articles which are as follows:

ARTICLE 1 - NAME

The name of the corporation is SUN HYDRAULICS CORPORATION (the "Corporation").

ARTICLE 2 - PURPOSE

The nature of the business and the purpose for which the Corporation is formed are to engage in any lawful act or activity for which a corporation may be organized under the Act.

ARTICLE 3 - CORPORATION'S PRINCIPAL ADDRESS

The principal office of the Corporation is located at 1500 University Parkway, Sarasota, Florida 34230.

ARTICLE 4 - REGISTERED OFFICE AND AGENT

The name and address of the Corporation's registered agent and registered office in the State of Florida is Gregory C. Yadley, 101 East Kennedy Boulevard, Suite 2800, Tampa, Florida 33602.

ARTICLE 5 - AUTHORIZED SHARES

The total number of shares of all classes of capital stock which the Corporation shall have the authority to issue is Twenty-Two Million (22,000,000) shares, consisting of (i) Twenty Million (20,000,000) shares of common stock, \$.001 value per share (the "Common Stock"), and (ii) Two Million (2,000,000) shares of preferred stock, \$.001 value per share (the "Preferred Stock"). The designation, powers, preferences and relative participating, optional or other special rights and the qualifications, limitations and restrictions thereof in respect of each class of capital stock of the Corporation are as follows:

A. COMMON STOCK. Each holder of record of shares of Common Stock shall be entitled to vote at all meetings of the shareholders and shall have one vote for each share held by him of record. Subject to the prior rights of the holders of all classes or series of stock at the time outstanding having prior rights as to dividends, the holders of shares of Common Stock shall be entitled to receive, when and as declared by the Board of Directors of the Corporation (the "Board of Directors"), out of the assets of the Corporation legally available therefor, such dividends as may be declared from time to time by the Board of Directors.

B. PREFERRED STOCK. The Preferred Stock may be issued from time to time by the Board of Directors as shares of one or more classes and series. Subject to the terms contained in any designation of a series of Preferred Stock and to limitations prescribed by law, the Board of Directors is expressly authorized, at any time and from time to time, to fix by resolution the designation and relative powers, preferences and rights and the qualifications and limitations thereof relating to the shares of each such class or series. The authority of the Board of Directors with respect to the provisions for shares of any class of Preferred Stock or any series of any class of Preferred Stock shall include, but not be limited to, the following:

(1) the designation of such class or series, the number of shares to constitute such class or series which may be increased or decreased (but not below the number of shares of that class or series then outstanding) by resolution of the Board of Directors, and the stated value thereof if different from the par value thereof;

(2) whether the shares of such class or series shall have voting rights, in addition to any voting rights provided by law, and, if so, the terms of such voting rights;

(3) the dividends, if any, payable on such class or series, whether any such dividends shall be cumulative, and, if so, from what dates, the conditions and dates upon which such dividends shall be payable, the preference or relation which such dividends shall bear to the dividends payable on any shares of stock of any other class or any other series of the same class;

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(4) whether the shares of such class or series shall be subject to redemption by the Corporation, and, if so, the times, prices and other conditions of such redemption;

(5) the amount or amounts payable upon, and the rights of the holders of such class or series in, the voluntary or involuntary liquidation, dissolution or winding up, or upon any distribution of the assets, of the Corporation;

(6) whether the shares of such class or series shall be subject to the operation of a retirement or sinking fund and, if so, the extent to and manner in which any such retirement or sinking fund shall be applied to the purchase or redemption of the shares of such class or series for retirement or other corporate purposes and the terms and provisions relative to the operation thereof;

(7) whether the shares of such class or series shall be convertible into, or exchangeable for, shares of stock of any other class or any other series of the same class or any other securities or cash or other property and, if so, the price or prices or the rate or rates of conversion or exchange and the method, if any, of adjusting the same, and

any other terms and conditions of conversion or exchange;

(8) the limitations and restrictions, if any, to be effective while any shares of such class or series are outstanding upon the payment of dividends or the making of other distributions on, and upon the purchase, redemption or other acquisition by the Corporation of, the Common Stock or shares of stock of any other class or any other series of the same class;

(9) the conditions or restrictions, if any, upon the creation of indebtedness of the Corporation or upon the issue of any additional stock, including additional shares of such class or series or of any other series of the same class or of any other class;

(10) the ranking (be it pari passu, junior or senior) of each class or series vis-a-vis any other class or series of any class of Preferred Stock as to the payment of dividends, the distribution of assets and all other matters; and

(11) any other powers, preferences and relative, participating, optional and other special rights, and any qualifications, limitations and restrictions thereof, insofar as they are not inconsistent with the provisions of these Articles of Incorporation, to the full extent permitted in accordance with the laws of the State of Florida.

The powers, preferences and relative, participating, optional and other special rights of each class or series of Preferred Stock, and the qualifications, limitations or restrictions thereof, if any, may differ from those of any and all other series at any time outstanding.

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#### ARTICLE 6 - BOARD OF DIRECTORS

The Corporation shall have seven Directors to hold office until their successors shall have been elected and qualified, or until their earlier resignation, removal from office or death. The number of directors may be either increased or decreased from time to time in accordance with the Bylaws of the Corporation. The name and address of the directors of the Corporation are:

Arthur B. Bodley  
1000 North Main Street  
Akron, OH 44310

Robert E. Koski  
1500 West University Parkway  
Sarasota, Florida 34243-2290

James G. March  
837 Tolman Drive  
Stanford, CA 94305

Clyde G. Nixon  
1500 West University Parkway  
Sarasota, Florida 34243-2290

Curtis J. Timm  
1424 Westbrook Drive  
Sarasota, FL 34231

Taco Van Tijn  
71-73 Carter Lane

London  
England EC4 5EQ

David Wormley  
101 Hammond Building  
University Park, PA 16802

#### ARTICLE 7 - MANAGEMENT OF THE CORPORATION.

The following provisions are inserted for the management of the business and for the conduct of the affairs of the Corporation, and for further definition, limitation and regulation of the powers of the Corporation and its directors and shareholders:

A. NUMBER, CLASS AND TERM. The business and affairs of the Corporation shall be managed by or under the direction of a Board of Directors. The number of Directors shall be determined from time to time by resolution adopted by the affirmative vote of a majority of the directors then in office. The Board of Directors shall be divided into three classes, designated Class I, Class II and Class III. Each class shall

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consist, as nearly as may be possible, of one-third of the total number of directors constituting the entire Board of Directors. Messrs. Bodley, Koski and March shall be designated to serve as Class I directors for a one-year term, Messrs. Nixon and Timm shall be designated to serve as Class II directors for a two-year term and Messrs. Van Tijn and Wormley shall be designated to serve as Class III directors for a three-year term. At each annual meeting of shareholders beginning in 1997, successors to the class of directors whose term expires at that annual meeting shall be elected for a three-year term. If the number of directors is changed, any increase or decrease shall be apportioned among the classes so as to maintain the number of directors in each class as nearly equal as possible, but in no case shall a decrease in the number of directors shorten the term of any incumbent director. A director shall hold office until the annual meeting for the year in which his or her term expires and until his or her successor shall be elected and shall qualify, subject, however, to prior death, resignation, retirement, disqualification or removal from office.

B. VACANCIES. Subject to the rights of holders of any series of Preferred Stock then outstanding, any vacancy on the Board of Directors that results from an increase in the number of directors may be filled by a majority of the Board of Directors then in office, provided that a quorum is present, and any other vacancy occurring in the Board of Directors may be filled by a majority of the directors then in office, even if less than a quorum is present, or by a sole remaining director. Any director of any class elected to fill a vacancy resulting from an increase in such class shall hold office for a term that shall coincide with the remaining term of that class. Any director elected to fill a vacancy not resulting from an increase in the number of directors shall have the same remaining term as that of his predecessor.

C. REMOVAL. Subject to the rights of holders of any series of Preferred Stock then outstanding, any director or the entire Board of Directors may be removed from office at any time, but only for cause by an affirmative vote of the holders of a majority of the then outstanding shares of voting stock.

D. RIGHTS OF PREFERRED STOCK. Notwithstanding the foregoing, whenever the holders of any one or more classes or series of Preferred Stock issued by the Corporation shall have the right, voting separately by class or series, to elect directors at an annual or special meeting of shareholders, the election, term of office, filling of vacancies and other features of such directorships shall be governed by the terms of these Articles of

Incorporation applicable thereto, and such directors so elected shall not be divided into classes pursuant to this Section 7 unless expressly provided by such terms.

E. BALLOT. Election of directors need not be by ballot unless the Bylaws so provide.

F. POWERS. In addition to the powers and authorities hereinabove or by statute expressly conferred upon them, the directors are hereby empowered to exercise all such powers and do all such acts and things as may be exercised or done by the Corporation; subject, nevertheless, to the provisions of the laws of the State of Florida, these Articles of Incorporation and any Bylaws from time to time made by the shareholders;

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provided, however, that no Bylaw so made shall invalidate any prior act of the directors which would have been valid if such Bylaw had not been made.

G. BYLAWS. Except to the extent prohibited by law, the Board of Directors shall have the power to make, alter, amend, change, add to or repeal the Bylaws of the Corporation and to establish the rights, powers and procedures that from time to time shall govern the Board of Directors and each of its members and that from time to time shall affect the Board of Directors' powers to manage the business and affairs of the Corporation, and no Bylaw shall be adopted by the shareholders of the Corporation which shall impair or impede the implementation of the foregoing.

#### ARTICLE 8 - SPECIAL SHAREHOLDER MEETINGS

Special meetings of the shareholders of the Corporation for any purpose or purposes may be called at any time by the Chairman of the Board, the President, a majority of the members of the Board of Directors, or by the holders of fifty percent (50%) of the outstanding shares entitled to vote on an issue proposed to be considered at the special meeting. Special meetings may not be called by any other person or persons. If the outstanding shares of the Common Stock are held of record by more than thirty (30) shareholders, then no action required or permitted to be taken at any annual or special meeting of shareholders of the Corporation may be taken by written consent without a meeting of such shareholders.

#### ARTICLE 9 - LIABILITY FOR MONETARY DAMAGES.

No director of the Corporation shall be personally liable to the Corporation or any other person for monetary damages for any statement, vote, decision or failure to act regarding corporate management or policy by such director as a director, except for liability under the Act and other applicable law. If the Act is amended to authorize corporate action further eliminating or limiting the personal liability of directors, then the liability of a director of the Corporation shall be eliminated or limited to the fullest extent permitted by the Act as so amended.

#### ARTICLE 10 - INDEMNIFICATION

The Corporation shall, to the full extent permitted by Florida law, indemnify any person who is or was a director, officer, employee or agent of the Corporation or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise.

#### ARTICLE 11 - CHANGES

Notwithstanding any other provisions contained in these Articles of Incorporation or in the Bylaws of the Corporation, the affirmative vote of the holders of at least eighty percent (80%) of the votes entitled to be cast by the holders of all then outstanding shares of the voting stock, voting together as a single class, shall be required to amend or repeal, or adopt any provisions inconsistent with, Sections 7, 8, 9, 10 and 11 of these Articles of

Incorporation.

IN WITNESS WHEREOF, the undersigned President has executed these Amended and Restated Articles of Incorporation this 17th day of December, 1996.

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/s/ Clyde G. Nixon

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Clyde G. Nixon, President

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EXHIBIT 3.2

AMENDED AND RESTATED  
BYLAWS

OF

SUN HYDRAULICS CORPORATION

Set forth below are the Bylaws of Sun Hydraulics Corporation, a Florida corporation (the "Corporation"), as adopted by the Board of Directors of the Corporation effective as of December 17, 1996.

