

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

FORM 10-Q

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

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

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

FLORIDA ----- (State or Other Jurisdiction of Incorporation or Organization)	59-2754337 ----- (I.R.S. Employer Identification No.)
1500 WEST UNIVERSITY PARKWAY SARASOTA, FLORIDA ----- (Address of Principal Executive Offices)	34243 ----- (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 6,384,948 shares of common stock, par value \$.001, outstanding as of August 10, 1999.

Sun Hydraulics Corporation  
INDEX  
For the second quarter ended July 3, 1999

<TABLE>  
<CAPTION>

<S>

PART I. FINANCIAL INFORMATION

Page

----

<C>

Item 1. Financial Statements

Consolidated Balance Sheets as of July 3, 1999 (unaudited) and December 31, 1998	3
Consolidated Statements of Income for the Three Months Ended July 3, 1999 (unaudited) and June 30, 1998 (unaudited)	4
Consolidated Statements of Income for the Six Months Ended July 3, 1999 (unaudited) and June 30, 1998 (unaudited)	5
Consolidated Statement of Changes in Shareholders' Equity and Comprehensive	

Income for the Three Months Ended July 3, 1999 (unaudited) and the Year Ended December 31, 1998	6
Consolidated Statements of Cash Flows for the Six Months Ended July 3, 1999 (unaudited) and June 30, 1998 (unaudited)	7
Notes to Consolidated Financial Statements	8
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	13
Forward Looking Information	19
PART II. OTHER INFORMATION	21
Item 1. Legal Proceedings	
Item 2. Changes in Securities	
Item 3. Defaults Upon Senior Securities	
Item 4. Submission of Matters to a Vote of Security Holders	
Item 5. Other Information	
Item 6. Exhibits and Reports on Form 8-K	21

PART I: FINANCIAL INFORMATION

Item 1.

SUN HYDRAULICS CORPORATION  
CONSOLIDATED BALANCE SHEETS  
(IN THOUSANDS)

<TABLE>  
<CAPTION>

	JULY 3, 1999	DECEMBER 31, 1998
	-----	-----
	(UNAUDITED)	
	<C>	<C>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 844	\$ 1,592
Accounts receivable, net of allowance for doubtful accounts of \$262 and \$169	5,977	5,342
Inventories	7,367	8,125
Other current assets	915	891
	-----	-----
Total current assets	15,103	15,950
Property, plant and equipment, net	44,528	44,003
Investment in joint venture	189	246
Other assets	926	820
	-----	-----
Total assets	<u>\$60,746</u>	<u>\$61,019</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:		
Accounts payable	\$ 2,007	\$ 2,877
Accrued expenses and other liabilities	1,670	2,065
Long-term debt due within one year	5,191	4,302

Notes payable to related parties due within one year		502	578
Dividends payable	255		254
Income taxes payable	349		245
	-----	-----	
Total current liabilities	9,974	10,321	
Long-term debt due after one year		6,850	6,461
Notes payable to related parties due after one year		148	566
Deferred income taxes	3,624		3,656
	-----	-----	
Total liabilities	20,596	21,004	
	-----	-----	
Commitments and contingencies			
Shareholders' equity:			
Preferred stock	--	--	
Common stock	6	6	
Capital in excess of par value	24,473	24,386	
Retained earnings	15,359	15,363	
Accumulated other comprehensive income		312	260
	-----	-----	
Total shareholders' equity	40,150	40,015	
	-----	-----	
Total liabilities and shareholders' equity	\$60,746	\$61,019	
	=====	=====	

</TABLE>

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

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

<TABLE>  
<CAPTION>

	THREE MONTHS ENDED	
	JULY 3, 1999	JUNE 30, 1998
	-----	-----
	(UNAUDITED)	
	<C>	<C>
NET SALES	\$15,921	\$17,584
Cost of sales	12,982	12,599
	-----	-----
GROSS PROFIT	2,939	4,985
Selling, engineering and administrative expenses	3,068	3,033
	-----	-----
OPERATING INCOME (LOSS)		(129) 1,952
Interest expense	176	231
Miscellaneous (income) expense		13 (45)
	-----	-----
INCOME (LOSS) BEFORE INCOME TAXES		(318) 1,766

Income tax provision (benefit)	(125)	586	
NET INCOME (LOSS) BEFORE EQUITY LOSS IN JOINT VENTURE		(193)	1,180
Equity loss in joint venture	23	--	
NET INCOME (LOSS)	\$ (216)	\$ 1,180	
BASIC NET INCOME (LOSS) PER COMMON SHARE		\$ (0.03)	\$ 0.19
WEIGHTED AVERAGE SHARES OUTSTANDING		6,383	6,339
DILUTED NET INCOME (LOSS) PER COMMON SHARE		\$ (0.03)	\$ 0.18
WEIGHTED AVERAGE DILUTED SHARES OUTSTANDING		6,537	6,553

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

4

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

<TABLE>  
<CAPTION>

	SIX MONTHS ENDED		
	JULY 3, 1999	JUNE 30, 1998	
	(UNAUDITED)		
	<C>	<C>	
NET SALES	\$34,386	\$36,717	
Cost of sales	26,927	25,946	
GROSS PROFIT	7,459	10,771	
Selling, engineering and administrative expenses	6,160	6,047	
OPERATING INCOME	1,299	4,724	
Interest expense	429	491	
Miscellaneous (income) expense	76	(2)	
INCOME BEFORE INCOME TAXES		794	4,235
Income tax provision	230	1,415	
NET INCOME BEFORE EQUITY LOSS IN JOINT VENTURE		564	2,820
Equity loss in joint venture	57	--	
NET INCOME	\$ 507	\$ 2,820	
BASIC NET INCOME PER COMMON SHARE		\$ 0.08	\$ 0.45

WEIGHTED AVERAGE SHARES OUTSTANDING	6,375	6,332
DILUTED NET INCOME PER COMMON SHARE	\$ 0.08	\$ 0.43
WEIGHTED AVERAGE DILUTED SHARES OUTSTANDING	6,528	6,524

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

5

SUN HYDRAULICS CORPORATION  
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY AND  
COMPREHENSIVE INCOME  
(IN THOUSANDS)

