

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended Commission file number
September 30, 1997 0-21835

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

FLORIDA 59-2754337

(State or Other Jurisdiction of (I.R.S. Employer
Incorporation or Organization) Identification No.)

1500 WEST UNIVERSITY PARKWAY
SARASOTA, FLORIDA 34243

(Address of Principal Executive Offices) (Zip Code)

941/362-1200

(Registrant's Telephone Number, Including Area Code)

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

The Registrant had 6,322,002 shares of common stock, par value \$.001, outstanding as of November 5, 1997.

Sun Hydraulics Corporation
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For the third quarter ended September 30, 1997

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PART I: FINANCIAL INFORMATION
Item 1.

Sun Hydraulics Corporation
CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS)

<TABLE>
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	SEPTEMBER 30, 1997 (UNAUDITED)	DECEMBER 31, 1996
<S>	<C>	<C>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,550	\$ 1,038
Accounts receivable, net of allowance for doubtful accounts of \$46 and \$62	5,630	3,535
Inventories	6,662	4,451
Other current assets	598	1,132
	-----	-----
Total current assets	15,440	10,156
Property, plant and equipment, net	39,277	37,212
Other assets	37	1,048
	-----	-----
Total assets	<u>\$54,754</u>	<u>\$48,416</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:		
Accounts payable	\$ 2,619	\$ 3,273
Accrued expenses and other liabilities	2,506	1,961
Long-term debt due within one year	3,321	2,340
Notes payable to related parties due within one year	730	655
Dividends payable	221	508
Income taxes payable, net	843	461
	-----	-----
Total current liabilities	10,240	9,198
Long-term debt due after one year	6,706	12,314
Notes payable to related parties due after one year	1,351	1,909
Deferred income taxes	2,567	2,578
Other liabilities	--	20

Total liabilities	20,864	26,019
Contingencies and commitments	--	--
Shareholders' equity:		
Common stock	6	2,179
Capital in excess of par value	24,163	2,719
Retained earnings	9,692	17,450
Equity adjustment for foreign currency translation	29	49
Total shareholders' equity	33,890	22,397
Total liabilities and shareholders' equity	\$54,754	\$48,416

</TABLE>

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

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

<TABLE>
<CAPTION>

	THREE MONTHS ENDED SEPTEMBER 30, (UNAUDITED)	
	1997	1996
	---	---
<S> NET SALES	<C> \$17,301	<C> \$13,596
Cost of sales	11,842	9,287
GROSS PROFIT	5,459	4,309
Selling, engineering and administrative expenses**	3,018	3,694
OPERATING INCOME**	2,441	615
Interest expense	285	255
Miscellaneous expense	27	117
INCOME BEFORE INCOME TAXES**	2,129	243
Income tax provision	777	236
NET INCOME**	\$ 1,352	\$ 7
PRO FORMA INCOME DATA (NOTE 3):		
INCOME BEFORE INCOME TAXES**	\$ 2,129	\$ 243
Pro Forma Income tax provision	777	55
PRO FORMA NET INCOME**	\$ 1,352	\$ 188

PRO FORMA NET INCOME PER SHARE**	\$.21	\$.03
PRO FORMA AVERAGE SHARES OUTSTANDING	6,526	6,509

</TABLE>

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

** Selling, engineering and administrative expense for the three month period ended September 30, 1996 reflects a \$1.4 million non-recurring, non-cash compensation expense related to the termination of phantom stock compensation agreements and the issuance of options to employees and directors. Without this expense, pro forma net income for the three month period ended September 30, 1996 would have been \$1.1 million, and pro forma net income per share would have been \$.16.