ARTICLE I

Offices

Section 1. Registered Office. The address of the Corporation's registered office in the State of Florida is 1500 University Parkway, Sarasota, Florida 34230.

Section 2. Other Offices. The Corporation also may have offices at such other places both within and without the State of Florida as the Board of Directors may from time to time determine.

ARTICLE II

Meetings of Shareholders

Section 1. Place of Meetings. Meetings of the Shareholders for the election of Directors or for any other purpose shall be held at such time and place, either within or without the State of Florida, as shall be designated from time to time by the Board of Directors and stated in the notice of the meeting or in a duly executed waiver of notice thereof.

Section 2. Annual Meetings. The Annual Meetings of Shareholders shall be held on such date and at such time as shall be designated from time to time by the Board of Directors and stated in the notice of the meeting. Written notice of the Annual Meeting stating the place, date and hour of the meeting shall be given to each shareholder entitled to vote at such meeting not less than ten (10) nor more than sixty (60) days before the date of the meeting.

Section 3. Special Meeting. Special Meetings of Shareholders may be called by the Chairman, the President, a majority of the Board of Directors and shall be called if the holders of fifty percent (50%) of the votes entitled to be cast on any issue proposed to be considered at the proposed meeting sign, date and deliver a written demand or several such

written demands for the special meeting describing the purpose or purposes for the meeting to the Corporation's Secretary. Only business within the purpose or purposes described in the special meeting notice may be conducted at such special meeting. Written notice of a Special Meeting must state the place, date and hour of the meeting and the purpose or purposes for which the meeting is called and shall be given not less than ten (10) nor more than sixty (60) days before the date of the meeting to each shareholder entitled to vote at such meeting.

Section 4. Quorum. Except as otherwise provided by law or by the Articles of Incorporation, the holders of a majority of the capital stock issued and outstanding and entitled to vote thereat, present in person or represented by proxy, shall constitute a quorum at all meetings of the shareholders for the transaction of business. If, however, such quorum shall not be present or represented at any meeting of the shareholders, the shareholders entitled to vote thereof, present in person or represented by proxy, shall have power to adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present or represented. At such adjourned meeting at which a quorum shall be present or represented, any business may be transacted which might have been transacted

at the meeting as originally noticed. If the adjournment is for more than thirty (30) days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each shareholder entitled to vote at the meeting.

Section 5. Voting. Unless otherwise required by law, the Articles of Incorporation or these Bylaws (i) any question brought before any meeting of shareholders shall be decided by the vote of the holders of a majority of the stock represented and entitled to vote thereat, and (ii) each shareholder represented at a meeting of shareholders shall be entitled to cast one vote for each share of the capital stock entitled to vote thereat held by such shareholder. Such votes may be cast in person or by proxy but no proxy shall be voted on or after three (3) years from its date, unless such proxy provides for a longer period. The Board of Directors, in its discretion, or the officer of the Corporation presiding at a meeting of shareholders, in his or her discretion, may require that any votes cast at such meeting shall be cast by written ballot.

Section 6. List of Shareholders Entitled to Vote. The officer of the Corporation who has charge of the stock ledger of the Corporation shall prepare and make, at least ten (10) days before every meeting of shareholders, a complete list of the shareholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each shareholder and the number of shares registered in the name of each shareholder. Such list shall be open to the examination of any shareholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten (10) days prior to the meeting, either at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting or, if not so specified, at the place where the meeting is to be held. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any shareholder of the Corporation who is present.

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Section 7. Stock Ledger. The stock ledger of the Corporation shall be the only evidence as to who are the shareholders entitled to examine the stock ledger, the list required by Section 6 of this Article II or the books of the Corporation, or to vote in person or by proxy at any meeting of shareholders.

Section 8. Notice of Business. At any annual meeting of shareholders, only such business shall be conducted as shall have been (a) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Board of Directors, (b) otherwise properly brought before the meeting by or to the direction of the Board of Directors, or (c) otherwise properly brought before the annual meeting by a shareholder who is a shareholder of record at the time of the giving of the notice provided for in this Section 8 of this Article II and who shall be entitled to vote at such meeting. If the outstanding shares of the capital stock are held by more than thirty (30) shareholders, then no action required or permitted to be taken at any annual or special meeting of shareholders of the Corporation may be taken by written consent without a meeting of such shareholders.

In addition to any other applicable requirements, for business to be properly brought before an annual meeting by a shareholder, the shareholder must have given timely notice thereof in writing to the Secretary of the Corporation. To be timely, a shareholder's notice must be delivered to or mailed and received at the principal executive offices of the Corporation not less than sixty (60) days nor more than ninety (90) days prior to the meeting; provided, however, that in the event that less than seventy (70) days' notice or prior public disclosure of the date of the meeting is given or made to shareholders, notice by the shareholder to be timely must be so received not later than the close of business on the tenth (10th) day following the day on which such notice of the date of the annual meeting was mailed or such public disclosure was made, whichever first occurs. A shareholder's notice to the Secretary shall set forth as to each matter the shareholder proposes to bring before the annual meeting (i) a brief description of the business desired to be brought before the annual meeting, (ii) the reasons for conducting such business at the meeting, (iii) the name and record address of the shareholder



proposing such business, (iv) the class or series and number of shares of the Corporation which are owned beneficially or of record by the shareholder, (v) a description of all arrangements or understandings between the shareholder and any other person or persons (including their names) in connection with the proposal of such business by the shareholder and any material interest of the shareholder in such business, and (vi) a representation that the shareholder intends to appear in person or by proxy at the annual meeting to bring such business before the meeting.

Notwithstanding anything in these Bylaws to the contrary, no business shall be conducted at the annual meeting except in accordance with the procedures set forth in this Section 8 of this Article II; provided, however, that nothing in this Section 8 of this Article II shall be deemed to preclude discussion by any shareholder of any business properly brought before the annual meeting in accordance with said procedure.

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The officer of the Corporation presiding at the annual meeting shall, if the facts warrant, determine and declare to the meeting that business was not properly brought before the meeting in accordance with the provisions of this Section 8 of this Article II, and if he or she should so determine, shall so declare to the meeting and any such business not properly brought before the meeting shall not be transacted. Notwithstanding the foregoing provisions of this Section 8 of this Article II, a shareholder also shall comply with all applicable requirements of the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder with respect to the matters set forth in this Section 8 of this Article II.

### ARTICLE III

#### Directors

Section 1. Number of Directors. The number of Directors shall be determined from time to time by resolution adopted by the affirmative vote of a majority of the Directors then in office. The Board of Directors shall be divided into three classes, designated Class I, Class II and Class III. Each class shall consist, as nearly as may be possible, of one-third of the total number of Directors constituting the entire Board of Directors. Each Director shall be elected for a three-year term. If the number of Directors is changed, any increase or decrease shall be apportioned among the classes so as to maintain the number of Directors in each class as nearly equal as possible, but in no case shall a decrease in the number of Directors shorten the term of any incumbent Director.

Section 2. Nomination of Directors. Only persons who are nominated in accordance with the following procedures shall be eligible for election as Directors. Nominations of persons for election to the Board of Directors at the annual meeting may be made at a meeting of shareholders by or at the direction of the Board of Directors, by any nominating committee or person appointed by the Board of Directors or by any shareholder of the Corporation entitled to vote for the election of Directors at the meeting who complies with the notice procedures set forth in this Article III. Such nominations, other than those made by or at the direction of the Board of Directors, shall be made pursuant to timely notice in writing to the Secretary of the Corporation. To be timely, a shareholder's notice shall be delivered to or mailed and received at the principal executive offices of the Corporation not less than sixty (60) days nor more than ninety (90) days prior to the meeting; provided, however, that in the event that less than seventy (70) days' notice or prior public disclosure of the date of the meeting is given or made to shareholders, notice by the shareholder to be timely must be received not later than the close of business on the tenth (10th) day following the day on which such notice of the date of the meeting was mailed or such public disclosure was made, whichever first occurs. Such shareholder's notice to the Secretary shall set forth (a) as to each person whom the shareholder proposes to nominate for election or re-election as a Director, (i) the name, age, business address and residence address of the person, (ii) the principal occupation or employment of the person, (iii) the class and number of shares of capital stock of the Corporation which are beneficially owned by the person, (iv) any other information relating to the person that is required to be

disclosed in solicitations for proxies for election of Directors pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended, and (v) the consent of the person to serve as a Director of the Corporation, if so elected; and (b) as to the shareholder giving the notice (i) the name and record address of shareholder, (ii) the class or series and number of shares of capital stock of the Corporation which are beneficially owned by the shareholder, (iii) a description of all arrangements or understandings between the shareholder and each proposed nominee and any other person pursuant to which the nominations are to be made, (iv) a representation that the shareholder intends to appear in person or by proxy at the meeting to nominate the persons named, and (v) certain other information. The Corporation may require any proposed nominee to furnish such other information as reasonably may be required by the Corporation to determine the eligibility of such proposed nominee to serve as Director of the Corporation. No person shall be eligible for election as a Director of the Corporation unless nominated in accordance with the procedures set forth herein.

The officer of the Corporation presiding at the meeting shall, if the facts warrant, determine and declare to the meeting that a nomination was not made in accordance with the foregoing procedure, and if he or she should so determine, shall so declare to the meeting and the defective nomination shall be disregarded.

Subject to the rights of holders of any series of Preferred Stock then outstanding, any vacancy on the Board of Directors that results from an increase in the number of Directors may be filled by a majority of the Board of Directors then in office, provided that a quorum is present, and any other vacancy occurring in the Board of Directors may be filled by a majority of the Directors then in office, even if less than a quorum is present, or by a sole remaining Director. Any Director of any class elected to fill a vacancy resulting from an increase in such class shall hold office for a term that shall coincide with the remaining term of that class. Any Director elected to fill a vacancy not resulting from an increase in the number of Directors shall have the same remaining term as that of his or her predecessor.

Subject to the rights of holders of any series of Preferred Stock then outstanding, any Director or the entire Board of Directors, may be removed from office at any time, but only for cause by an affirmative vote of the holders of a majority of the then outstanding shares of voting stock.

Section 3. Duties and Powers. The business of the Corporation shall be managed by or under the direction of the Board of Directors which may exercise all such powers of the Corporation and do all such lawful acts and things as are not by statute or by the Articles of Incorporation or by these Bylaws directed or required to be exercised or done by the shareholders.

Section 4. Meetings. The Board of Directors of the Corporation may hold meetings, both regular and special, either within or without the State of Florida. Regular meetings of the Board of Directors may be held without notice at such time and at such place as

may from time to time be determined by the Board of Directors. Special meetings of the Board of Directors may be called by the Chairman, if there be one, the President or by a majority of the Board of Directors. Notice of a special meeting must be given at least two (2) days prior to the date of the meeting by written notice pursuant to the notice provisions of these Bylaws. The notice of a special meeting need not describe the purpose of the special meeting.

Section 5. Quorum. Except as may be otherwise specifically provided by law, the Articles of Incorporation or these Bylaws, at all meetings of the Board of Directors, a majority of the entire Board of Directors shall

constitute a quorum for the transaction of business, and the act of a majority of the Directors present at any meeting at which there is a quorum shall be the act of the Board of Directors. If a quorum shall not be present at any meeting of the Board of Directors, the Directors present thereat may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present.

Section 6. Actions of the Board. Unless otherwise provided by the Articles of Incorporation or these Bylaws, any action required or permitted to be taken at any meeting of the Board of Directors or of any committee thereof may be taken without a meeting, if all the members of the Board of Directors or committee, as the case may be, consent thereto in writing, and the writing or writings are filed with the minutes of proceedings of the Board of Directors or committee.