<TABLE>  
<CAPTION>

	SHARES	CAPITAL IN COMMON STOCK	EXCESS OF PAR VALUE	ACCUMULATED OTHER RETAINED EARNINGS	COMPREHENSIVE INCOME	TOTAL
Balance, December 31, 1996	4,000	\$ 2,179	\$ 2,719	\$17,450	\$ 49	\$22,397
Net proceeds from stock offering	2,300	2	19,250		19,252	
Distributions to shareholders			(10,545)		(10,545)	
Dividends declared			(883)		(883)	
Merger with Sun Holdings (Note 2)		(2,175)	2,123			(52)
Exercise of stock options	22	71			71	
Comprehensive income:						
Net income			4,710	4,710		
Other comprehensive income:						
Foreign currency translation adjustments				50	50	
Comprehensive income					4,760	
Balance, December 31, 1997	6,322	6	24,163	10,732	99	35,000
Dividends declared			(1,016)		(1,016)	
Exercise of stock options	39	223			223	
Comprehensive income:						
Net income			5,647	5,647		
Other comprehensive income:						
Foreign currency translation adjustments				161	161	
Comprehensive income					5,808	
Balance, December 31, 1998	6,361	6	24,386	15,363	260	40,015
Dividends declared			(511)		(511)	
Exercise of stock options	22	75			75	
Tax effect of non-qualified stock options			12		12	
Comprehensive income:						
Net income			507	507		
Other comprehensive income:						
Foreign currency translation adjustments				52	52	
Comprehensive income					559	
Balance, July 3, 1999 (unaudited)	6,383	\$ 6	\$ 24,473	\$15,359	\$312	\$40,150

</TABLE>

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

6

SUN HYDRAULICS CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(IN THOUSANDS)

<TABLE>  
<CAPTION>

	SIX MONTHS ENDED	
	JULY 3, 1999	JUNE 30, 1998
	(UNAUDITED)	
<S>	<C>	<C>
Cash flows from operating activities:		
Net income	\$ 507	\$ 2,820
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	2,440	2,269
Loss on disposal of assets	127	--
Provision for deferred income taxes	(20)	--
(Increase) decrease in:		
Accounts receivable	(635)	(1,313)
Inventories	758	(338)
Other current assets	(24)	118
Other assets	(49)	(130)
Increase (decrease) in:		
Accounts payable	(870)	(180)
Accrued expenses and other liabilities	(395)	220
Income taxes payable, net	104	561
Net cash provided by operating activities	1,943	4,027
Cash flows from investing activities:		
Capital expenditures	(3,135)	(3,629)
Proceeds from dispositions of equipment	43	122
Net cash used in investing activities	(3,092)	(3,507)
Cash flows from financing activities:		
Proceeds from debt	5,128	4,261
Repayment of debt	(3,850)	(2,244)
Repayment of notes payable to related parties	(494)	(365)
Proceeds from exercise of stock options	75	81
Dividends to shareholders	(510)	(474)
Net cash provided by financing activities	349	1,259
Effect of exchange rate changes on cash and cash equivalents	52	286
Net increase in cash and cash equivalents	(748)	2,065
Cash and cash equivalents, beginning of period	1,592	1,249
Cash and cash equivalents, end of period	\$ 844	\$ 3,314
Supplemental disclosure of cash flow information:		
Cash paid for:		
Interest (including amounts capitalized)	\$ 484	\$ 496

Income taxes	\$ 146	\$ 854	
Non-cash tax effect of non-qualified stock options		\$ 12	\$ --

</TABLE>

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

7

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

1. INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The accompanying unaudited interim consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission for reporting on Form 10-Q. Accordingly, certain information and footnotes required by generally accepted accounting principles for complete financial statements are not included herein. The financial statements are prepared on a consistent basis (including normal recurring adjustments) and should be read in conjunction with the consolidated financial statements and related notes contained in the Annual Report on Form 10-K for the fiscal year ended December 31, 1998, filed by Sun Hydraulics Corporation (the "Company") with the Securities and Exchange Commission on March 30, 1999.

2. BUSINESS

Sun Hydraulics Corporation and its wholly-owned subsidiaries (the "Company") design, manufacture and sell screw-in cartridge valves and manifolds used in hydraulic systems. The Company has facilities in the United States, the United Kingdom, Germany, and Korea. Sun Hydraulics Corporation ("Sun Hydraulics"), with its main offices located in Sarasota, Florida, designs, manufactures and sells through independent distributors in the United States. Sun Hydraulik Holdings Limited ("Sun Holdings"), a wholly-owned subsidiary of Sun Hydraulics, was formed to provide a holding company vehicle for the European market operations; its wholly-owned subsidiaries are Sun Hydraulics Limited (a British corporation, "Sun Ltd.") and Sun Hydraulik GmbH (a German corporation, "GmbH"). Sun Ltd. operates a manufacturing and distribution facility located in Coventry, England, and Sun GmbH, located in Erkelenz, Germany, designs, manufactures and markets the Company's products in German-speaking European markets. Sun Hydraulics Korea Corporation ("Sun Korea"), a wholly-owned subsidiary of Sun Hydraulics, was acquired September 28, 1998 (see Note 3). Sun Korea, located in Incheon, South Korea, operates a manufacturing and distribution facility.

3. ACQUISITION AND JOINT VENTURE

On September 28, 1998, Sun Hydraulics acquired 100% of the equity shares of Korea Fluid Power Co. Ltd., which had been the Company's exclusive distributor in South Korea since 1988. This wholly-owned subsidiary's name was changed to Sun Hydraulics Korea Corporation in January 1999. The acquisition price paid by the Company was \$860. The amounts paid in excess of the net book value have been capitalized as goodwill, and are amortized over a period of 15 years. Goodwill is recorded under other assets in the Company's financial statements, and was \$539, net of amortization as of July 3, 1999.

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

8

4. RECENT ACCOUNTING PRONOUNCEMENTS

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

5. LONG-TERM DEBT (in thousands)

<TABLE>  
<CAPTION>

	July 3, 1999 ----- (unaudited)	December 31, 1998 -----	
<S>	<C>	<C>	
Lines of credit agreements	\$ 4,772	\$ 3,974	
Secured notes payable-Korea	43	177	
Mortgage note payable-U.S. Manatee County facility		4,797	4,864
Mortgage note payable-German facility		1,461	1,748
Secured notes payable-German equipment		968	--
	-----	-----	
Less amounts due within one year	12,041	10,763	
	(5,191)	(4,302)	
	-----	-----	
	\$ 6,850	\$ 6,461	
	=====	=====	

</TABLE>

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

During the quarter ended July 3, 1999, the Company had a revolving credit facility in the United States, which provided for a maximum availability of \$10,000, payable on demand with no debt covenants. In February 1999, the Company renegotiated this unsecured credit facility for an additional one year term and an interest rate equal to the bank lender's prime rate less 1%, or LIBOR plus 1.9% for predetermined periods of time at the Company's option. At July 3, 1999, the interest rate was 7.0%, and \$4,750 was outstanding under this credit facility.