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

<TABLE>
<CAPTION>

	NINE MONTHS ENDED SEPTEMBER 30, (UNAUDITED)	
	1997	1996
	----	----
<S>	<C>	<C>
NET SALES	\$47,176	\$41,233
Cost of sales	32,488	27,903
	-----	-----
GROSS PROFIT	14,688	13,330
Selling, engineering and administrative expenses**	8,584	9,288
	-----	-----
OPERATING INCOME**	6,104	4,042
Interest expense	653	678
Miscellaneous expense	41	107
	-----	-----
INCOME BEFORE INCOME TAXES**	5,410	3,257
Income tax provision	1,961	727
	-----	-----
NET INCOME**	\$ 3,449	\$ 2,530
	=====	=====
PRO FORMA INCOME DATA (NOTE 3):		
INCOME BEFORE INCOME TAXES**	\$ 5,410	\$ 3,257
Pro Forma Income tax provision	1,961	1,255
	-----	-----
PRO FORMA NET INCOME**	\$ 3,449	\$ 2,002
	=====	=====
PRO FORMA NET INCOME PER SHARE**	\$.53	\$.31

	=====	=====			
PRO FORMA AVERAGE SHARES OUTSTANDING			6,526		6,509
	=====	=====			

</TABLE>

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

** Selling, engineering and administrative expense for the nine month period ended September 30, 1996 reflects a \$1.4 million non-recurring, non-cash compensation expense related to the termination of phantom stock compensation agreements and the issuance of options to employees and directors. Without this expense, pro forma net income for the nine month period ended September 30, 1996 would have been \$2.9 million, and pro forma net income per share would have been \$.44.

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

<TABLE>
<CAPTION>

	EQUITY ADJUSTMENT					
	CAPITAL IN	EXCESS OF		RETAINED	CURRENCY	
	COMMON	PAR VALUE	EARNINGS	FOR FOREIGN	TRANSLATION	TOTAL
<S>	<C>	<C>	<C>	<C>	<C>	
Balance, December 31, 1995	\$ 2,181	\$ 997	\$ 18,676	\$ (325)		\$ 21,529
Issuance of stock options		2,110			2,110	
Suninco step-up for purchase accounting			185			185
Exercise of stock options		70			70	
Repurchase and retirement of shares		(41)			(41)	
Exchange of shares in merger	(2)	(602)	604			--
Net income		1,071		1,071		
Distributions to shareholders			(2,901)		(2,901)	
Adjustment for foreign currency translation			374	374		
	-----	-----	-----	-----	-----	
Balance, December 31, 1996	\$ 2,179	\$ 2,719	\$ 17,450	\$ 49		\$ 22,397
Net proceeds from stock offering		6	19,246		19,252	
Distributions to shareholders			(10,545)		(10,545)	
Merger with Sun Holdings (Note 2)	(2,175)	2,123				(52)
Shares retired in stock offering	(4)	4				--
Net income		3,449		3,449		
Dividends declared			(662)		(662)	
Exercise of stock options		71			71	
Adjustment for foreign currency translation			(20)	(20)		
	-----	-----	-----	-----	-----	
Balance, September 30, 1997 (unaudited)	\$ 6	\$ 24,163	\$ 9,692	\$ 29	\$ 33,890	=====

</TABLE>

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

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

<TABLE>
<CAPTION>

	NINE MONTHS ENDED SEPTEMBER 30,	
	1997	1996
	(UNAUDITED)	(UNAUDITED)
<S>	<C>	<C>
Cash flows from operating activities:		
Net income	\$ 3,449	\$ 2,530
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	2,784	2,288
Issuance of stock options	--	2,110
Other	--	92
(Benefit from)/provision for deferred income taxes		(11) (353)
(Increase) decrease in:		
Accounts receivable	(2,095)	(692)
Inventories	(2,211)	101
Other current assets	534	71
Other assets	1,011	(140)
Increase (decrease) in:		
Accounts payable	(654)	(827)
Accrued expenses and other liabilities		545 742
Income taxes payable, net	382	582
Other liabilities	(20)	(621)
	-----	-----
Net cash provided by operating activities		3,714 5,883
	-----	-----
Cash flows from investing activities:		
Capital expenditures	(4,889)	(12,423)
Proceeds from dispositions of equipment		40 --
	-----	-----
Net cash used in investing activities		(4,849) (12,423)
	-----	-----
Cash flows from financing activities:		
Proceeds from debt	5,230	13,519
Repayment of debt	(9,857)	(4,743)
Repayment of notes payable to related parties		(483) (424)
Proceeds from exercise of stock options		71 69
Repurchase of shares	--	(41)
Net proceeds from stock offering	19,252	--
Capital paid for Sun Holdings merger (Note 2)		(52) --
Distributions to shareholders	(11,494)	(3,026)
	-----	-----
Net cash provided by financing activities		2,667 5,354
	-----	-----
Adjustment for foreign currency translation		(20) (61)
	-----	-----
Net increase (decrease) in cash and cash equivalents		1,512 (1,247)
Cash and cash equivalents, beginning of period		1,038 2,434
	-----	-----
Cash and cash equivalents, end of period		\$ 2,550 \$ 1,187
	=====	=====
Supplemental disclosure of cash flow information:		
Cash paid for:		
Interest (including amounts capitalized)	\$ 901	\$ 706
Income taxes	\$ 1,590	\$ 506