Section 7. Meetings by Means of Conference Telephone. Unless otherwise provided by the Articles of Incorporation or these Bylaws, members of the Board of Directors of the Corporation, or any committee designated by the Board of Directors, may participate in a meeting of the Board of Directors or such committee by means of a conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and participation in a meeting pursuant to this Section 7 of Article III shall constitute presence in person at such meeting.

Section 8. Committees. The Board of Directors may, by resolution passed by a majority of the entire Board of Directors, designate one or more committees, each committee to consist of one or more of the Directors of the Corporation. The Board of Directors may designate one or more Directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of any such committee. In the absence or disqualification of a member of a committee, and in the absence of a designation by the Board of Directors of an alternate member to replace the absent or disqualified member, the member or members thereof present at any meeting and not disqualified from voting, whether or not he, she or they constitute a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in the place of any absent or disqualified member. Any committee, to the extent allowed by law and provided in the resolution establishing such committee, shall have and may exercise all the powers and authority of the Board of Directors in the management of the business and affairs of the Corporation. Each committee shall keep regular minutes and report to the Board of Directors when required.

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Section 9. Compensation. The Directors may be paid their expenses, if any, of attendance at each meeting of the Board of Directors and may be paid a fixed sum for attendance at such meeting of the Board of Directors and/or a stated salary as Director. No such payment shall preclude any Director from serving the Corporation in any other capacity and receiving compensation therefor. Members of special or standing committees may be allowed like compensation for attending committee meetings.

Section 10. Interested Directors. No contract or transaction between the Corporation and one or more of its Directors or officers, or between the Corporation and any other corporation, partnership, association, or other organization in which one or more of its Directors or officers are Directors or officers, or have a financial interest, shall be void or voidable solely for this reason, or solely because the Director or officer is present at or participates in the meeting of the Board of Directors or committee thereof which authorizes the contract or transaction, or solely because his, her or their votes are counted for such purpose if (a) the fact of such relationship or interest is disclosed or known to the Board of Directors or committee which authorizes, approves, or ratifies the contract or transaction by a vote or consent sufficient for the purpose without counting the votes or consents of such interested Directors; (b) the fact of such relationship or interest is disclosed or known to the shareholders entitled to vote and they authorize, approve, or ratify such contract or transaction by vote or written consent; or (c) the contract or transaction is fair and reasonable as to the Corporation at the time it is authorized by the Board of Directors, a committee, or the shareholders.

## ARTICLE IV

### Officers

Section 1. General. The officers of the Corporation shall be chosen by the Board of Directors and shall be a President, a Secretary and a Treasurer. The Board of Directors, in its discretion, also may choose a Chairman and a Vice Chairman of the Board of Directors (each of whom must be a Director) and one or more Vice Presidents, Assistant Secretaries, Assistant Treasurers and other officers. Any number of offices may be held by the same person, unless otherwise prohibited by law, the Articles of Incorporation or these Bylaws. The officers of the Corporation need not be shareholders of the Corporation nor, except in the case of the Chairman and Vice Chairman of the Board of Directors, need such officers be Directors of the Corporation.

Section 2. Election. The Board of Directors at its first meeting held after each Annual Meeting of Shareholders shall elect the officers of the Corporation, who shall hold their offices for such terms and shall exercise such powers and perform such duties as shall be determined from time to time by the Board of Directors; and all officers of the Corporation shall hold office until their successors are chosen and qualified, or until their earlier resignation or removal. Any officer elected by the Board of Directors may be removed at any time by the affirmative vote of a majority of the Board of Directors. Any vacancy occurring in any office

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of the Corporation shall be filled by the Board of Directors. The salaries of all officers of the Corporation shall be fixed by the Board of Directors.

Section 3. Voting Securities Owned by the Corporation. Powers of attorney, proxies, waivers of notice of meeting, consents and other instruments relating to securities owned by the Corporation may be executed in the name of and on behalf of the Corporation by the President or any Vice President and any such officer may, in the name of and on behalf of the Corporation, take all such actions as any such officer may deem advisable to vote in person or by proxy at any meeting of security holders of any corporation in which the Corporation may own securities and at any such meeting shall possess and may exercise any and all rights and powers incident to the ownership of such securities and which, as the owner thereof, the Corporation might have exercised and possessed if present. The Board of Directors may, by resolution, from time to time confer like powers upon any other person or persons.

Section 4. Chairman. The Chairman, if present, shall preside at all meetings of the shareholders and of the Board of Directors. The Chairman of the Board of Directors shall also perform such other duties and may exercise such other powers as from time to time may be assigned to him or her by these Bylaws or by the Board of Directors.

Section 5. Vice Chairman. In the absence or disability of the Chairman, or if there be none, the Vice Chairman shall preside at all meetings of the shareholders and the Board of Directors. The Vice Chairman of the Board of Directors also shall perform such other duties and may exercise such other powers as from time to time may be assigned to him or her by these Bylaws or by the Board of Directors.

Section 6. President. The President shall be the chief executive officer of the Corporation unless the Board of Directors shall resolve otherwise, and, as such, shall have general supervision and direction of the business and affairs of the Corporation and shall see that all orders and resolutions of the Board of Directors are carried into effect. In the absence or disability of the Chairman and the Vice Chairman, or if there be none, the President shall preside at all meetings of the shareholders and the Board of Directors. The President also shall perform such other duties and may exercise such other powers as from time to time may be assigned to him or her by these Bylaws or by the Board of Directors.

Section 7. Vice President. At the request of the President or in his or her absence or in the event of his or her inability or refusal to act

(and if there be no Chairman or Vice Chairman of the Board of Directors), the Vice President or the Vice Presidents if there is more than one (in the order designated by the Board of Directors) shall perform the duties of the President, and when so acting, shall have all the powers of and be subject to all the restrictions upon the President. Each Vice President shall perform such other duties and have such other powers as the Board of Directors from time to time may prescribe. If there is no Vice President, the Board of Directors shall designate the officer of the Corporation who, in the absence of the President or in the event of the inability or refusal of the President to act, shall perform the duties

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of the President, and when so acting, shall have all powers of and be subject to the restrictions upon the President.

Section 8. Secretary. The Secretary shall attend all meetings of the Board of Directors and all meetings of shareholders and record all the proceedings thereat in a book or books to be kept for that purpose; the Secretary also shall perform like duties of the standing committees when required. The Secretary shall give, or cause to be given, notice of all meetings of the shareholders and special meetings of the Board of Directors, and shall perform such other duties as may be prescribed by the President or the Board of Directors, under whose supervision he or she shall be. If the Secretary shall be unable or shall refuse to cause to be given notice of all meetings of the shareholders and special meetings of the Board of Directors, and if there be no Assistant Secretary, then either the President or the Board of Directors may choose another officer to cause such notice to be given. The Secretary shall have custody of the seal of the Corporation and the Secretary or any Assistant Secretary, if there be one, shall have authority to affix the same to any instrument requiring it and when so affixed, it may be attested by the signature of the Secretary or by the signature of any such Assistant Secretary. The Board of Directors may give general authority to any other officer to affix the seal of the Corporation and to attest the affixing by his or her signature. The Secretary shall see that all books, reports, statements, certificates and other documents and records required by law to be kept or filed are properly kept or filed, as the case may be.

Section 9. Treasurer. The Treasurer shall have the custody of the corporate funds and securities and shall keep full and accurate accounts of receipts and disbursements in books belonging to the Corporation and shall deposit all moneys and either valuable effects in the name and to the credit of the Corporation in such depositories as may be designated by the Board of Directors. The Treasurer shall disburse the funds of the Corporation as may be ordered by the Board of Directors, taking proper vouchers for such disbursements, and shall render to the Board of Directors, at its regular meetings, or when the Board of Directors so requires, an account of all his or her transactions as Treasurer and of the financial condition of the Corporation. If required by the Board of Directors, the Treasurer shall give the Corporation a bond in such sum and with such surety or sureties as shall be satisfactory to the Board of Directors for the faithful performance of the duties of his or her office and for the restoration to the Corporation in case of his or her death, resignation, retirement or removal from office, of all books, papers, vouchers, money and other property of whatever kind in his or her possession or under his or her control belonging to the Corporation.

Section 10. Assistant Secretaries. Except as may be otherwise provided in these Bylaws, Assistant Secretaries, if there be any, shall perform such duties and have such powers as from time to time may be assigned to them by the Board of Directors, the President, any Vice President, if there be one, or the Secretary, and in the absence of the Secretary or in the event of his or her disability or refusal to act, shall perform the duties of the Secretary, and when so acting, shall have all the powers of and be subject to all the restrictions upon the Secretary.

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Section 11. Assistant Treasurers. Assistant Treasurers, if there be any, shall perform such duties and have such powers as from time to time may be assigned to them by the Board of Directors, the President, any Vice President, if there be one, or the Treasurer, and in the absence of the Treasurer or in the event of his or her disability or refusal to act, shall perform the duties of the Treasurer, and when so acting, shall have all the powers of and be subject to all the restrictions upon the Treasurer. If required by the Board of Directors, an Assistant Treasurer shall give the Corporation a bond in such sum and with such surety or sureties as shall be satisfactory to the Board of Directors for the faithful performance of the duties of his or her office and for the restoration to the Corporation, in case of his or her death, resignation, retirement or removal from office, of all books, papers, vouchers, money and other property of whatever kind in his or her possession or under his or her control belonging to the Corporation.

Section 12. Other Officers. Such other officers as the Board of Directors may choose shall perform such duties and have such powers from time to time may be assigned to them by the President or the Board of Directors, as the case may be. The Board of Directors may delegate to any other officer of the Corporation the power to choose such other officers and to prescribe their respective duties and powers.

## ARTICLE V

### Stock

Section 1. Form of Certificates. Every holder of stock in the Corporation shall be entitled to have a certificate signed, in the name of the Corporation (i) by the Chairman or Vice Chairman of the Board of Directors, the President or a Vice President and (ii) by the Treasurer or an Assistant Treasurer, or the Secretary or an Assistant Secretary of the Corporation, certifying the number of shares owned in the Corporation.

Section 2. Signatures. Where a certificate is countersigned by (i) a transfer agent other than the Corporation or its employee, or (ii) a registrar other than the Corporation or its employee, any other signature on the certificate may be a facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate issued, it may be issued by the Corporation with the same effect as if he or she were such officer, transfer agent or registrar at the date of issue.

Section 3. Lost Certificates. The Board of Directors may direct a new certificate to be issued in place of any certificate theretofore issued by the Corporation alleged to have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate of stock to be lost, stolen or destroyed. When authorizing such issue of a new certificate, the Board of Directors may, in its discretion and as a condition precedent to the issuance thereof, require the owner of such lost, stolen or destroyed certificate, or his or her legal representative, to advertise the same in such manner as the Board of Directors shall require

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and/or to give the Corporation a bond in such sum as it may direct as indemnity against any claim that may be made against the Corporation with respect to the certificate alleged to have been lost, stolen or destroyed.

Section 4. Transfers. Stock of the Corporation shall be transferable in the manner prescribed by law and in these Bylaws. Transfers of stock shall be made on the books of the Corporation only by the person named in the certificate or by his or her attorney lawfully constituted in writing and upon the surrender of the certificate therefor, which shall be canceled before a new certificate shall be issued.