On July 23, 1999, the Company replaced the \$10,000 unsecured revolving credit facility with a five year, secured, revolving credit facility of \$7,500, and a one year unsecured, revolving credit facility of \$5,000. The \$7,500 credit facility has an interest rate equal to the bank lender's prime rate less 1% for the first year, and the treasury bill rate plus 1.75% for the remaining four

years. The \$5,000 credit facility has an interest rate equal to the bank lender's prime rate less 1% or LIBOR plus 1.9% for predetermined periods of time, at the Company's option.

In England, the Company has a \$1,200 line of credit, denominated in British pounds, which bears interest at a floating rate equal to 2.25% over the



bank lender's base rate and is payable on demand. At July 3, 1999, there was no balance outstanding on this credit facility.

The German line of credit is a demand note denominated in German marks with interest payable at the lender's prime rate. At July 3, 1999, the interest rate was 5.25%, and \$22 was outstanding under this credit facility.

Sun Korea has two notes denominated in Korean Won, and secured by property, plant and equipment, with interest payable at fixed rates of 6% and 6.5% with maturities up to March of June 25, 2001, and September 25, 1999, respectively. At July 3, 1999, \$40 and \$3 was outstanding under these credit facilities, respectively.

In 1996, a 10-year mortgage loan of \$6,187 was obtained at a fixed interest rate of 8.25% for construction of the Manatee County facility. Terms on the construction note were interest-only on the balance drawn down through the completion of construction and then conversion to a 10-year mortgage note with a 15-year amortization schedule. In April 1999, this mortgage note was renegotiated to an interest rate of 7.375%. Terms are monthly principal and interest payments of \$42 with remaining principal due July 1, 2006. At July 3, 1999, \$4,797 was outstanding under this mortgage note.

In May 1996, the Company obtained a mortgage loan of approximately \$2,400, denominated in German marks, for the new facility in Erkelenz, Germany. The loan has a term of 12 years and bears interest at 6.47%. At July 3, 1999, \$1,461 was outstanding under this mortgage note.

In February 1999, the Company negotiated three loans in Germany, secured by equipment; a ten year 5.1% fixed interest rate loan for approximately \$300, a ten year 5.1% fixed interest rate loan for approximately \$100, and a ten year 3.5% fixed interest rate loan for approximately \$800. At July 3, 1999, the outstanding balance on these facilities was \$256, \$0, and \$712, respectively.

6. SEGMENT REPORTING

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

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

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

Segment information is as follows:

<TABLE>  
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	United States	Korea	United Kingdom	Germany	Elimination	Consolidated
<S>	<C>	<C>	<C>	<C>	<C>	<C>

SIX MONTHS  
ENDED JULY 3, 1999  
Sales to unaffiliated

customers	\$24,233	\$1,874	\$5,587	\$2,692	\$ --	\$34,386
Intercompany sales	3,837	--	1,081	14	(4,932)	--
Operating profits	308	37	668	183	103	1,299
Identifiable assets	45,529	742	8,422	6,297	(244)	60,746
Depreciation expense	1,860	19	404	157	--	2,440
Capital expenditures	2,191	46	556	342	--	3,135

#### SIX MONTHS

ENDED JUNE 30, 1998

Sales to unaffiliated customers	\$28,010	--	\$6,225	\$2,482	\$ --	\$36,717
Intercompany sales	4,106	--	1,130	26	(5,262)	--
Operating profits	3,435	--	1,151	132	6	4,724
Identifiable assets	43,693	--	9,274	5,544	(156)	58,355
Depreciation expense	1,826	--	347	96	--	2,269
Capital expenditures	2,882	--	685	62	--	3,629

</TABLE>

11

<TABLE>

<CAPTION>

	United States	Korea	United Kingdom	Germany	Elimination	Consolidated
	-----	-----	-----	-----	-----	-----

<S> <C> <C> <C> <C> <C> <C>

#### THREE MONTHS

ENDED JULY 3, 1999

Sales to unaffiliated customers	\$10,691	\$1,152	\$2,803	\$1,275	\$ --	\$15,921
Intercompany sales	2,139	--	483	7	(2,629)	--
Operating profits	(410)	9	215	40	17	(129)
Depreciation expense	944	19	203	75	--	1,241
Capital expenditures	1,575	63	101	42	--	1,781

#### THREE MONTHS

ENDED JUNE 30, 1998

Sales to unaffiliated customers	\$13,193	--	\$3,129	\$1,262	\$ --	\$17,584
Intercompany sales	2,376	--	555	9	(2,940)	--
Operating profits	1,427	--	506	33	(14)	1,952
Depreciation expense	913	--	179	50	--	1,142
Capital expenditures	1,747	--	313	48	--	2,108

</TABLE>

Total liabilities attributable to foreign operations were \$5,276, and \$4,265, at July 3, 1999, and June 30, 1998, respectively. Net foreign currency gains (losses) reflected in results of operations were \$22 and \$(48) for the six months ended July 3, 1999, and June 30, 1998, respectively. Operating profit is total sales and other operating income less operating expenses. In computing segment operating profit, interest expense and net miscellaneous income (expense) have not been deducted (added).

12

Item 2.

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

#### OVERVIEW

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

Net sales in the second quarter were \$15.9 million, a decrease of \$2.5

million, or 13.8%, from the first quarter of 1999, and \$1.7 million, or 9.5%, from the quarter ended June 30, 1998. The decrease in net sales was due primarily to the implementation, on May 1, 1999, of a new "Y2K" compliant operating system in the United States operation. The fully-integrated system affects all aspects of the business, and many difficulties were encountered during implementation. None of these difficulties by themselves were large, but, taken collectively, caused shipment delays and created production inefficiencies. Management estimates that at least one week's worth of shipments were missed in the second quarter of 1999, and further expects that the system conversion will continue to have a negative impact on third quarter 1999 operating income. Since the system implementation on May 1, 1999, shipments have been increasing each week and as of the end of July had reached pre-implementation levels.

The Company is also in the process of implementing a new software system for its Coventry, England, operation. This system has been running parallel for some time and management expects to convert to the new system by the end of the third quarter of 1999. However, as with any system conversion there can be no assurances that the timing of the conversion will be met precisely and that the conversion process will not adversely impact operating results.

The Company's orders in the second quarter of 1999 were \$15.5 million, a decrease of \$1.7 million, or 9.6%, from the first quarter of 1999. United States distributors' inventories at the end of the second quarter of 1999 decreased over \$1.0 million from the first quarter of 1999. Management believes these decreases, at least in part, are related to the Company's improved delivery times in the first quarter and the subsequent adjustments distributors made in their order patterns. The National Fluid Power Association reported that orders for the first quarter of 1999 for the United States hydraulics industry decreased 9.8% and continued to be negative year over year in the second quarter. However, the weekly order rate for the Company's United States operation has shown an increase since the end of the second quarter of 1999.