</TABLE>

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

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SUN HYDRAULICS CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in thousands except per share data)

1. Interim Consolidated Financial Statements

The accompanying unaudited interim consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission for reporting on Form 10-Q. Accordingly, certain information and footnotes required by generally accepted accounting principles for complete financial statements are not included herein. The financial statements are prepared on a consistent basis (including normal recurring adjustments) and should be read in conjunction with the combined financial statements and related notes contained in the Annual Report on Form 10-K for the fiscal year ended December 31, 1996, filed by Sun Hydraulics Corporation (the "Company") with the Securities and Exchange Commission on March 31, 1997.

2. Initial Public Offering

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

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

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

The Company has 20,000,000 authorized shares of common stock, par value \$0.001, with 6,322,002 shares outstanding. The Company also has 2,000,000 authorized shares of preferred stock, par value \$0.001, with no shares outstanding.

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3. Pro Forma Net Income and Earnings Per Share

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

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

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

4. Inventories (in thousands)

<TABLE>
<CAPTION>

	September 30, 1997 (unaudited)	December 31, 1996
<S>	<C>	<C>
Raw materials	\$ 158	\$ 147
Work in process	4,429	2,758
Finished goods	2,075	1,546
	-----	-----
	<u>\$6,662</u>	<u>\$4,451</u>

</TABLE>

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5. Long-term Debt (in thousands)

<TABLE>
<CAPTION>

	September 30, 1997 (unaudited)	December 31, 1996
<S>	<C>	<C>
Lines of credit agreements, interest payable at lender's prime rate (8.5% at September 30, 1997 and 8.25% at December 31, 1996)		\$ 2,917 \$ 1,512
Secured equipment loan, interest only payable monthly at 8.25% at December 31, 1996		-- 2,874
8.25% mortgage note payable secured by real property due in monthly principal and interest installments of \$20		-- 2,355
Notes payable secured by equipment, payable in monthly principal and interest installments with interest rates varying from 4.90% to 5.60% with maturity dates from March 1996 to June 1998		-- 46
Construction lines of credit at 8.25% and 6.47% converted to mortgage notes in April 1997 payable at 8.25% and 6.47% with maturities of 15 years and 12 years, due in monthly principal and interest installments of approximately \$60 and \$42, respectively		7,110 7,867
	-----	-----
	10,027	14,654
Less amounts due within one year		(3,321) (2,340)
	-----	-----
	<u>\$ 6,706</u>	<u>\$ 12,314</u>

</TABLE>

In February 1997, the Company negotiated a one year, unsecured revolving credit facility. The agreement provides for a maximum availability of \$10.0 million, payable on demand at the lender's prime rate of interest. At September 30, 1997, \$2.9 million was outstanding under this credit facility.

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

OVERVIEW

The Company is a leading designer and manufacturer of high-performance, screw-in hydraulic cartridge valves and manifolds which control force, speed and motion as integral components in fluid power systems. The Company sells its products globally through independent distributors.