Section 5. Record Date. In order that the Corporation may determine the shareholders entitled to notice of or to vote at any meeting of shareholders or any adjournment thereof, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to

exercise any rights in respect of any change, conversion or exchange of stock, or for the purpose of any other lawful action, the Board of Directors may fix, in advance, a record date, which shall not be more than seventy (70) days nor less than ten (10) days before the date of such meeting, nor more than seventy (70) days prior to any other action. A determination of shareholders of record entitled to notice of or to vote at a meeting of shareholders shall apply to any adjournment of the meeting unless the Board of Directors fixes a new record date, which it must do if the meeting is adjourned to a date more than one hundred and twenty (120) days after the date fixed for the original meeting.

Section 6. Beneficial Owners. The Corporation shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends, and to vote as such owner, and to hold liable for calls and assessments a person registered on its books as the owner of shares, and shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by law.

## ARTICLE VI

### Notices

Section 1. Notices. Whenever written notice is required by law, the Articles of Incorporation or these Bylaws, to be given to any Director, member of a committee or shareholder, such notice may be given by mail, addressed to such Director, member of a committee or shareholder, at his or her address as it appears on the records of the Corporation, with postage thereon prepaid, and such notice shall be deemed to be given at the time when the same shall be deposited in the United States mail. Written notice may also be given personally or by electronic facsimile, or telegram, telex or cable. Written notices delivered personally, by mail, telegram, telecopy or nationally recognized overnight courier service (such as Federal Express, Airborne, UPS, Emery or Purolator) to each Director at his or her address. Such notice shall be effective upon the earliest of (a) receipt, (b) five days after its deposit in the United

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States mail, as evidenced by the postmark, if mailed postpaid and correctly addressed, or (c) the day after its deposit with such an overnight courier service, marked for next day delivery. Such written notice shall include the date, time and place of the meeting.

Section 2. Waivers of Notice. Whenever any notice is required by law, the Articles of Incorporation or these Bylaws, to be given to any Director, member of a committee or shareholder, a waiver thereof in writing, signed, by the person or persons entitled to said notice, whether before or after the time stated therein, shall be deemed equivalent thereto.

## ARTICLE VII

### General Provisions

Section 1. Dividends. Dividends upon the capital stock of the Corporation, subject to the provisions of the Articles of Incorporation, if any, may be declared by the Board of Directors at any regular or special meeting, and may be paid in cash, in property, or in shares of the capital stock. Before payment of any dividend, there may be set aside out of any funds of the Corporation available for dividends such sum or sums as the Board of Directors from time to time, in its absolute discretion, deems proper as a reserve or reserves to meet contingencies, or for equalizing dividends, or for repairing or maintaining any property of the Corporation, or for any proper purpose, and the Board of Directors may modify or abolish any such reserve.

Section 2. Disbursements. All checks or demands for money and notes of the Corporation shall be signed or signed by facsimile by each officer or officers or such other person or persons as the Board of Directors may from time to time designate.

Section 3. Fiscal Year. The fiscal year of the Corporation shall be fixed by resolution of the Board of Directors.

Section 4. Corporate Seal. The corporate seal shall have inscribed thereon the name of the Corporation, the year of its organization and the words "Corporate Seal, Florida." The seal may be used by causing it or a facsimile thereof to be impressed or affixed or reproduced or otherwise.

## ARTICLE VIII

### Indemnification

Section 1. Power to Indemnify in Actions, Suits or Proceedings Other Than Those by or in the Right of the Corporation. Subject to Section 3 of this Article VIII, the Corporation shall indemnify each person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the Corporation) by

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reason of the fact that he or she is or was a Director, officer, employee, or agent of the Corporation, or is or was serving at the request of the Corporation as a Director, officer, employee or agent of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him or her in connection with such action, suit or proceeding if he or she acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his or her conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that the person did not act in good faith and in a manner in which he or she reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding, had reasonable cause to believe that his or her conduct was unlawful.

Section 2. Power to Indemnify in Actions, Suits or Proceedings by or in the Right of the Corporation. Subject to Section 3 of this Article VIII, the Corporation shall indemnify each person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the Corporation to procure a judgment in its favor by reason of the fact that he or she is or was a Director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a Director, officer, employee or agent of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise against expenses (including attorneys' fees) actually and reasonably incurred by him or her in connection with the defense or settlement of such action or suit if he or she acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the Corporation; except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the Corporation unless and only to the extent that the Court of Chancery or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the Court of Chancery or such other court shall deem proper.

Section 3. Authorization of Indemnification. Any indemnification under this Article VIII (unless ordered by a court) shall be made by the Corporation only as authorized in the specific case upon a determination that indemnification of the Director, officer or other person is proper in the circumstances because he or she has met the applicable standard of conduct set forth in Section 1 or Section 2 of this Article VIII, as the case may be. Such determination shall be made (a) by the Board of Directors by a majority vote of a quorum consisting of Directors who were not parties to such proceeding; (b)



if such a quorum is not obtainable or, event if obtainable, by majority vote of a committee duly designated by the Board of Directors (in which Directors who are parties may participate) consisting solely of two or more Directors not at the time parties to the proceeding; (c) by independent legal counsel (1) selected by the Board of Directors prescribed in paragraph (a) or the committee prescribed in paragraph (b); or (2) if a

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quorum of the Directors cannot be obtained for paragraph (a) and the committee cannot be designated under paragraph (b), selected by majority vote of the full Board of Directors (in which Directors who are parties may participate); or (d) by the shareholders by a majority vote of a quorum consisting of shareholders who were not parties to such proceeding or, if no such quorum is obtainable, by a majority vote of shareholders who were not parties to such proceeding. To the extent, however, that a Director or officer of the Corporation has been successful in the merits or otherwise in defense of any action, suit or proceeding described above, or in defense of any claim, issue or matter therein, he or she shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by him or her in connection therewith, without the necessity of authorization in the specific case.

Section 4. Good Faith Defined. For purposes of any determination under Section 3 of this Article VIII, a person shall be deemed to have acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the Corporation, or, with respect to any criminal action or proceeding, to have had no reasonable cause to believe his or her conduct was unlawful, if his or her action is based on the records or books of account of the Corporation or another enterprise, or on information supplied to him or her by the officers of the Corporation or another enterprise in the course of their duties, or on the advice of legal counsel for the Corporation or another enterprise or on information or records given or reports made to the Corporation or another enterprise by an independent certified public accountant or by an appraiser or other expert selected with reasonable care by the Corporation or another enterprise. The term "another enterprise" as used in this Section 4 of this Article VIII shall mean any other corporation or any partnership, joint venture, trust, employee benefit plan or other enterprise of which such person is or was serving at the request of the Corporation as a Director, officer, employee or agent. The provisions of this Section 4 of this Article VIII shall not be deemed to be exclusive or to limit in any way the circumstances in which a person may be deemed to have met the applicable standard of conduct set forth in Section 1 or Section 2 of this Article VIII, as the case may be.

Section 5. Indemnification by a Court. Notwithstanding any contrary determination in the specific case under Section 3 of this Article VIII, and notwithstanding the absence of any determination thereunder, any Director or officer may apply to any court of competent jurisdiction in the State of Florida for indemnification to the extent otherwise permissible under Sections 1 and 2 of this Article VIII. The basis of such indemnification by a court shall be a determination of such court that indemnification of the Director or officer is proper in the circumstances because he or she has met the applicable standards of conduct as set forth in Section 1 or Section 2 of this Article VIII, as the case may be. Neither a contrary determination in the specific case under Section 3 of this Article VIII nor the absence of any determination thereunder shall be a defense to such application or create a presumption that the Director or officer seeking indemnification has not met any applicable standard of conduct. Notice of any application for indemnification pursuant to this Section 5 of this Article VIII shall be given to the Corporation promptly upon the filing of such application. If successful, in whole

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or in part, the Director or officer seeking indemnification shall also be entitled to be paid the expense of prosecuting such application.

Section 6. Expenses Payable in Advance. Expenses incurred by a Director or officer in defending or investigating a threatened or pending

action, suit or proceeding shall be paid by the Corporation in advance of the final disposition of such action, suit or proceeding upon receipt of an undertaking by or on behalf of such Director or officer to repay such amount if it shall ultimately be determined that he or she is not entitled to be indemnified by the Corporation as authorized in this Article VIII. Such expenses (including attorney's fees) incurred by other employees and agents may be so paid upon such terms and conditions, if any, as the Board of Directors deems appropriate.

Section 7. Nonexclusivity of Indemnification and Advancement of Expenses. The indemnification and advancement of expenses provided by or granted pursuant to this Article VIII shall not be deemed exclusive of any other rights to which those seeking indemnification or advancement of expenses may be entitled under any Bylaw, agreement, contract, vote of shareholders or disinterested Directors or pursuant to the direction (howsoever embodied) of any court of competent jurisdiction or otherwise, but as to action in his or her official capacity and as to action in another capacity while holding such office, it being the policy of the Corporation that indemnification of the persons specified in Sections 1 and 2 of this Article VIII shall be made to the fullest extent permitted by the Florida Business Corporation Act, as the same exists or may hereafter be amended. The provisions of this Article VIII shall not be deemed to preclude the indemnification of any person who is not specified in Section 1 or Section 2 of this Article VIII but whom the Corporation has the power or obligation to indemnify under the provisions of the Florida Business Corporation Act or otherwise.

Section 8. Insurance. The Corporation shall have power to purchase and maintain insurance on behalf of any person who is or was a Director or officer of the Corporation, or is or was serving at the request of the Corporation as a Director, officer, employee or agent of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise against any liability asserted against him or her and incurred by him or her in any such capacity, or arising out of his or her status as such, whether or not the Corporation would have the power or the obligation to indemnify him or her against such liability under the provisions of this Article VIII.

Section 9. Certain Definitions. For purposes of this Article VIII, references to "the Corporation" shall include, in addition to the resulting corporation, any constituent corporation (including any constituent of a constituent) absorbed in a consolidation or merger which, if its separate existence had continued, would have had power and authority to indemnify its Directors and officers, so that any person who is or was a Director or officer of such constituent corporation, or is or was a Director or officer of such constituent corporation serving at the request of such constituent corporation as a Director, officer, employee or agent of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise, shall stand

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in the same position under the provisions of this Article VIII with respect to the resulting or surviving corporation as such indemnification relates to his or her acts while serving in any of the foregoing capacities, of such constituent corporation, as he or she would have with respect to such constituent corporation if this separate existence had continued. For purposes of this Article VIII, references to "fines" shall include any excise taxes assessed on a person with respect to an employee benefit plan; and references to "serving at the request of the Corporation" shall include any service as a Director or officer of the Corporation which imposes duties on, or involves services by, such Director or officer with respect to an employee benefit plan, its participants or beneficiaries; and a person who acted in good faith and in a manner he or she reasonably believed to be in the interest of the participants and beneficiaries of an employee benefit plan shall be deemed to have acted in a manner "not opposed to the best interests of the Corporation" as referred to in this Article VIII.

Section 10. Survival of Indemnification and Advancement of Expenses. The indemnification and advancement of expenses provided by, or granted pursuant to, this Article VIII shall, unless otherwise provided when authorized or ratified, continue as to a person who has ceased to be a Director

or officer and shall inure to the benefit of the heirs, executors and administrators of such a person. Any repeal or modification of this Article VIII by the shareholders of the Corporation shall not adversely affect any rights to indemnification and advancement of expenses existing pursuant to this Article VIII with respect to any acts or omissions occurring prior to such repeal or modification.

Section 11. Limitation on Indemnification. Notwithstanding anything contained in this Article VIII to the contrary, except for proceedings to enforce rights to indemnification (which shall be governed by Section 5 of this Article VIII), the Corporation shall not be obligated to indemnify any Director or officer in connection with a proceeding (or part thereof) initiated by such person unless such proceeding (or part thereof) was authorized or consented to by the Board of Directors of the Corporation.