Net sales in the United States operations in the second quarter of 1999 decreased \$2.9 million, or 21.0%, from the first quarter of 1999. This net sales decrease, coupled with production inefficiencies, resulted in an operating loss in the United States operations of \$0.4 million, compared to operating income of \$0.7 million in the first quarter of 1999. The consolidated operating loss in the second quarter of 1999 was \$0.1 million, compared to operating income in the first quarter of 1999 of \$1.4 million.

Production capacity expansion plans are on track for the relocation of the high-volume cartridge production cell from the Sarasota facility to the Manatee facility by year-end. The new

fully automated assembly machine for the production cell is operational in the Manatee facility, and is in the final testing stage. Test stands and other equipment for the production cell are also in place and the new heat treat operation is on schedule for completion by the end of the year.

The Korean operation, acquired in September of 1998, received ISO 9002 certification in June 1999. Net sales for this operation for the quarter ended July 3, 1999, increased 59.6%, or \$0.4 million, to \$1.2 million, compared to \$0.7 million, in the quarter ended April 3, 1999. Sun Korea's largest customer is Daewoo Group. Daewoo has recently indicated that it is restructuring its finances, which may delay payments to vendors due to cash flow problems.

Orders for the Company's electrically actuated cartridge valve products (solenoid valves), introduced in Europe in April 1999, are not yet significant. However, quotations for custom manifolds have been steadily increasing and it is estimated that 20% of these quotes incorporate the new solenoid product. The solenoid valve products address a new market for the Company, and management believes that, in time, solenoid sales will bring additional demand for manifolds and non-solenoid cartridge valve sales.

## COMPARISON OF THREE MONTHS ENDED JULY 3, 1999 AND JUNE 30, 1998

Net sales decreased 9.5%, or \$1.7 million, to \$15.9 million in the quarter ended July 3, 1999, compared to \$17.6 million in the quarter ended June 30, 1998. Adjusting for the incremental net sales related to the Korean operation acquired in September 1998, net sales decreased 13.9%, or \$2.5 million. As described in the Overview, the decrease in net sales was due primarily to shipment delays and productivity problems in the United States operations, which were caused by the implementation of a fully-integrated operating system. Net sales to Asia (excluding Korea) and Canada were adversely affected because the United States operation sells product directly to distributors in Asia and Canada as well as the United States. Net sales in the United Kingdom operation decreased \$0.3 million or 10.4% due to a slowdown in orders. Net sales in Germany increased 1.1%, compared to the period ended June 30, 1998.

Gross profit decreased 41.0%, or \$2.0 million, to \$2.9 million in the quarter ended July 3, 1999, compared to \$5.0 million in the quarter ended June 30, 1998. Gross profit as a percentage of net sales was 18.5% for the second quarter of 1999, compared to 28.3% for the second quarter of 1998. The decrease in gross profit as a percentage of net sales was mainly due to the productivity decrease and lower net sales in the United States operation. Material cost as a percentage of net sales in the United States operation, which increased throughout 1998, showed approximately 1% improvement in the second quarter of 1999 compared to the second quarter of 1998. Decreases in gross profit in the United Kingdom operation decreased 21.0% in the quarter ended July 3, 1999, compared to the quarter ended June 30, 1998, mainly due to lower net sales.

Selling, engineering and administrative expenses were \$3.1 million in the quarter ended July 3, 1999, approximately the same as the quarter ended June 30, 1998. Expenses increased due to advertising and the implementation of a new software system in the United Kingdom operation, as well as incremental costs from the Korean operation acquired in September. These expenses were offset by decreased expenses in the United States operation related to fringe benefits and advertising and catalog costs.

Interest expense was \$0.2 million for the quarter ended July 3, 1999, approximately the same as the quarter ended June 30, 1998.

The income tax benefit in the quarter ended July 3, 1999, was 39.3% of pretax loss compared to a provision of 33.2% of pretax income in the quarter ended June 30, 1998. Excluding income from the Korean operation, the benefit was 34.2% of pretax loss. Tax savings were realized in the United States from the Sun Hydraulics Foreign Sales Corporation and in Korea from provisions of local law.

## COMPARISON OF SIX MONTHS ENDED JULY 3, 1999 AND JUNE 30, 1998

Net sales decreased 6.3%, or \$2.3 million, to \$34.4 million in the six month period ended July 3, 1999, compared to \$36.7 million in the six month period ended June 30, 1998. Adjusting for the incremental net sales related to the Korean operation acquired in September 1998, net sales decreased 10.0%, or \$3.7 million, to \$33.0 million, in the six month period ended July 3, 1999 compared to the six month period ended June 30, 1998. As described in the Overview, the decrease in net sales of \$3.7 million was due primarily to reduced production in the second quarter connected with the implementation of a new operating system in the United States. Additionally, shipments of manifolds and "assemblies" (a combination of manifolds and cartridges), in the United States operation for the six month period ended July 3, 1999, were significantly less than the same period last year.

Gross profit decreased 30.8%, or \$3.3 million, to \$7.5 million in the six month period ended July 3, 1999, compared to \$10.8 million in the six month period ended June 30, 1998. Gross profit as a percentage of net sales was 21.7% in the six month period ended July 3, 1999, compared to 29.3% in the six month period ended June 30, 1998. The gross profit percentage decrease was due to the

lower net sales spread over an increased cost base and production inefficiencies related to the implementation of the new operating system in the United States. Additionally, the United States operation's net sales of manifolds and "assemblies", which have a higher margin than individual cartridges, were a lower percentage of total net sales for the six month period ended July 3, 1999.

Selling, engineering and administrative expenses increased 1.9%, or \$0.1 million, to \$6.2 million in the six month period ended July 3, 1999, compared to \$6.0 million in the six month period ended June 30, 1998. This increase was due to the incremental expenses of the Korean operation acquired in September 1998, operating system implementation costs and increased wages. These increases were partially offset by decreases in fringe benefit costs, and advertising and catalog costs.

Interest expense was \$0.4 million for the six month period ended July 3, 1999, approximately the same as the six month period ended June 30, 1998. Miscellaneous expense for the period ended July 3, 1999, consisted primarily of a loss of \$0.1 million on the disposal of certain equipment in the United States operations, no longer used in production, partially offset by exchange rate gains.

The provision for income taxes in the six month period ended July 3, 1999, was 29.0% of pretax income compared to 33.4% of pretax income in the six month period ended June 30, 1998. Tax savings were realized from the Sun Hydraulics Foreign Sales Corporation in the United States and in Korea from provisions of local law. Excluding income from Korea, the provision for income taxes in the six month period ended July 3, 1999, was 32.4%.