Net sales for the quarter ended September 30, 1997 were a record \$17.3 million, an increase of 13.3% over the second quarter of 1997, and a 27.3% increase over the three months ended September 30, 1996. For the nine month period ended September 30, 1997, net sales were \$47.2 million, a 14.4% increase compared to the nine month period ended September 30, 1996. Sustained high demand levels in the marketplace, particularly in the mobile market, and the recently completed capacity expansion in the United States drove the sales gain. Demand for the quarter ended September 30, 1997, while slightly below first and second quarter levels, increased more than 30% compared to the same period last year.

Net income was \$1.4 million for the quarter ended September 30, 1997, an increase of \$0.3 million, or 25.3%, over the second quarter of 1997. Gross profit as a percentage of sales was 31.6% for the quarter ended September 30, 1997, slightly below 31.7% for the quarter ended September 30, 1996. For the nine months ended September 30, 1997, gross profit as a percentage of sales was 31.1%, down from 32.6% for the nine months ended September 30, 1996. Incremental costs associated with continued expediting to meet customer delivery requirements, together with the ongoing integration of new production processes, prevented any improvement in gross profit as a percentage of sales.

Management believes production rates will continue to increase at both United States facilities in the fourth quarter of 1997, and expects end-use market demand to remain strong. However, due to the reduced number of production days in the fourth quarter, compared to the third quarter, net sales for the fourth quarter are expected to decrease from the third quarter, approximately proportionate to the decrease in work days.

With the increased production rates, management plans to reduce lead times on specific products in the coming months. It is anticipated that the lead time reduction will result in a corresponding reduction in incoming distributor order rates as the channel adjusts to the shorter lead times. Given the current backlog and expected strong demand in the marketplace, shipment levels should not be affected by the lead time reduction.

COMPARISON OF THREE MONTHS ENDED SEPTEMBER 30, 1997 AND 1996

Net sales increased 27.3%, or \$3.7 million to \$17.3 million in the three month period ended September 30, 1997, compared to \$13.6 million in the three month period ended September 30, 1996. Domestic net sales increased 31.7% or \$2.8 million to \$11.8 million. The Company was able to achieve the record sales level by increasing production in both United States facilities. Production increases were a result of the capacity expansion and the implementation of a newly

established cellular production process in the cartridge plant. International net sales increased 17.5%, or \$0.8 million to \$5.5 million. European net sales increased \$0.7 million or 21.9% to \$3.9 million. Net sales to Canada, Mexico and South America increased 9.5% to \$0.6 million, and sales to Japan and the Pacific Rim increased 16.2% to \$1.0 million.

Gross Profit increased 26.7% or \$1.2 million to \$5.5 million in the three month period ended September 30, 1997, compared to \$4.3 million in the three month period ended September 30, 1996. This increase primarily was related to the increase in net sales. Gross profit as a percentage of net sales decreased to 31.6% in the three month period ended September 30, 1997, from

31.7% for the three month period ended September 30, 1996. Gross profit as a percentage of sales did not improve due to the incremental costs associated with expediting customer shipments and increased manufacturing overhead costs related to the new facilities in the United States and Germany.

Selling, engineering and administrative expenses decreased 18.3% or \$0.7 million to \$3.0 million in the three month period ended September 30, 1997, compared to \$3.7 million in the three month period ended September 30, 1996. This decrease was due to a non-recurring, non-cash compensation expense of \$1.4 million related to the termination of phantom stock compensation agreements and the issuance of options to employees and directors, incurred in the three month period ended September 30, 1996. Excluding this one-time charge, selling, engineering and administrative expenses increased 31.6%. The increase for the three months ended September 30, 1997, was due primarily to the timing of discretionary spending for marketing and other costs, which were unusually low in the three months ended September 30, 1996, and were unusually high in the three month period ended June 30, 1996. Selling, engineering and administrative expenses as a percentage of sales increased to 17.4% in the three month period ended September 30, 1997, compared to 16.9% in the three month period ended September 30, 1996, excluding the one-time compensation expense.

Interest expense was \$0.3 million for the three month period ended September 30, 1997, approximately the same expense as the period ended September 30, 1996. Miscellaneous expense for the period ended September 30, 1997 includes currency exchange losses in Germany partially offset by currency exchange gains in the United Kingdom.