## ARTICLE IX

### Amendments

The Corporation's Board of Directors may amend or repeal these Bylaws unless: (a) the Articles of Incorporation or law reserves the power to amend the Bylaws generally, or a particular Bylaw provision exclusively, to the shareholders; or (b) the shareholders, in amending or repealing the Bylaws generally or a particular Bylaw provision, provide expressly that the Board of Directors may not amend or repeal the Bylaws or that Bylaw provision.

The Corporation's shareholders may amend or repeal the Corporation's Bylaws even though the Bylaws also may be amended or repealed by its Board of Directors.

EXHIBIT 4.20

[SUN HYDRAULICS LOGO(R)]

SEE REVERSE FOR

CERTAIN DEFINITIONS

SUN HYDRAULICS CORPORATION

<TABLE>

<S>

<C>

<C>

INCORPORATED UNDER THE LAWS OF THE STATE OF FLORIDA

CUSIP 866942 10 5

THIS CERTIFIES THAT

IS THE OWNER OF

FULLY PAID AND NON-ASSESSABLE COMMON SHARES OF THE PAR VALUE OF \$.001 PER SHARE OF

-----  
----- SUN HYDRAULICS CORPORATION -----  
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</TABLE>

transferable on the book of the Corporation by the holder hereof in person or by duly authorized attorney upon surrender of this certificate properly endorsed. This certificate is not valid unless countersigned by the Transfer Agent and Registrar.

IN WITNESS WHEREOF, the Corporation has caused this certificate to be signed with the facsimile signatures of its duly authorized officers and to be sealed with the facsimile seal of the Corporation.

Dated

[SEAL]

Secretary

Chairman

The following abbreviations, when used in the inscription on the face of this certificate, shall be construed as though they were written out in full according to applicable laws or regulations:

<TABLE>

<S>

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TEN COM -- as tenants in common UNIF GIFT MIN ACT -- ..... Custodian .....  
TEN ENT -- as tenants by the entireties (Cust) (Minor)  
JT TEN -- as joint tenants with right of under Uniform Gifts to Minors  
survivorship and not as tenants in common Act.....  
(State)

</TABLE>

Additional abbreviations may also be used though not in the above list.

FOR VALUE RECEIVED \_\_\_\_\_ HEREBY SELL, ASSIGN AND TRANSFER  
UNTO

PLEASE INSERT SOCIAL SECURITY OR OTHER  
IDENTIFYING NUMBER OF ASSIGNEE

/ \_\_\_\_\_

---

PLEASE PRINT OR TYPEWRITE NAME AND ADDRESS OF ASSIGNEE

---

---

\_\_\_\_\_ SHARES  
OF THE CAPITAL STOCK REPRESENTED BY THE WITHIN CERTIFICATE, AND DO HEREBY  
IRREVOCABLY CONSTITUTE AND APPOINT

\_\_\_\_\_ ATTORNEY  
TO TRANSFER THE SAID STOCK ON THE BOOKS OF THE WITHIN-NAMED CORPORATION WITH  
FULL POWER OF SUBSTITUTION IN THE PREMISES.

DATED:

\_\_\_\_\_

\_\_\_\_\_  
NOTICE: THE SIGNATURE TO THIS ASSIGNMENT  
MUST CORRESPOND WITH THE NAME AS WRITTEN  
UPON THE FACE OF THE CERTIFICATE IN EVERY  
PARTICULAR, WITHOUT ALTERATION OR  
ENLARGEMENT OR ANY CHANGE WHATEVER.

SIGNATURE GUARANTEED

Exhibit 5.1

[LETTERHEAD OF SHUMAKER, LOOP & KENDRICK, LLP]

December 19, 1996

Sun Hydraulics Corporation  
1500 West University Parkway  
Sarasota, Florida 34243-2290

Attention: Clyde G. Nixon, President

Re: SECURITIES AND EXCHANGE COMMISSION  
REGISTRATION STATEMENT ON FORM S-1  
2,300,000 SHARES OF COMMON STOCK, \$.001 PAR VALUE

Gentlemen:

We are legal counsel to Sun Hydraulics Corporation, a Florida corporation (the "Company"), and have acted as such in the preparation and filing of its Registration Statement on Form S-1 (Registration No. 333-14183) with the Securities and Exchange Commission (the "SEC") pursuant to the requirements of the Securities Act of 1933, as amended, and the General Rules and Regulations of the SEC promulgated thereunder for the registration and sale by the Company of up to 2,300,000 shares (the "Shares") of the common stock, par value \$.001 per share, of the Company. In connection with the following opinion, we have examined and have relied upon such documents, records, certificates, statements and instruments as we have deemed necessary and appropriate to render the opinion herein set forth.

Based upon the foregoing, it is our opinion that the Shares, when and if issued and sold in the manner set forth in the Registration Statement, will be legally and validly issued, fully paid and nonassessable.

The undersigned hereby consents to (i) filing this opinion as Exhibit 5.1 to the Registration Statement and (ii) using

Sun Hydraulics Corporation  
December 19, 1996  
Page 2

its name in the Registration Statement under the following caption of the Prospectus: "LEGAL MATTERS."

Very truly yours,

SHUMAKER, LOOP & KENDRICK, LLP

/s/ Gregory C. Yadley

## EXHIBIT 10.3

### SUN HYDRAULICS CORPORATION 1996 STOCK OPTION PLAN

SUN HYDRAULICS CORPORATION, a Florida corporation (the "Company"), hereby adopts the Sun Hydraulics Corporation 1996 Stock Option Plan (the "Plan"). The terms and conditions of the Plan are as follows:

Section 1. Purpose of the Plan. The purposes of the Plan are to encourage ownership of shares of the Common Stock, \$.001 par value, of the Company (the "Common Stock") by Employees (as defined in Section 3 of this Plan) and to encourage each of them to remain in the employ of the Company, and to more fully align the interest of Employees and members of the Board of Directors of the Company with the interests of stockholders of the Company by giving such Employees and Directors a personal interest in the value of the Common Stock. It is intended that options granted to Employees pursuant to the terms of this Plan (individually, an "Option," collectively, the "Options") may be either "Incentive Stock Options" ("ISOs") within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended (the "Code") or "Nonstatutory Options" which do not qualify as Incentive Stock Options under Section 422 of the Code.

Section 2. Administration of Plan. Subject to the provisions of this Plan, the Compensation Committee (the "Committee") appointed by the Company's Board of Directors shall have authority to supervise, administer and interpret this Plan including, but not limited to, the authority to (i) determine the Employees and Directors to whom Options shall be granted, (ii) determine the number of shares of Common Stock to be the subject of each Option, (iii) determine whether each Option granted to an Employee shall be designated as an Incentive Stock Option or not, (iv) determine the periods during which Options may be exercised and to accelerate the exercisability of outstanding Options, as it may deem appropriate; (v) determine the term of each Option, (vi) determine in good faith the fair market value of the Common Stock in accordance with reasonable valuation methods, (vii) determine in what manner the purchase price of the Common Stock shall be paid pursuant to Section 11 of this Plan; (viii) to modify, cancel, or replace any prior Options and to amend the relevant Stock Option Agreements with the consent of the affected Optionees, including amending such agreements to amend vesting schedules, extend exercise periods or increase or decrease the Option Price for Options, as it may deem to be necessary, and (ix) make, amend and rescind rules and regulations relating to the Plan. The determination of the Committee shall be made in accordance with its judgment as to the best interests of the Company and its stockholders and in accordance with the purposes of the Plan. The Committee's determination in all cases arising under the Plan shall be final, conclusive and binding unless otherwise determined by the Board.

Section 3. Employee Defined. For purposes of this Plan, the term "Employee" shall be defined to mean an individual who is an employee of either the Company, or a "subsidiary

corporation" (as defined in Section 424(f) of the Code) of the Company (a "Subsidiary Corporation").

Section 4. Common Stock Subject to the Plan. Subject to adjustment as provided in Section 16 of this Plan, the aggregate number of shares of Common Stock that shall be reserved and that may be issued from time to time upon the exercise of Options to be granted under this Plan is 1,000,000 shares of Common Stock. Such shares of Common Stock may consist of (i) treasury shares, (ii) authorized but unissued shares or (iii) both. In the event that an Option expires or terminates without having been exercised as to the full number of shares of Common Stock subject thereto, the shares of Common Stock as to which such Option was not exercised shall be available for Options that may thereafter be granted under this Plan.

Section 5. Eligibility. The Compensation Committee may grant Options under this Plan to any Employee. The Compensation Committee may also grant Options to any director of the Corporation, subject to the restrictions in Section 6. In granting such awards and determining which Employees shall be granted Options and the terms and amount of Common Stock covered by each such Option, the Compensation Committee may give consideration to the functions and responsibilities of the individual, his or her potential contributions to profitability and sound growth of the Company and such other factors as the Committee may, in its discretion, deem relevant.

Notwithstanding the preceding sentence or any other provisions of this Plan, any Employee who is a Named Executive Officer of the Company (as defined herein) shall not be granted Options unless the grant is approved by a Committee of the Board (which may be the Compensation Committee) consisting solely of members of the Board of Directors who are not Employees, former officers or paid consultants of the Company. For this purpose, the term "Named Executive Officer" shall mean the Company's Chief Executive Officer and the four highest compensated officers (other than the Chief Executive Officer), as determined pursuant to the executive compensation disclosure rules under the Securities Exchange Act of 1934.

The maximum number of shares of Common Stock with respect to which Options may be granted to any Participant during any one calendar year is 150,000 shares.

Section 6. Options for Directors. The Committee may, in its sole discretion, from time to time grant Options to one or more members of the Board of Directors who are not Employees, provided that these Options must be Nonstatutory Options.

Section 7. Term of Options. The term of each Option shall be for a period not to exceed ten (10) years from the date the Option is granted.

Section 8. Exercise of Option. Except as otherwise provided in this Plan, an Option shall be exercisable only by the individual to whom it is granted during his or her lifetime (or, in the event of the participant's incapacity, by the participant's guardian or legal representative, acting in a fiduciary capacity on behalf of the participant). An Option shall be deemed exercised only if written

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notice of its exercise is delivered to the Secretary of the Company prior to the expiration of the term of the Option.

Section 9. Designation of Options as Incentive Stock Options. The Committee shall, in its sole discretion, determine whether the Option granted to an Employee shall be an Incentive Stock Option under Code Section 422 or an option that will not qualify under Code Section 422. If the Committee decides to grant the Employee an Option that is an Incentive Stock Option, his or her stock option agreement referred to in Section 26 shall expressly state that such Option is intended to qualify as an Incentive Stock Option. Each provision of the Plan and of the stock option agreement relating to an Option designated as an Incentive Stock Option shall be construed so that such Option continues to qualify as an Incentive Stock Option, and any provision that cannot be so construed shall be disregarded.

If the Option is intended to be an Incentive Stock Option it shall be exercisable only if such individual is an Employee of either the Company or a Subsidiary Corporation at all times during the period beginning on the date of the grant of the Option and ending on the date which is three (3) months before the date of such exercise (including the date of such exercise); provided, however, in the case of an employee who is permanently and totally disabled (within the meaning of Section 22(e)(3) of the Code), the ending date of the period of continuous employment may be one (1) year before the date of such exercise.

Notwithstanding anything contained in this Plan to the contrary, if at the time an Incentive Stock Option is granted to an Employee, the Employee "owns" (as contemplated in Sections 422 and 424(d) of the Code) stock possessing more than 10 percent of the total combined voting power of all classes of stock of



the Company or a Subsidiary Corporation, the option price must be at least 110 percent of the fair market value of the Common Stock subject to the Option and such Option by its terms must not be exercisable after the expiration of five (5) years from the date such Option is granted.