## 15

Net income for the six month period ended July 3, 1999, decreased to \$0.5 million, or 1.5% of net sales, compared to \$2.8 million, or 7.7% of net sales, for the six month period ended June 30, 1998.

### LIQUIDITY AND CAPITAL RESOURCES

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

At July 3, 1999, the Company had working capital of \$5.1 million. Cash flow from operations for the quarter ended July 3, 1999, decreased \$2.1 million, to \$1.9 million, compared to \$4.0 million for the quarter ended June 30, 1998. This decrease was due primarily to a \$2.3 million decrease in net income. Net cash used in investing activities for the quarter ended July 3, 1999, was \$3.1 million, compared to \$3.5 million for the quarter ended June 30, 1998, and was used primarily for the purchase of machinery and equipment.

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

During the quarter ended July 3, 1999, the Company had a revolving credit facility in the United States, which provided for a maximum availability of \$10.0 million, payable on demand with no debt covenants. The interest rate was equal to the bank lender's prime rate less 1%, or LIBOR plus 1.9% for predetermined periods of time at the Company's option. At July 3, 1999, the interest rate was 7.0%, and \$4.8 million was outstanding under this credit facility.

On July 23, 1999, the Company replaced the \$10.0 million unsecured revolving credit facility with a five year, secured, revolving credit facility of \$7.5 million, and a one year unsecured, revolving credit facility of \$5.0 million. The \$7.5 million credit facility has an interest rate equal to the bank lender's prime rate less 1% for the first year, and the treasury bill rate plus 1.75% for the remaining four years. The \$5.0 million credit facility has

an interest rate equal to the bank lender's prime rate less 1% or LIBOR plus 1.9% for predetermined periods of time, at the Company's option.

A 10-year mortgage loan of \$6.2 million was obtained at a fixed interest rate of 8.25% for construction of the Manatee County facility. Terms on the construction note were interest-only on the balance drawn down through the completion of construction and then conversion to a 10-year mortgage note with a 15-year amortization schedule. In April 1999, this mortgage note was renegotiated to an interest rate of 7.375%. Terms are monthly principal and interest payments with remaining principal due July 1, 2006. At July 3, 1999, \$4.8 million was outstanding on this facility.

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

16

The Company has notes payable to five former shareholders that bear interest at a weighted rate of 15% and have terms expiring in one to four years. These notes were issued by the Company in 1989 and 1990, in connection with the repurchase of shares of common stock from former shareholders and do not allow for prepayment by the Company. At July 3, 1999, \$0.6 million was outstanding under these notes.

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

The Company declared quarterly dividends of \$0.04 per share to shareholders of record on June 30, 1999, and March 31, 1999, which were paid on July 15, 1999, and April 15, 1999, respectively.

#### YEAR 2000 READINESS DISCLOSURE

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

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

With regard to its external relationships, the assessment phase includes surveying the Company's material suppliers, distributors, and customers to determine the potential exposure to the Company if such parties fail to correct their year 2000 issues in a timely manner. The Company has now received responses to approximately seventy percent of its third party questionnaires. The Company anticipates the completion of this external assessment prior to November 1, 1999.

The Company is currently testing all critical applications for year 2000 readiness and anticipates completion of this testing by the third quarter of 1999. The Company defines "year 2000 ready" to mean that neither the

performance nor functionality of any of its critical systems, including both information technology and non-information technology systems, will be materially affected by dates prior to, during and after the year 2000. Certain software subsystems and routines have been identified which require modification to be fully year 2000 compliant. Management believes that these modifications will be completed prior to the end of the fourth quarter of 1999.

As a result of such testing, the Company has entered its renovation phase by replacing the computer systems in its United States Sarasota facility, and is in the process of replacing its computer system in its United Kingdom facility with "enterprise manufacturing systems" that,

17

according to representations made by the systems' manufacturers, are currently year 2000 ready. The implementation of these new "enterprise manufacturing systems" has negatively impacted the Company's sales. See the Overview of Management's Discussion and Analysis. The Company believes that its other locations' systems are year 2000 ready.

The final phase of the Company's year 2000 readiness plan is a validation phase, during which upgraded systems will be re-tested. The Company anticipates all phases of its year 2000 readiness plan, including the validation phase, to be completed by the end of the fourth quarter of 1999. However, there can be no assurance that these deadlines will be met or precisely when the Company will be year 2000 ready.

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

The Company estimates that the total costs of its year 2000 project will be \$1.3 million, including costs of approximately \$1.0 million incurred through July 3, 1999. These expenditures are being funded through operating cash flows. Although there can be no assurances thereof, the estimated costs of the year 2000 project are not expected to have a material impact on the Company's business, operations or financial condition in future periods.

#### SEASONALITY AND INFLATION

The Company generally has experienced reduced activity during the fourth quarter of the year, largely as a result of fewer working days due to holiday shutdowns. The Company does not believe that inflation had a material effect on its operations for the periods ended July 3, 1999, and June 30, 1998. There can be no assurance, however, that the Company's business will not be affected by inflation in the future.

#### EURO

On January 1, 1999, eleven member countries of the European Union established fixed conversion rates between their national currencies and the "euro," which will ultimately result in the replacement of the currencies of these participating countries with the euro (the "Euro Conversion"). The Company is currently assessing the potential impact of the Euro Conversion and has initiated an internal analysis to plan for the conversion and implement remediation measures. The Company's analysis will encompass the costs and consequences of incomplete or untimely resolution of any required systems modifications, various technical and operational challenges and other risks including possible effects on the Company's financial position and results of operations. Costs associated with the Euro Conversion are being expensed by the

Company during the period in which they are incurred and are not currently anticipated to be material. The Company presently believes that, with remediation measures, any material risks associated with the Euro Conversion can be mitigated.

#### ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to market risk from changes in interest rates on borrowed funds, which could affect its results of operations and financial condition. At July 3, 1999, the Company had approximately \$4.8 million in variable-rate debt outstanding and, as such, the market risk is immaterial based upon a 10% increase or decrease in interest rates. The Company manages this risk by selecting debt financing at its U.S. bank lender's prime rate less 1%, or the Libor rate plus 1.9%, whichever is the most advantageous.