The provision for income taxes in the three month period ended September 30, 1997, was 36.5% of pretax income compared to 22.6% of pro forma pretax income in the three month period ended September 30, 1996. The increase in the effective tax rate is due to a year to date adjustment to reduce the income tax provision in the three month period ended September 30, 1996.

Net income for the three month period ended September 30, 1997, increased to \$1.4 million, or 7.8% of net sales. Excluding the non-recurring compensation expense of \$1.4 million, net income for the three month period ended September 30, 1996, would have been \$1.1 million, or 7.8% of net sales.

COMPARISON OF NINE MONTHS ENDED SEPTEMBER 30, 1997 AND 1996

Net sales increased 14.4%, or \$5.9 million, to \$47.2 million in the nine month period ended September 30, 1997, compared to \$41.2 million in the nine month period ended September 30,

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1996. Domestic net sales increased 12.4%, or \$3.4 million to \$30.7 million. This increase was due to the continuing strong demand and recently completed capacity expansion. International net sales increased 18.4%, or \$2.6 million to \$16.5 million. European net sales increased \$1.6 million or 17.1 % to \$11.1 million. Net sales to Canada, Mexico and South America increased 16.9% to \$2.0 million, and sales to Japan and the Pacific Rim increased 27.1% to \$3.4 million.

Gross Profit increased 10.2% or \$1.4 million to \$14.7 million in the nine month period ended September 30, 1997, compared to \$13.3 million in the nine month period ended September 30, 1996. This increase was related primarily to the increase in net sales. Gross profit as a percentage of net sales decreased to 31.1% in the nine month period ended September 30, 1997 from 32.3% for the nine month period ended September 30, 1996. The decrease in the percentage of gross profit to net sales was due to production inefficiencies and start-up costs related to the capacity expansion in the United States, incremental expediting costs, and increased manufacturing overhead costs related to the new facilities in the United States and Germany.

Selling, engineering and administrative expenses decreased 7.6% or \$0.7 million to \$8.6 million for the nine month period ended September 30, 1997, compared to \$9.3 million in the nine month period ended September 30, 1996. Excluding the \$1.4 million non-recurring compensation expense recorded in the three month period ended September 30, 1996, selling, engineering and administrative expenses for the nine month period ended September 30, 1996 were \$7.9 million. The \$0.7 million or 8.1% increase in expenses, excluding the one-time charge, was due primarily to increased administrative systems and personnel costs in the United States production facilities. Selling, engineering

and administrative expense as a percentage of sales decreased to 18.2% in the nine month period ended September 30, 1997 compared to 19.1% in the nine month period ended September 30, 1996, excluding the one-time compensation expense.

Interest expense was \$0.7 million for the nine month period ended September 30, 1997, approximately the same expense as the period ended September 30, 1996.

The provision for income taxes in the nine month period ended September 30, 1997, was 36.2% of pretax income compared to 38.5% of pro forma pretax income in the nine month period ended September 30, 1996. The decrease in the effective tax rate primarily was due to the change in the source of pretax income among the Company's three operations in the United States, the United Kingdom and Germany.

Net income for the nine month period ended September 30, 1997, increased to \$3.4 million, or 7.3% of net sales. Excluding the non-recurring compensation expense of \$1.4 million, net income for the nine month period ended September 30, 1996, would have been \$2.9 million, or 7.0% of net sales.

LIQUIDITY AND CAPITAL RESOURCES

In January 1997, the Company received \$20.3 million of gross proceeds from its initial public offering of common stock. Net proceeds after expenses were approximately \$19.3 million. In January 1997, approximately 90%, or \$9.5 million, of the S Corporation distribution was paid and the balance of \$1.0 million was paid in May 1997. Also in January 1997, the

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Company's capital equipment loan balance of \$2.9 million and its mortgage loan balance of \$2.4 million on the original United States facility were paid in full. In March 1997, \$1.0 million was paid to reduce the mortgage on the new plant in the United States to a balance of \$5.2 million. In February and March 1997, \$1.4 million was used to repay the Company's entire revolving line of credit in the United States.