If the Option is not intended to be an Incentive Stock Option, it shall not be subject to the limits set forth in the preceding paragraphs and in Section 10.

Section 10. Annual Limit on Incentive Stock Options. Notwithstanding anything contained in this Plan to the contrary, if the Option granted to an Employee is intended to be an Incentive Stock Option, the aggregate fair market value (determined as of the time the Option is granted) of the shares of Common Stock with respect to which the Incentive Stock Options granted to the Employee (under all plans of the Company and any Subsidiary Corporation) first become exercisable during any calendar year shall not exceed \$100,000, determined in accordance with the provisions of Section 422(d) of the Code.

To the extent this limitation would otherwise be exceeded, the Option shall be deemed to consist of an Incentive Stock Option for the maximum number of shares which may be covered by

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Incentive Stock Options pursuant to the preceding sentence, and a Nonstatutory Option for the remaining shares subject to the Option.

Section 11. Option Price. The purchase price of the Common Stock that shall be the subject of an Option shall be (i) if the Option is designated as an Incentive Stock Option, not less than the fair market value of the Common Stock on the date such Option is granted, and (ii) if the Option is a Nonstatutory Option, such price, which may be equal to or less than the fair market value of the Common Stock on the date such Option is granted, as the Committee shall determine.

Payment of the purchase price for the shares of the Common Stock to be purchased upon exercise of an Option (the "Purchase Price") shall be due and payable to the Company, at the election of the individual to whom an Option is granted under this Plan (an "Optionee"), (i) in cash at time of exercise, (ii) by the delivery at time of exercise of shares of the Common Stock having a fair market value (as determined by the Committee) equal to the Purchase Price, (iii) with the approval of the Committee, in cash at the time of exercise to the extent of the par value of such shares of Common Stock with the balance of the Purchase Price paid pursuant to a promissory note on terms satisfactory to the Committee delivered at time of exercise, or (iv) in such other manner as the Committee shall approve. Unless otherwise provided for by the Board, \$.001 of the consideration to be received by the Company upon exercise of an Option shall be allocated to capital and the balance shall be allocated to surplus.

Alternatively, the Committee may permit the Optionee to exercise his or her Option by delivery of (i) an irrevocable notice of exercise, accompanied by payment in full of the Purchase Price by the Optionee's stockbroker, and (ii) an irrevocable instruction to the Company to deliver the shares of Common Stock issuable upon exercise of the Option promptly to the Optionee's stockbroker for the Optionee's account, both signed by the Optionee.

Section 12. Tax Withholding. The Company shall have the right to require participating Employees exercising Nonstatutory Options to remit to the Company (or to the Subsidiary Corporation which employs them) an amount sufficient to satisfy any federal, state and local withholding tax requirements prior to the delivery of any shares of Common Stock acquired under the Options. If an Optionee sells, transfers, assigns or otherwise disposes of shares of Common Stock acquired upon the exercise of an ISO within two (2) years after the date on which the ISO was granted or within one (1) year after the receipt of the shares of Common Stock by the Optionee, the Optionee shall promptly notify the Company of such disposition and the Company shall have the right to require the Optionee to remit to the Company the amount necessary to satisfy any federal, state and local tax withholding requirements imposed on the Company by reason of such disposition.

Amounts to which the Company is entitled pursuant to the preceding paragraph may, at the election of the Optionee and with the approval of the Committee, either (i) be paid in cash, (ii) be withheld from the Optionee's salary or other compensation payable by the Company, or (iii) be withheld in the form of some of the shares of Common Stock otherwise issuable to the

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Optionee upon exercise of the Options that have a fair market value not less than the minimum amount of tax the Company is required to withhold.

Section 13. Nontransferability of Option. An Option shall not be transferable by the individual to whom it is granted except by (i) will, or (ii) the laws of descent and distribution.

Section 14. Termination of Employment or Directorship. Subject to any further restrictions contained in the written stock option agreement between the Optionee and the Company, in the event that an Optionee who is an Employee shall cease to be employed by the Company or a Subsidiary Corporation, whether voluntarily or involuntarily, or, in the event that an Optionee who is a Director but not an Employee shall cease to serve as a Director, for any reason other than the Optionee's death or permanent or total disability within the meaning of Section 22(e)(3) of the Code (the "Disability") and shall no longer be employed by any of them, all of the Optionee's rights to further exercise of his or her Options shall expire at the time specified by the Committee in his or her stock option agreement, or, for those Options intended to be Incentive Stock Options, as of a date no later than three (3) months from the date the employment of Optionee is terminated; provided, however, that no Option shall be exercisable after the expiration of ten (10) years from the date such Option is granted.

Nothing in this Plan shall confer upon any Optionee the right to be continued in the employment of the Company or a Subsidiary Corporation, or to interfere in any way with the right of the Company or a Subsidiary Corporation to terminate the employment of an Optionee, whether for cause or otherwise. For purposes of this Plan, an Optionee's employment with the Company shall not be considered terminated for purposes of determining the exercisability of Incentive Stock Options if the Optionee is on military leave, sick leave or other bona fide leave of absence if the period of such leave does not exceed ninety (90) days, or, if longer, so long as the individual's right to reemployment with the Company or any Subsidiary Corporation is guaranteed either by statute or by contract.

Section 15. Death or Disability of Optionee. In the event of the death of an Optionee while employed by (or serving as a director of) the Company or a Subsidiary Corporation, his or her Option may be exercised (to the extent that the Optionee was entitled to do so at the date of his or her death) by his or her personal representative or by any person or persons who shall have acquired the Option directly from the Optionee by will or by the laws of descent and distribution at any time within three (3) months after the date of his or her death; provided, however, that no Option shall be exercisable after the expiration of ten (10) years from the date such Option is granted.

In the event of the disability of an Optionee while employed by (or serving as a director of) the Company or a Subsidiary Corporation, his Option may be exercised (to the extent that the Optionee was entitled to do so at the date of disability) by the Optionee at any time within one (1) year after the date of his or her disability; provided, however, that no Option shall be exercisable after the expiration of ten (10) years from the date such Option is granted.

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For purposes of this Plan, the determination as to whether an Optionee's employment is terminated because of "disability" shall be vested solely in the Committee and its determination shall be final and conclusive on all parties.

Section 16. Adjustments in Company Common Stock. In the event of any changes in the issued and outstanding shares of the Common Stock by reason of a

share dividend, split-up, reclassification, recapitalization, subdivision, combination, exchange of shares, merger, consolidation or liquidation by or of the Company, the aggregate number and class of shares available under this Plan, as well as the number of shares issuable under each then outstanding Option and the option price payable for such shares, shall be correspondingly adjusted by the Committee; provided, that neither the Stock Option Plan nor the Options outstanding under the plan will be adjusted in a manner that causes any Option intended to be a Incentive Stock Option not to qualify as an incentive stock option within the meaning of Section 422 of the Code.

The Committee may, in its discretion, substitute new option rights for, or cause the Company to assume the duties of any Subsidiary Corporation with respect to, stock options granted to Employees outstanding under any other stock option plan sponsored by a Subsidiary Corporation, by another corporation or by a parent or subsidiary (within the meaning of Section 425 of the Code) of such other corporation, in connection with any merger, consolidation, acquisition, separation, reorganization, liquidation or like occurrence in which the Company is involved.

Section 17. Time of Granting Options. The granting of an Option shall take effect as of the time specified by the Committee in its resolutions granting the Option, or if none, at the time when the written stock option agreement referred to in Section 24 of this Plan shall have been duly executed and delivered by or on behalf of the Company and the Optionee.

Section 18. Rights as a Stockholder. Except as otherwise provided by the laws of the State of Florida, an Optionee shall have no rights as a stockholder of the Company with respect to any shares covered by his or her Option until the date of the issuance of such shares upon exercise of the Option. Except as otherwise provided in Section 15 of this Plan and by the laws of the State of Florida, no adjustment shall be made for any dividends (ordinary or extraordinary, whether in cash, securities or other property) or distributions or other rights on the Common Stock for which the record date is prior to the date a stock certificate for the shares subject to the Option is issued.

Section 19. Amendment of Plan. To the extent permitted by law, the Board may at any time and from time to time modify or amend the Plan in such respects as it shall deem advisable; provided, however, that such modification or amendment shall not change any rights under any outstanding Option without the written consent of the Optionee; provided further, however, that such modification or amendment shall not, without the approval of the stockholders of the Company, change the Plan so as to cause any Option intended to be an Incentive Stock Option to fail to meet the requirements of an incentive stock option under Section 422 of the Code.

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Section 20. Term of Plan. No Options shall be granted under this Plan at any time after the tenth (10) anniversary of the date this Plan is first adopted by the Board.

Section 21. Termination of Plan. Notwithstanding anything contained in this Plan to the contrary, the Board may at any time terminate or discontinue this Plan or any Option granted hereunder provided that such action shall not, without the written consent of the Optionee affected, impair the rights of such Optionee under any Option previously granted under the Plan.

Section 22. Governmental Regulations. This Plan and the granting and exercise of any Option and the obligations of the Company to sell and deliver shares of Common Stock under any such Option shall be subject to all applicable laws, rules and regulations, and to such approvals by any governmental agencies as may be required.

Section 23. Compliance with Securities Laws. Options granted and shares of the Common Stock issued by Company upon the exercise of Options shall be granted and issued only in full compliance with all applicable securities laws including, but not limited to, the Securities Act of 1933, as amended, and the general rules and regulations promulgated thereunder by the Securities and Exchange Commission and applicable state blue sky laws. In connection with such compliance, the Committee may impose such conditions on transfer of the

shares of the Common Stock subject to an Option and other restrictions, conditions and limitations as it may deem necessary and appropriate.

Section 24. Proceeds from Sale of Common Stock. The proceeds to be received by the Company upon the exercise of any Option, if other than in shares of the Common Stock, shall be used for general corporate purposes.

Section 25. Obligations of Optionee. The granting of an Option shall impose no obligation upon the Optionee to exercise such Option.

Section 26. Stock Option Agreements. Options granted under this Plan shall be evidenced by written agreements in such form as the Committee shall from time to time approve, which agreements (i) shall comply with and be subject to the terms and conditions of this Plan, (ii) may contain such other provisions not inconsistent with this Plan as the Committee shall deem advisable, including, without limitation, restrictions upon exercise of an Option, (iii) if the Option is intended to be an Incentive Stock Option, shall contain such other limitations and restrictions upon the exercise of the Option as shall be necessary in order that such Option will satisfy the requirements for incentive stock options imposed by Section 422 of the Code, and (iv) shall contain such restrictions as the Committee may determine to be necessary in order that the granting of such Option shall be in compliance with Federal and state securities laws.

Section 27. Effective Date of Plan. The Plan shall become effective on the date it is approved by the Board of Directors of the Company. Notwithstanding the preceding sentence, if the Plan is not approved by vote of the Company's stockholders by the first anniversary of this effective

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date, it shall terminate and all Options granted hereunder shall be void. No Option granted under this Plan may be exercised until the Plan has been approved by the Company's stockholders.

Section 28. Priority. To the extent that any of the provisions of Sections 421 and 422 of the Code are inconsistent with the provisions of this Plan and such inconsistency would cause this Plan not to be treated for Federal income tax purposes as an incentive stock option plan, or any Option expressly intended to be an Incentive Stock Option not to so qualify, the provisions of this Plan and of the Incentive Stock Options granted hereunder shall be deemed to be amended in a manner to comply with the provisions of Section 421 or 422 of the Code, as the case may be.