#### FORWARD-LOOKING INFORMATION

Certain oral statements made by management from time to time and certain statements contained herein that are not historical facts are "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934 and, because such statements involve risks and uncertainties, actual results may differ materially from those expressed or implied by such forward-looking statements. Forward-looking statements, including those in Management's Discussion and Analysis of Financial Condition and Results of Operations are statements regarding the intent, belief or current expectations, estimates or projections of the Company, its Directors or its Officers about the Company and the industry in which it operates, and assumptions made by management, and include among other items, (i) the Company's strategies regarding growth, including its intention to develop new products; (ii) the Company's financing plans; (iii) trends affecting the Company's financial condition or results of operations; (iv) the Company's ability to continue to control costs and to meet its liquidity and other financing needs; (v) the declaration and payment of dividends; (vi) the Company's Year 2000 readiness plans and costs; and (vii) the Company's ability to respond to changes in customer demand domestically and internationally, including as a result of standardization. Although the Company believes that its expectations are based on reasonable assumptions, it can give no assurance that the anticipated results will occur.

Important factors that could cause the actual results to differ materially from those in the forward-looking statements include, among other items, (i) the economic cyclicality of the capital goods industry in general and the hydraulic valve and manifold industry in particular, which directly affect customer orders, lead times and sales volume; (ii) conditions in the capital markets, including the interest rate environment and the availability of capital; (iii) changes in the competitive marketplace that could affect the Company's revenue and/or cost bases, such as increased competition, lack of qualified engineering, marketing, management or other personnel, and increased labor and raw materials costs; (iv) changes in technology or customer requirements, such as standardization of the cavity into which screw-in cartridge valves must fit, which could render the Company's products or technologies noncompetitive or obsolete; (v) new product introductions, product sales mix and the geographic mix of sales nationally and internationally; (vi) the Company's ability timely to become Year 2000 ready, including the Company's ability to identify all critical systems that will be impacted by the Year 2000, the Company's ability, in a cost-efficient manner, to correct, upgrade or replace such systems, and the Year 2000 readiness of third parties with which the Company has material relationships; and (vii) changes relating to the Company's international sales, including changes in regulatory requirements or tariffs, trade or currency restrictions, fluctuations in exchange rates, and tax and collection issues. Further information relating to factors that could cause actual results to differ from those anticipated is included but not limited to information under the headings "Risk Factors" in the Form S-1 Registration Statement and Prospectus for the Company's initial



public offering, "Business" in the Company's Form 10-K for the year ended December 31, 1998, and "Management's Discussion and Analysis of Financial Conditions and Results of Operations" in the Form 10-Q for the quarter ended July 3, 1999. The Company disclaims any intention or obligation to update or revise forward-looking statements, whether as a result of new information, future events or otherwise.

PART II  
OTHER INFORMATION

Item 1. Legal Proceedings.

None.

Item 2. Changes in Securities.

None.

Item 3. Defaults upon Senior Securities.

None.

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

The Annual Meeting of Shareholders of the Company was held on May 22, 1999. At the meeting, the following actions were taken by the shareholders:

Taco van Tijn and David N. Wormley were reelected as Directors to serve until the Annual Meeting in 2002, and until their successors are elected and qualified or until their earlier resignation, removal from office or death. The votes cast for and against each were as follows:

<S>	<C> For	<C> Withheld
Taco van Tijn	5,255,000	71,021
David N. Wormley	5,257,100	68,921

The appointment of Pricewaterhouse Coopers, LLP, as the Company's independent certified public accountants for the year 1999 was ratified and approved. The voting on the proposal was as follows:

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FOR	5,321,445
AGAINST	3,476
ABSTAIN	1,100

Item 5. Other Information.

None.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

<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) and incorporated herein by reference).

- 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) and incorporated herein by reference).
- 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) and incorporated herein by reference).
- 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) and incorporated herein by reference).
- 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) and incorporated herein by reference).
- 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) and incorporated herein by reference).
- 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) and incorporated herein by reference).
- 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) and incorporated herein by reference).

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- 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) and incorporated herein by reference).
- 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) and incorporated herein by reference).
- 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) and incorporated herein by reference).

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

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- 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) and incorporated herein by reference).
- 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) and incorporated herein by reference).
- 4.21 Master Note, dated February 3, 1997, in the amount of \$10,000,000.00, made by the Company to evidence a line of credit granted to the Company by Northern Trust Bank of Florida, N.A. (previously filed as Exhibit 4.21 to the Company's Annual Report on Form 10-K for the year ended December 31, 1996 and incorporated herein by reference).
- 4.22 Renewal Master Note, dated February 3, 1998, in the amount of \$10,000,000.00, made by the Company to evidence a line of credit granted to the Company by Northern Trust Bank of Florida, N.A. (previously filed as Exhibit 4.22 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1998 and incorporated herein by reference).
- 4.23 Modification Agreement, dated March 1, 1998, between the Company and Northern Trust Bank of Florida, N.A. (previously filed as Exhibit 4.23 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1998 and incorporated herein by reference).
- 4.24 Renewal Master Note, dated as of February 3, 1998, in the amount of \$4,965,524.51, between the Company and Northern Trust Bank of Florida, N.A. (previously filed as Exhibit 4.24 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1998 and incorporated herein by reference).
- 4.25 Renewal Master Note, dated of February 3, 1999, in the amount of \$4,965,524.51, between the Company and Northern Trust Bank of Florida, N.A. (previously filed as Exhibit 4.25 to the Company's Quarterly Report on Form 10-Q for the quarter ended April 3, 1999 and incorporated herein by reference).

- 4.26 Renewal Master Note, dated July 23, 1999, in the amount of \$5,000,000.00 between the Company and Northern Trust Bank of Florida, N.A.
- 4.27 Loan Agreement, dated July 23, 1999, in the amount of \$7,500,000.00, between the Company and Northern Trust Bank of Florida, N.A.
- </TABLE>

24

- <TABLE>  
<S> <C>
- 4.28 Security Agreement, dated July 23, 1999, between the Company and Northern Trust Bank of Florida, N.A.
- 4.29 Promissory Note, dated July 23, 1999, in the amount of \$7,500,000.00, between the Company and Northern Trust Bank of Florida, N.A.
- 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) and incorporated herein by reference).
- 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) and incorporated herein by reference).
- 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) and incorporated herein by reference).
- 10.4+ Amendment No. 1 to 1996 Stock Option Plan (previously filed as Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1997 and incorporated herein by reference).
- 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) and incorporated herein by reference).
- 27.1 Financial Data Schedule for period ended July 3, 1999 (for SEC purposes only).
- </TABLE>

+ Executive management contract or compensatory plan or arrangement.

(b) Reports on Form 8-K.

Report on Form 8-K dated June 4, 1999, announcing a \$0.04 per share dividend on its common stock payable on July 15, 1999, to shareholders of record on June 30, 1999, as well as year end and fourth quarter results.