In February 1997, the Company negotiated a \$10.0 million unsecured revolving credit facility with a term of one year and an interest rate equal to the bank lender's prime rate. This replaced a \$1.7 million revolving line of credit, which had been secured by the Company's inventories and accounts receivable. At September 30, 1997, \$2.9 million had been drawn down under this credit facility.

Cash generated from operations in the nine month period ended September 30, 1997, was \$3.7 million compared to \$5.9 million in the nine month period ended September 30, 1996. The cash flow reduction was due to working capital increases required to support a 27.3% increase in net sales for the three month period ended September 30, 1997, and an increase in inventory in the manifold and cartridge plants in the United States. This increase was due to timing and coordination of manifold and cartridge production required to be assembled as valve units. Valve units require a manifold and at least one cartridge valve to be assembled and shipped as a unit.

Capital expenditures in the nine-month period ended September 30, 1997, were \$4.9 million. This was comprised of \$1.4 million related to the construction of the new facilities in the United States and Germany and \$3.5 million spent for machinery and equipment.

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

The Company declared quarterly dividends of \$.035 per share to shareholders of record on March 31, 1997, July 3, 1997, and October 1, 1997, respectively. These dividends were paid on April 15, 1997, July 15, 1997 and October 15, 1997, respectively.

SEASONALITY AND INFLATION

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

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

FORWARD-LOOKING INFORMATION

Certain oral statements made by management from time to time and certain statements contained herein that are not historical facts are "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934 and because such statements involve risks and uncertainties, actual results may differ materially from those expressed or implied by such forward-looking statements. Forward-looking statements, including those in

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Management's Discussion and Analysis of Financial Condition and Results of Operations are statements regarding the intent, belief or current expectations, estimates or projections of the Company, its Directors or its Officers about the Company and the industry in which it operates, and assumptions made by management, and include among other items, (i) the Company's strategies regarding growth, including its intention to develop new products; (ii) the Company's financing plans; (iii) trends affecting the Company's financial condition or results of operations; (iv) the Company's ability to continue to control costs and to meet its liquidity and other financing needs; (v) the declaration and payment of dividends; and (vi) the Company's ability to respond to changes in customer demand domestically and internationally, including as a result of standardization. Although the Company believes that its expectations are based on reasonable assumptions, it can give no assurance that the anticipated results will occur.

Important factors that could cause the actual results to differ materially from those in the forward-looking statements include, among other items, (i) the economic cyclicality of the capital goods industry in general and the hydraulic valve and manifold industry in particular, which directly affect customer orders, lead times and sales volume; (ii) conditions in the capital markets, including the interest rate environment and the availability of capital; (iii) changes in the competitive marketplace that could affect the Company's revenue and/or cost bases, such as increased competition, lack of qualified engineering, marketing, management or other personnel, and increased labor and raw materials costs; (iv) changes in technology or customer requirements, such as standardization of the cavity into which screw-in cartridge valves must fit, which could render the Company's products or technologies noncompetitive or obsolete; (v) new product introductions, product sales mix and the geographic mix of sales nationally and internationally; and (vi) changes relating to the Company's international sales, including changes in regulatory requirements or tariffs, trade or currency restrictions, fluctuations in exchange rates, and tax and collection issues. Further information relating to factors that could cause actual results to differ from those anticipated is included but not limited to information under the headings "Risk Factors" in the Form S-1 Registration Statement and Prospectus for the Company's initial public offering, and "Business" in the Company's Form 10-K for the year ended December 31, 1996. The Company disclaims any intention or obligation to update or revise forward-looking statements, whether as a result of new information, future events or otherwise.

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PART II OTHER INFORMATION

Item 1. Legal Proceedings.

None.

Item 2. Changes in Securities.

None.

Item 3. Defaults upon Senior Securities.

None.

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

None.

Item 5. Other Information.