IN WITNESS WHEREOF, the undersigned, being the duly elected and authorized Secretary of the Company, hereby certifies that this Plan was legally and validly approved by the Board of Directors of the Company as of the 30th day of September, 1996.

SUN HYDRAULICS CORPORATION

By: /s/ Gregory C. Yadley

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Gregory C. Yadley, Secretary

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## EXHIBIT 10.4

### INDEMNIFICATION AGREEMENT

This Indemnification Agreement (the "Indemnification Agreement") is made and entered into as of the 17th day of December, 1996, by and between SUN HYDRAULICS CORPORATION, a Florida corporation (the "Company"), and \_\_\_\_\_, an individual ("Indemnitee").

WHEREAS, it is essential to the Company to retain and attract as directors and officers the most capable persons available;

WHEREAS, Indemnitee is a director and/or officer of the Company;

WHEREAS, the Company and Indemnitee recognize the risk of litigation and other claims being asserted against directors and officers of public companies;

WHEREAS, the Articles of Incorporation (the "Articles") of the Company requires the Company to indemnify and advance expenses to its directors and officers to the full extent permitted by law, and Indemnitee has been serving and continues to serve as a director and/or officer of the Company in part in reliance upon the Articles; and,

WHEREAS, in recognition of (1) Indemnitee's need for substantial protection against personal liability; (2) the Company's need to induce Indemnitee's continued service to the Company in an effective manner; and (3) Indemnitee's reliance on the Articles, and to provide Indemnitee with specific contractual assurance that the protection contained in the Articles will be available to Indemnitee (regardless of, among other things, any amendment to or restatement of the Articles or any changes in the composition of the Company's Board of Directors or any business combination in which the Company participates), the Company wishes to provide in this Indemnification Agreement for the indemnification of and the advancing of expenses to Indemnitee to

the full extent (whether partial or complete) permitted by law and as set forth in this Indemnification Agreement and, if insurance is obtained, for the coverage of Indemnitee under the Company's directors' and officers' liability insurance policies.

NOW, THEREFORE, in consideration of the premises, the mutual promises, covenants and conditions herein contained, Indemnitee continuing to serve the Company directly, or at its request, to serve another enterprise, and for other good and valuable considerations, the receipt and sufficiency of which are hereby acknowledged, the parties hereto, intending to be legally bound, hereby agree as follows:

1. CERTAIN DEFINITIONS. In addition to the words and terms elsewhere defined in this Indemnification Agreement, certain capitalized words and terms used herein shall have the meanings given to them by the definitions and descriptions in this Section 1, unless the context or use indicates another or different meaning or intent, and such definitions shall be equally applicable to both the singular and plural forms of any of the capitalized words and terms herein defined. The following words and terms are defined terms under this Indemnification Agreement:

1.1 Change in Control. "Change in Control" shall be deemed to have occurred if (i) any "person" (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended), other than a trustee or other fiduciary holding securities under an employee benefit plan of the Company or a corporation owned directly or indirectly by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company, is

or becomes the "beneficial owner" (as defined in Rule 13-d-3 under said Act), directly or indirectly, of securities of the Company representing 20% or more of the total voting power represented by the Company's then outstanding Voting Securities; (ii) during any period of two consecutive years, individuals who at the beginning of such period constitute the Board of Directors of the Company and any new director whose election by the Board of Directors or nomination for election by the Company's stockholders was approved by a vote of at least two-

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thirds (2/3) of the directors then still in office who either were directors at the beginning of the period or whose election or nomination for election was previously so approved, cease for any reason to constitute a majority thereof; or (iii) the stockholders of the Company approve a merger or consolidation of the Company with any other corporation, other than a merger or consolidation which would result in the Voting Securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into Voting Securities of the surviving entity) at least 80% of the total voting power represented by the Voting Securities of the Company or such surviving entity outstanding immediately after such merger or consolidation, or the stockholders of the Company approve a plan of complete liquidation of the Company or an agreement for the sale or disposition by the Company of (in one transaction or a series of transactions) all or substantially all the Company's assets.

1.2 Claim. "Claim" shall mean any threatened, pending or completed action, suit or proceeding, or any inquiry or investigation, whether instituted by the Company or any other party, that Indemnitee in good faith believes might lead to the institution of any such action, suit or proceeding, whether civil, criminal, administrative, investigative or other.

1.3 Expenses. "Expenses" shall mean attorneys' fees and all other costs, expenses and obligations paid or incurred in connection with investigating, defending, being a witness in or participating in (including on appeal), or preparing to defend, be a witness in or participate in any Claim relating to any Indemnifiable Event.

1.4 Indemnifiable Event. "Indemnifiable Event" shall mean any event or occurrence related to the fact that Indemnitee is or was a director, officer, employee

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trustee, or agent of the Company, or is or was serving at the request of the Company as a director, officer, employee, trustee, agent or fiduciary of another corporation, partnership, joint venture, employee benefit plan, trust or other enterprise, or by reason of anything done or not done by Indemnitee in any such capacity.

1.5 Independent Legal Counsel. "Independent Legal Counsel" shall mean an attorney or firm of attorneys, selected in accordance with the provisions of Section 3, who shall not have otherwise been retained by or performed services for the Company or Indemnitee within the last two years (other than with respect to matters concerning the rights of Indemnitee under this Indemnification Agreement or of other indemnities under similar indemnification agreements).

1.6 Reviewing Party. "Reviewing Party" shall mean (i) the Board of Directors of the Company by a quorum consisting of directors who were not parties to a Claim in question, or (ii) if such a quorum is not obtainable, or, even if obtainable, a quorum of disinterested directors so directs, by Independent Legal Counsel.

1.7 Voting Securities. "Voting Securities" shall mean any securities of the Company which vote generally in the election of directors.

## 2. BASIC INDEMNIFICATION ARRANGEMENT.

A. In the event Indemnitee was, is or becomes a party to or witness or other participant in, or is threatened to be made a party to or witness or other participant in, a Claim by reason of (or arising in part out of) an Indemnifiable Event, the Company shall indemnify Indemnitee to the full extent permitted by the Articles and by the Florida Business Corporation Act as soon as practicable but in any event no later than thirty days after written demand is presented to the Company, against any and all Expenses, judgments, fines, penalties and amounts paid in settlement (including all interest, assessments and other charges paid or payable in connection with or in respect of such Expenses,

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judgments, fines, penalties or amounts paid in settlement) of such Claim.

B. If so requested by Indemnitee, the Company shall advance (within two business days of such request) any and all Expenses to Indemnitee (an "Expense Advance").

C. Notwithstanding the foregoing, (i) the obligations of the Company under this Section 2 shall be subject to the condition that the Reviewing Party shall not have determined (in a written opinion in any case in which Independent Legal Counsel is involved) that Indemnitee would not be permitted to be indemnified under applicable law, and (ii) the obligation of the Company to make an Expense Advance pursuant to this Section 2 shall be subject to the condition that, if, when and to the extent that the Reviewing Party determines that Indemnitee would not be permitted to be so indemnified under applicable law, the Company shall be entitled to be reimbursed by Indemnitee (who hereby agrees to reimburse the Company) for all such amounts theretofore paid; provided, however, that if Indemnitee has commenced or thereafter commences legal proceedings in a court of competent jurisdiction to secure a determination that Indemnitee should be indemnified under applicable law, any determination made by the Reviewing Party that Indemnitee would not be permitted to be indemnified under applicable law shall not be binding and Indemnitee shall not be required to reimburse the Company for any Expense Advance until a final judicial determination is made with respect thereto (as to which all rights of appeal therefrom have been exhausted or lapsed).

D. If there has not been a Change in Control, the Reviewing Party shall be selected by the Board of Directors and if there has been such a Change in Control (other than a Change in Control which has been approved by a majority of the Company's Board of Directors who were directors immediately prior to such Change in Control), the Reviewing Party shall be the Independent Legal Counsel referred to in Section 3 hereof. If there

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has been no determination by the Reviewing Party or if the Reviewing Party determines that Indemnitee substantively would not be permitted to be indemnified in whole or in part under applicable law, Indemnitee shall have the right to commence litigation in any court in the State of Florida having subject matter jurisdiction thereof and in which venue is proper seeking an initial determination by the court or challenging any such determination by the Reviewing Party or any aspect thereof, including the legal or factual bases therefor, and the Company hereby consents to service of process and to appear in any such proceeding. Any determination by the Reviewing Party otherwise shall be conclusive and binding on the Company and Indemnitee.

3. CHANGE IN CONTROL. The Company agrees that if there is a Change in Control of the Company (other than a Change in Control which has been approved by a majority of the Company's Board of Directors who were directors immediately prior to such Change in Control) then with respect to all matters thereafter arising concerning the rights of Indemnitee to indemnity payments and

Expense Advances under the Articles, this Indemnification Agreement or any other agreement or Company Bylaw now or hereafter in effect relating to Claims for Indemnifiable Events, the Company shall seek legal advice only from Independent Legal Counsel selected by Indemnitee and approved by the Company (which approval shall not be unreasonably withheld). Such counsel, among other things, shall render its written opinion to the Company and Indemnitee as to whether and to what extent the Indemnitee would be permitted to be indemnified under applicable law. The Company agrees to pay the reasonable fees of the Independent Legal Counsel referred to above and to fully indemnify such counsel against any and all expenses (including attorneys' fees), claims, liabilities and damages arising out of or relating to this Indemnification Agreement or its engagement pursuant hereto.

4. INDEMNIFICATION FOR ADDITIONAL EXPENSES. The Company shall indemnify Indemnitee against any and all expenses (including attorneys' fees) and, if requested by Indemnitee, shall (within two business days of such request) advance such expenses to Indemnitee which are incurred by Indemnitee in connection with any action brought by Indemnitee for (i) indemnification or advance

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payment of Expenses by the Company under this Indemnification Agreement or any other agreement, the Articles or Company Bylaws now or hereafter in effect relating to Claims for Indemnifiable Events, and/or (ii) recovery under any directors' and officers' liability insurance policies maintained by the Company regardless of whether Indemnitee ultimately is determined to be entitled to such indemnification, advance expense payment or insurance recovery, as the case may be.

5. PARTIAL INDEMNITY, ETC. If Indemnitee is entitled under any provision of this Indemnification Agreement to indemnification by the Company for some or a portion of the Expenses, judgments, fines, penalties and amounts paid in settlement of a Claim but not, however, for the total amount thereof, the Company shall nevertheless indemnify Indemnitee for the portion thereof to which Indemnitee is entitled. Moreover, notwithstanding any other provision of this Indemnification Agreement, to the extent that Indemnitee has been successful on the merits or otherwise in defense of any or all Claims relating in whole or in part to an Indemnifiable Event or in defense of any issue or matter therein, including dismissal without prejudice, Indemnitee shall be indemnified against all Expenses incurred in connection therewith.

6. PRESUMPTION IN FAVOR OF INDEMNITEE; BURDEN OF PROOF. In connection with any determination by the Reviewing Party or otherwise as to whether Indemnitee is entitled to be indemnified hereunder, there shall exist a rebuttable presumption that Indemnitee has met the applicable standard(s) of conduct and is, therefore, entitled to indemnification pursuant to this Indemnification Agreement, and the burden of proof shall be on the Company to establish that Indemnitee has not met such applicable standard(s) of conduct and is not so entitled to indemnification.