25

#### SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Sarasota, State of Florida on August 12, 1999.

SUN HYDRAULICS CORPORATION

By: /s/ Richard J. Dobbyn

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

26

EXHIBIT INDEX

<TABLE>  
<CAPTION>  
EXHIBIT  
NUMBER

EXHIBIT DESCRIPTION  
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<S> <C>

- 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) and incorporated herein by reference).
- 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) and incorporated herein by reference).
- 4.21 Master Note, dated February 3, 1997, in the amount of \$10,000,000.00,

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

- 4.22 Renewal Master Note, dated February 3, 1998, in the amount of \$10,000,000.00, made by the Company to evidence a line of credit granted to the Company by Northern Trust Bank of Florida, N.A. (previously filed as Exhibit 4.22 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1998 and incorporated herein by reference).
- 4.23 Modification Agreement, dated March 1, 1998, between the Company and Northern Trust Bank of Florida, N.A. (previously filed as Exhibit 4.23 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1998 and incorporated herein by reference).
- 4.24 Renewal Master Note, dated as of February 3, 1998, in the amount of \$4,965,524.51, between the Company and Northern Trust Bank of Florida, N.A. (previously filed as Exhibit 4.24 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1998 and incorporated herein by reference).
- 4.25 Renewal Master Note, dated of February 3, 1999, in the amount of \$4,965,524.51, between the Company and Northern Trust Bank of Florida, N.A. (previously filed as Exhibit 4.25 to the Company's Quarterly Report on Form 10-Q for the quarter ended April 3, 1999 and incorporated herein by reference).
- 4.26 Renewal Master Note, dated July 23, 1999, in the amount of \$5,000,000.00 between the Company and Northern Trust Bank of Florida, N.A.
- 4.27 Loan Agreement, dated July 23, 1999, in the amount of \$7,500,000.00, between the Company and Northern Trust Bank of Florida, N.A.
- </TABLE>

29

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- 4.28 Security Agreement, dated July 23, 1999, between the Company and Northern Trust Bank of Florida, N.A.
- 4.29 Promissory Note, dated July 23, 1999, in the amount of \$7,500,000.00, between the Company and Northern Trust Bank of Florida, N.A.
- 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) and incorporated herein by reference).
- 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) and incorporated herein by reference).
- 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) and incorporated herein by reference).
- 10.4+ Amendment No. 1 to 1996 Stock Option Plan (previously filed as Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1997 and incorporated herein by reference).
- 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)  
and incorporated herein by reference).

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

</TABLE>

+ Executive management contract or compensatory plan or arrangement.



Exhibit 4.26

Dated as of July 23, 1999

RENEWAL MASTER NOTE  
(CORPORATION, PARTNERSHIP OR JOINT VENTURE)

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

FOR VALUE RECEIVED, on or before July 23, 2000, the scheduled maturity date hereof, Borrower promises to pay to the order of NORTHERN TRUST BANK OF FLORIDA, N.A., a national banking association (hereafter, together with any subsequent holder hereof, called "Lender"), at its banking office at 1515 Ringling Blvd., Sarasota, FL, or at such other place as Lender may direct, the aggregate unpaid principal balance of each advance (a "Loan" and collectively the "Loans") made by Lender to Borrower hereunder. The total principal amount of Loans outstanding at any one time hereunder shall not exceed FIVE MILLION AND 00/100 UNITED STATES DOLLARS (\$5,000,000.00).

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

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

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

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

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

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

1. INTEREST.

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

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

percent (1.00%).

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

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

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

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

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

2

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

Monthly, on the 23rd day of each month, beginning August 23, 1999, with all accrued but unpaid interest being due and payable in full with the final principal payment due hereunder.

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

Other N/A

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

## 2. PREPAYMENTS.

Borrower may prepay without penalty or premium any principal bearing interest at the Prime-Based Rate. If Borrower prepays any principal bearing interest at the Bank Offered Rate in whole or in part, or if the maturity of any such Bank Offered Rate principal is accelerated, then, to the fullest extent permitted by law Borrower shall also pay Lender for all losses (including but not limited to interest rate margin and any other losses of

anticipated profits) and expenses incurred by reason of the liquidation or re-employment of deposits acquired by Lender to make the Loan or maintain principal outstanding at the Bank Offered Rate. Upon Lender's demand in writing specifying such losses and expenses, Borrower shall promptly pay them; Lender's specification shall be deemed correct in the absence of manifest error. Each Loan bearing interest at the Bank Offered Rate shall be conclusively deemed to have been funded by or on behalf of Lender by the purchase of a deposit corresponding in amount to such Loan and in maturity to the Interest Period specified by Lender.

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

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

3

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

This Note amends, restates, renews and replaces in its entirety the note dated February 3, 2000, in the amount of \$10,000,000.00 and any previously renewed note(s). Borrower hereby expressly confirms that all collateral and guaranties given for such prior note(s) shall secure or guarantee this Note. All amounts outstanding under such previous note(s) shall be deemed automatically outstanding hereunder.

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

Security Agreement dated as of N/A.

Mortgage dated as of N/A on property all or part of which is commonly known as \_\_\_\_\_.

Pledge Agreement dated as of N/A.

Other (describe) N/A.

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

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

4. USE OF PROCEEDS. CHECK ONE:

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

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

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

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

4

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

#### 5. REPRESENTATIONS.

Borrower hereby represents and warrants to Lender that:

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

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

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

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

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

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

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

5

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

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

secured, or guaranteed, and such event shall continue beyond any applicable period of grace; or

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

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

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

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

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

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

6

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

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

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

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

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

## 7. DEFAULT REMEDIES.

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

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

7

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

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

## 8. NO INTEREST OVER LEGAL RATE.

Borrower does not intend or expect to pay, nor does Lender intend or expect to charge, accept or collect any interest which, when added to any fee

or other charge upon the principal which may legally be treated as interest, shall be in excess of the highest lawful rate. If acceleration, prepayment or any other charges upon the principal or any portion thereof, or any other circumstance, result in the computation or earning of interest in excess of the highest lawful rate, then any and all such excess is hereby waived and shall be applied against the remaining principal balance. Without limiting the generality of the foregoing, and notwithstanding anything to the contrary contained herein or otherwise, no deposit of funds shall be required in connection herewith which will, when deducted from the principal amount outstanding hereunder, cause the rate of interest hereunder to exceed the highest lawful rate.