None.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

<TABLE>

<CAPTION>

EXHIBIT NUMBER	EXHIBIT DESCRIPTION -----
-------------------	------------------------------

- - - - -

<S> <C>

- 3.1* Amended and Restated Articles of Incorporation of the Company (previously filed as Exhibit 3.1 in the Pre-Effective Amendment No. 4 to the Company's Registration Statement on Form S-1 filed on December 19, 1996 (File No. 333-14183)).
- 3.2* Amended and Restated Bylaws of the Company (previously filed as Exhibit 3.2 in the Pre-Effective Amendment No. 4 to the Company's Registration Statement on Form S-1 filed on December 19, 1996 (File No. 333-14183)).
- 4.1* Revolving Credit Agreement, dated March 9, 1992, between Sun Hydraulics Corporation and Northern Trust Bank of Florida/Sarasota, N.A. (previously filed as Exhibit 4.1 in the Company's Registration Statement on Form S-1 filed on October 15, 1996 (File No. 333-14183)).
- 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. (previously filed as Exhibit 4.2 in the Company's Registration Statement on Form S-1 filed on October 15, 1996 (File No. 333-14183)).
- 4.3* Second Modification to Revolving Credit Agreement, dated May __, 1995, between Sun Hydraulics Corporation and Northern Trust Bank of Florida, N.A. (previously filed as Exhibit 4.3 in the Company's Registration Statement on Form S-1 filed on October 15, 1996 (File No. 333-14183)).
- 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. (previously filed as Exhibit 4.4 in the Company's Registration Statement on Form S-1 filed on October 15, 1996 (File No. 333-14183)).
- 4.5* Mortgage and Security Agreement, dated January 9, 1992, between Suninco, Inc., Sun Hydraulics Corporation, and Northern Trust Bank of Florida, N.A. (previously filed as Exhibit 4.5 in the Company's Registration Statement on Form S-1 filed on October 15, 1996 (File No. 333-14183)).
- 4.6* Loan Agreement, dated March 29, 1996, between Suninco, Inc., Sun Hydraulics Corporation, and Northern Trust Bank of Florida, N.A. (previously filed as Exhibit 4.6 in the Company's Registration Statement on Form S-1 filed on October 15, 1996 (File No. 333-14183)).
- 4.7* Security Agreement, dated March 29, 1996, between Suninco, Inc., Sun Hydraulics Corporation, and Northern Trust Bank of Florida, N.A. (previously filed as Exhibit 4.7 in the Company's Registration Statement on Form S-1 filed on October 15, 1996 (File No. 333-14183)).

</TABLE>

<TABLE>

<S> <C>

- 4.8* Modification and Additional Advance Agreement, dated March 29, 1996, between Suninco, Inc. and Northern Trust Bank of Florida, N.A. (previously filed as Exhibit 4.8 in the Company's Registration Statement on Form S-1 filed on October 15, 1996 (File No. 333-14183)).
- 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. (previously filed as Exhibit 4.9 in the Company's Registration Statement on Form S-1 filed on October 15, 1996 (File No. 333-14183)).
- 4.10* Loan Agreement, dated May 20, 1996, between Sun Hydraulics Corporation and Northern Trust Bank of Florida, N.A. (previously filed as Exhibit 4.10 in the Company's Registration Statement on Form S-1 filed on October 15, 1996 (File No. 333-14183)).
- 4.11* Security Agreement, dated May 20, 1996, between Sun Hydraulics Corporation and Northern Trust Bank of Florida, N.A. (previously filed as Exhibit 4.11 in the Company's Registration Statement on Form S-1 filed on October 15, 1996 (File No. 333-14183)).
- 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. (previously filed as Exhibit 4.12 in the Company's Registration Statement on Form S-1 filed on October 15, 1996 (File No. 333-14183)).
- 4.13* Loan Agreement, dated June 14, 1996, between Sun Hydraulics Corporation, Suninco Inc., and Northern Trust Bank of Florida, N.A. (previously filed as Exhibit 4.13 in the Company's Registration Statement on Form S-1 filed on October 15, 1996 (File No. 333-14183)).
- 4.14* Mortgage, dated June 14, 1996, between Sun Hydraulics Corporation, Suninco Inc., and Northern Trust Bank of Florida, N.A. (previously filed as Exhibit 4.14 in the Company's Registration Statement on Form S-1 filed on October 15, 1996 (File No. 333-14183)).
- 4.15* Security Agreement, dated June 14, 1996, between Sun Hydraulics Corporation and Northern Trust Bank of Florida, N.A. (previously filed as Exhibit 4.15 in the Company's Registration Statement on Form S-1 filed on October 15, 1996 (File No. 333-14183)).
- 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. (previously filed as Exhibit 4.16 in the Company's Registration Statement on Form S-1 filed on October 15, 1996 (File No. 333-14183)).
- 4.17* Revolving Loan Facility letter agreement, dated July 30, 1996, in the amount of (pound)800,000, between Sun Hydraulics Ltd. and Lloyds Bank Plc. (previously filed as Exhibit 4.17 in the Company's Registration Statement on Form S-1 filed on