7. NO OTHER PRESUMPTIONS. For purposes of this Indemnification Agreement, the termination of any claim, action, suit or proceeding, by judgment, order, settlement (whether with or without court approval) or conviction, or upon a plea of nolo contendere, or its equivalent, shall not create a presumption that (i) Indemnitee did not meet any particular standard of conduct; or (ii) Indemnitee did not have any particular belief; or, (iii) that a court has determined that indemnification is not permitted by

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applicable law. In addition, neither the failure of the Reviewing Party to have made a determination as to whether Indemnitee has met any particular standard of conduct or had any particular belief, nor an actual determination by the Reviewing Party that Indemnitee has not met such standard of conduct or did not have such belief, prior to the commencement of legal proceedings by Indemnitee to secure a judicial determination that Indemnitee should be indemnified under applicable law shall be a defense to Indemnitee's claim or create a presumption that Indemnitee has not met any particular standard of conduct or did not have any particular belief.



8. NONEXCLUSIVITY, ETC. The rights of Indemnitee hereunder shall be in addition to any other rights Indemnitee may have under the Articles, any Company Bylaw, the Florida Business Corporation Act, or otherwise. To the extent that a change in the Florida Business Corporation Act (whether by statute or judicial decision) permits greater indemnification by agreement than would be afforded currently under the Articles and this Indemnification Agreement, it is the intent of the parties hereto that Indemnitee shall enjoy by this Indemnification Agreement the greater benefits so afforded by such change.

9. LIABILITY INSURANCE. If the Company obtains directors' and officers' liability insurance, then, to the extent the Company maintains an insurance policy or policies providing directors' and officers' liability insurance, Indemnitee shall be covered by such policy or policies, in accordance with its or their terms, to the maximum extent of the coverage available for any Company director or officer.

10. PERIOD OF LIMITATIONS. No legal action shall be brought and no cause of action shall be asserted by or in the right of the Company against Indemnitee or Indemnitee's spouse, heirs, executors or personal or legal representatives after the expiration of two years from the date of accrual of such cause of action, and any claim or cause of action of the Company shall be extinguished and deemed released unless asserted by the timely filing of a legal action within such two year period; provided, however, that if any shorter period of limitations is otherwise applicable to any such cause of action, such shorter period shall govern.

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11. AMENDMENTS, ETC. No supplement, modification or amendment of this Indemnification Agreement shall be binding unless executed in writing by both of the parties hereto. No waiver of any of the provisions of this Indemnification Agreement shall be deemed or shall constitute a waiver of any other provisions hereof (whether or not similar) nor shall such waiver constitute a continuing waiver.

12. SUBROGATION. In the event of payment under this Indemnification Agreement, the Company shall be subrogated to the extent of such payment to all of the rights of recovery of Indemnitee, who shall execute all papers required and shall do everything that may be necessary to secure such rights, including the execution of such documents necessary to enable the Company effectively to bring suit to enforce such rights. To the extent Indemnitee has been indemnified by the Company hereunder and later receives payments from any insurance carrier covering the same Expenses, judgments, fines, penalties or amounts paid in settlements so indemnified by the Company hereunder, Indemnitee shall immediately reimburse the Company hereunder for all such amounts received from the insurer.

Notwithstanding anything contained herein to the contrary, Indemnitee shall not be entitled to recover amounts under this Indemnification Agreement which, when added to the amount of indemnification payments made to, or on behalf of, Indemnitee, under the Articles or Company Bylaws, in the aggregate exceed the Expenses, judgments, fines, penalties and amounts paid in settlement actually and reasonably incurred by Indemnitee ("Excess Amounts"). To the extent the Company has paid Excess Amounts to Indemnitee, Indemnitee shall be obligated to immediately reimburse the Company for such Excess Amounts.

13. NO DUPLICATION OF PAYMENTS. The Company shall not be liable under this Indemnification Agreement to make any payment in connection with any Claim made against Indemnitee to the extent Indemnitee has otherwise actually received payment (under any insurance policy, the Articles or Company Bylaws or otherwise) of the amounts otherwise indemnifiable hereunder.

14. RIGHT OF INDIVIDUAL ATTORNEY. The Company shall not restrict the right of Indemnitee to be represented by and

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indemnified against the fees and expenses of the attorney of Indemnitee's choice hereunder.

15. ALLOWANCE FOR COMPLIANCE WITH SEC REQUIREMENTS. Indemnitee acknowledges that the Securities and Exchange Commission ("SEC") has expressed the opinion that indemnification of directors and officers from liabilities under the Securities Act of 1933, as amended (the "Securities Act") is against public policy as expressed in the Securities Act and is, therefore, unenforceable. Indemnitee hereby agrees that it will not be a breach of this Indemnification Agreement for the Company to undertake with the SEC in connection with the registration for sale of any stock or other securities of the Company from time to time that, in the event a claim for indemnification against liabilities under the Securities Act (other than the payment by the Company of expenses incurred or paid by a director or officer of the Company in the successful defense of any action, suit or proceeding) is asserted in connection with such securities being registered, the Company will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of competent jurisdiction the question of whether or not such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue. Indemnitee further agrees that such submission to a court of competent jurisdiction shall not be a breach of this Indemnification Agreement.

16. ASSIGNMENT; CONTINUING AND BINDING EFFECT. This Indemnification Agreement shall continue in effect regardless of whether Indemnitee continues to serve as an officer or director of the Company or of any other enterprise at the Company's request. This Indemnification Agreement shall not be assigned by the Company or Indemnitee without the prior written consent of the other party hereto, except that the Company may freely assign its rights and obligations under this Indemnification Agreement to any subsidiary for whom Indemnitee is serving as a director and/or officer thereof; provided, however, that no permitted assignment shall release the assignor from its obligations hereunder. Subject to the foregoing, this Indemnification Agreement shall be binding upon and inure to the benefit of and be enforceable by the parties hereto and their respective successors; assigns, including any direct or indirect successor by purchase, merger, consolidation or

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otherwise to all or substantially all of the business and/or assets of the Company; spouses; heirs; executors and personal and legal representatives.

16. SEVERABILITY. The provisions of this Indemnification Agreement shall be severable in the event that any of the provisions hereof (including any provision within a single section, paragraph or sentence) is held by a court of competent jurisdiction to be invalid, void or otherwise unenforceable in any respect, and the validity and enforceability of any such provision in every other respect and of the remaining provisions hereof shall not be in any way impaired and shall remain enforceable to the full extent permitted by law.

17. GOVERNING LAW. This Indemnification Agreement shall be governed by and construed and enforced in accordance with the laws of the State of Florida applicable to contracts made and to be performed in such state without giving effect to the principles of conflicts of laws.

18. COUNTERPARTS. This Indemnification Agreement may be executed in two or more fully or partially executed counterparts each of which shall be deemed an original binding and the signer thereof against the other signing parties, but all counterparts together shall constitute one and the same instrument. Executed signature pages may be removed from counterpart agreements and attached to one or more fully executed copies of this Agreement.

19. NOTICE. Indemnitee shall, as a condition precedent to his right to be indemnified under this Indemnification Agreement, give to the Company notice in writing as soon as practicable of any claim made against him for which indemnity will or could be sought under this Indemnification Agreement. Notice to the Company shall be directed to the Company at its headquarters located at 1500 West University Parkway, Sarasota, Florida 34243, Attention: President (or such other address as the Company shall designate in writing to Indemnitee). Notice shall be deemed received three days after the date of postmark if sent by prepaid mail, properly addressed. In addition, Indemnitee

shall give the Company such information and cooperation as it may reasonably require within Indemnitee's power.

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IN WITNESS WHEREOF, the parties hereto have executed this Indemnification Agreement as of the date first above written.

Attest:                                   SUN HYDRAULICS CORPORATION

By:

-----  
Gregory C. Yadley, Secretary                                   Clyde G. Nixon, President

[seal]

"INDEMNITEE"

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EXHIBIT 11

Statement Regarding Computation of Per Share Earnings

<TABLE>  
<CAPTION>

	Year ended December 31, 1995	Period ended September 30, 1996	
	----- <C>	----- <C>	
Primary			
Net income	\$5,883	\$2,002	
	=====	=====	
Weighted average shares outstanding		3,986	4,038
Assuming exercise of options reduced by the number of shares which could have been purchased with the proceeds from exercise of such options	165	203	
Assuming S Corporation distribution (1)		1,066	1,066
	-----	-----	
Weighted average common shares as adjusted		5,217	5,307
	-----	-----	
Earnings per share assuming full dilution		\$ 1.13	\$ 0.38
	=====	=====	
Fully Diluted			
Net income	\$5,883	\$2,002	
	=====	=====	
Weighted average shares outstanding		3,987	4,037
Assuming exercise of options reduced by the number of shares which could have been purchased with the proceeds from exercise of such options	213	191	
Assuming shares issued for S Corporation distribution (1)	1,066	1,066	
	-----	-----	
Weighted average common shares as adjusted		5,266	5,294
	-----	-----	
Earnings per share assuming full dilution		\$ 1.12	\$ 0.38
	=====	=====	
Dilutive effect	0.9%	0.0%	
Supplemental Pro Forma Calculation (2)			
Net income as reported	\$5,883	\$2,002	
	=====	=====	
Add: interest paid	160	300	
Less: tax effect	(61)	(114)	
	-----	-----	
Net income as adjusted	\$5,982	\$2,188	
	=====	=====	
Weighted average number of shares as reported		5,217	5,307
Shares to be issued (weighted by dates of issuance of debt to be repaid)		229	430
	-----	-----	
Weighted average shares, as adjusted		5,446	5,737
	-----	-----	
Supplemental primary EPS		\$ 1.10	\$ 0.38
	=====	=====	
Dilutive effect	2%	0%	

</TABLE>

(1) In accordance with SAB Topic 1B #3 Other Matters, dividends declared as of the balance sheet date (S Corporation distribution of \$9,905) is reflected in the pro forma calculation of Earnings Per Share (EPS).

(2) Effect of Supplemental EPS for debt retirement is less than 3% dilutive, therefore disclosure is not required.

The treasury stock method was used in the calculation of the average shares

outstanding for EPS. The denominator includes the weighted average number of common shares outstanding during the year plus the number of shares from assumed exercise of all outstanding stock options less the number of treasury shares that would be able to be repurchased from the proceeds of such exercise. For primary EPS, the average stock price for the year is used in the calculation of treasury shares assumed to be purchased from the proceeds of exercised options; in the calculation for fully diluted EPS, the year-end stock price is used.

Prior year outstanding stock was converted for the Reorganization using the actual number of shares outstanding for each entity times the applicable exchange rate as outlined in the Reorganization agreements. This pro forma information was calculated in accordance with Regulation S-X, Article 11, paragraph b(6). Additionally, since the Reorganization results in a change in capitalization, EPS is shown only for the prior year and the most recent period.

EXHIBIT 21

SUBSIDIARIES OF THE COMPANY(1)

Organized under the laws of:  
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Sun Hydraulik Holdings Limited	England and Wales
Sun Hydraulik GmbH	The Federal Republic of Germany
Sun Hydraulics Limited	England and Wales

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(1) Gives effect to the Reorganization described in the Prospectus included in the Registration Statement of which this Exhibit is a part.

EXHIBIT 23.2

CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

We hereby consent to the use in the Prospectus constituting part of this Registration Statement on Form S-1 of our report dated September 30, 1996, except as to the subsequent event described in Note 16 which is as of October 5, 1996, relating to the financial statements of Sun Hydraulics Corporation, which appears in such Prospectus. We also consent to the references to us under the headings "Experts" and "Selected Financial Data" in such Prospectus. However, it should be noted that Price Waterhouse LLP has not prepared or certified such "Selected Financial Data."

/s/ Price Waterhouse LLP

PRICE WATERHOUSE LLP

Tampa, Florida

December 19, 1996