</TABLE>

<TABLE>

<S> <C>

- October 15, 1996 (File No. 333-14183)).
- 4.18* Overdraft and Other Facilities letter agreement, dated June 7, 1996, in an amount not to exceed (pound)250,000, between Sun Hydraulics Ltd. and Lloyds Bank Plc. (previously filed as Exhibit 4.18 in the Company's Registration Statement on Form S-1 filed on October 15, 1996 (File No. 333-14183)).
- 4.19* Mortgage, dated April 11, 1996, between Sun Hydraulik GmbH and Dresdner Bank (previously filed as Exhibit 4.19 in the Company's Registration Statement on Form S-1 filed on October 15, 1996 (File No. 333-14183)).

4.20* 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 (previously filed as Exhibit 2.1 in the Pre-Effective Amendment No. 4 to the Company's Registration Statement on Form S-1 filed on December 19, 1996 (File No. 333-14183)).

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

10.1* Form of Distributor Agreement (Domestic) (previously filed as Exhibit 10.1 in the Company's Registration Statement on Form S-1 filed on October 15, 1996 (File No. 333-14183)).

10.2* Form of Distributor Agreement (International) (previously filed as Exhibit 10.2 in the Company's Registration Statement on Form S-1 filed on October 15, 1996 (File No. 333-14183)).

10.3*+ 1996 Sun Hydraulics Corporation Stock Option Plan (previously filed as Exhibit 10.3 in the Pre-Effective Amendment No. 4 to the Company's Registration Statement on Form S-1 filed on December 19, 1996 (File No. 333-14183)).

10.4*+ Amendment No. 1 to 1996 Stock Option Plan (previously filed as Exhibit 10.4 in the Company's Report on Form 10-Q for the quarter ended June 30, 1997).

10.5*+ Form of Indemnification Agreement (previously filed as Exhibit 10.4 in the Pre-Effective Amendment No. 4 to the Company's Registration Statement on Form S-1 filed on December 19, 1996 (File No. 333-14183)).

11.1 Statement regarding Computation of Earnings Per Share.

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

</TABLE>

* Previously filed.

+ Executive management contract or compensatory plan or arrangement.

(b) Reports on Form 8-K

None.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Sarasota, State of Florida on November 7, 1997.

SUN HYDRAULICS CORPORATION

By: /s/ Richard J. Dobbyn

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

<TABLE>
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	Nine months ended September 30	
	1997	1996
	-----	-----
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PRIMARY		
Net income (Note 3)	\$3,449	\$2,002
	=====	=====
Weighted average shares outstanding	6,526	6,509
Primary EPS	\$.53	\$.31
	=====	=====

FULLY DILUTED

Net income (Note 3)	\$3,449	\$2,002
	=====	=====
Weighted average shares outstanding	6,540	6,488
Fully diluted EPS	\$.53	\$.31
	=====	=====

</TABLE>

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

<TABLE> <S> <C>

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

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<F1>NET OF ALLOWANCE FOR DOUBTFUL AMOUNTS OF \$46.

<F2>NET OF ACCUMULATED DEPRECIATION OF \$16,803.

</FN>

</TABLE>