#### 9. PAYMENTS, ETC.

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

8

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

#### 10. SETOFF.

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

#### 11. NOTICES.

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

#### 12. MISCELLANEOUS.

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

Borrower, its heirs, trustees (including without limitation successor and replacement

9

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

13. WAIVER OF JURY TRIAL, ETC.

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

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

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

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

Address for Notices:

SUN HYDRAULICS CORPORATION, 1500 University Parkway  
a Florida Corporation Sarasota, FL 34243  
Attention: \_\_\_\_\_

By: /s/ Richard J. Dobbyn

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Richard J. Dobbyn  
Title: Chief Financial Officer

10



Exhibit 4.27

Dated as of July 23, 1999

LOAN AGREEMENT

THIS AGREEMENT made on July 23, 1999, by and between SUN HYDRAULICS CORPORATION, a Florida corporation ("Borrower"), and NORTHERN TRUST BANK OF FLORIDA, N.A. ("Lender").

WITNESSETH:

WHEREAS, Borrower has requested Lender to make a loan to Borrower in the amount of \$7,500,000.00 ("Loan"), and

WHEREAS, Lender is willing to make the Loan on the conditions herein and in other Loan Documents.

NOW, THEREFORE, in consideration of the premises and of the covenants and agreements herein contained and the agreement by Lender to make the Loan, the parties hereto agree as follows:

1. LOAN TO BORROWER; EXECUTION OF LOAN DOCUMENTS. Lender agrees, in accordance with the terms of this Agreement, to make the Loan to Borrower. Concurrently herewith, Borrower has executed a note in the amount of the Loan ("Note"), a security agreement ("Security Agreement") to secure the Loan, encumbering certain personal property owned by Borrower ("Collateral"), and other documents related to the Loan (the Note, Security Agreement, this Agreement and other documents are collectively referred to herein as the "Loan Documents").

2. COSTS AND EXPENSES. Borrower shall pay all costs and expenses incurred in connection with preparation for, closing, and servicing the Loan including, without limitation, any legal fees, including the fees of Lender's counsel, intangible taxes, documentary taxes, recording costs, and document preparation fees.

3. REPRESENTATIONS AND WARRANTIES. To induce Lender to make the Loan, Borrower makes the following representations and warranties:

A. The financial information for Borrower and each guarantor or other obligor furnished to Lender in connection with Borrower's application for the Loan is complete and accurate. There has been no material nor adverse change in the financial condition of either Borrower or any guarantor or other obligor of the Loan from that reflected on such financial information.

B. Borrower is a duly organized corporation, existing and in good standing under the laws of the State of Florida, has corporate power to carry on the business in which it is engaged, and the obtaining and performing of the Loan has been duly authorized by all necessary actions of the board of directors and shareholders of the corporation under applicable law, and do not and will not violate any provisions of law or any of its organizational documents.

C. The obtaining and performing of the Loan does not and will not result in a breach of, constitute a default under, require any consent under, or result in the creation of any lien, charge, or encumbrance upon any property of Borrower pursuant to any instrument, order, or other agreement to which Borrower is a party or by which Borrower, any of its officers as such, or any of its property is bound.

D. There are no judgments, liens, encumbrances, or other security interests outstanding against Borrower or any of its subsidiaries, or any of their properties other than those disclosed to Lender in connection with Borrower's request for the Loan, nor is there any pending or threatened litigation that could or will give rise to any such judgment, lien or encumbrance.

E. Neither Borrower nor any of its subsidiaries have incurred any debts, liabilities, or obligations (whether direct or contingent) nor committed themselves to incur any debts, liabilities, or obligations other than those

disclosed to Lender in connection with Borrower's request for the Loan or shown on the financial statements submitted to Lender.

F. Neither Borrower nor any of its subsidiaries have made any assignment for the benefit of their creditors, admitted in writing their inability to pay their debts as they become due, filed a petition of bankruptcy or been adjudicated bankrupt or insolvent, or filed a petition seeking any reorganization, arrangement, composition, readjustment, liquidation, dissolution, receivership or similar relief under any statute, law or regulation.

G. There are no actions, suits or proceedings pending or, threatened against or affecting Borrower or any of its subsidiaries, the Collateral or any guarantor or obligor on the Loan, or involving the validity or enforceability of the Security Agreement or the priority of the lien thereof, at law or in equity, or before or by any governmental authorities, and neither Borrower nor any of its subsidiaries is in default with respect to any order, writ, injunction, decree or demand of any court or any governmental authority.

H. The obtaining of the Loan and the consummation of all other transactions contemplated by the Loan Documents, and performance under the Loan Documents, will not result in any breach of, or constitute a default under, any mortgage, indenture, security agreement, lease, loan, credit agreement or any other contract or instrument to which the Borrower or any of its subsidiaries is a party or by which their properties may be bound or affected.

#### 4. AFFIRMATIVE COVENANTS. Borrower will:

A. Preserve and keep in force all licenses, permits, and franchises necessary for the proper conduct of its business and duly pay and discharge all taxes, assessments, and

2

governmental charges upon Borrower or against Borrower's property before the date on which penalties attach thereto, unless and to the extent only that the same shall be contested in good faith and by appropriate proceedings.

B. Furnish to Lender (i) within 90 days after the close of each fiscal year a consolidated annual profit and loss statement and balance sheet on Borrower and its subsidiaries reviewed by an independent certified public accountant who is satisfactory to Lender; (ii) within 30 days after filing each year, an executed copy of Borrower's Federal income tax return, and if any extensions have been filed, copies of each Extension Notice shall be furnished to Lender within 30 days of filing; and (iii) such other information reflecting the financial condition of Borrower and/or its subsidiaries as Lender may request from time to time.

C. Permit any representative or agent of Lender to examine and audit any or all of Borrower's books and records when requested by Lender.

D. Inform Lender immediately of any material adverse change in the financial condition of Borrower or any of its subsidiaries. Borrower will also promptly inform Lender of any litigation or threatened litigation which might substantially affect Borrower's financial condition.

E. Maintain Borrower's property and equipment in a state of good repair.

F. Maintain Borrower's net working capital, on a consolidated basis ("Net Working Capital") in an amount not less than \$2,000,000.00 and a current ratio ("Current Ratio") of not less than 1.2:1.0 at all times during the term of this Agreement. For the purposes of this Agreement, Net Working Capital shall mean the excess of Borrower's current assets over current liabilities, on a consolidated basis with its subsidiaries, which shall be determined in accordance with generally accepted accounting principles as consistently applied in the preparation of Borrower's previous financial statements, and Current Ratio shall mean the quotient of current assets divided by current liabilities, on a consolidated basis with its subsidiaries.

G. Maintain Borrower's maximum total liabilities to net worth

ratio, on a consolidated basis with its subsidiaries ("Tangible Net Worth") throughout the term of the Loan at a minimum of 0.85:1.0 at all times during the term of this Agreement. For the purposes of this Agreement, Tangible Net Worth shall mean (i) the aggregate amount of assets shown on the balance sheet of Borrower at any particular date (but excluding from such assets capitalized organization and development costs, capitalized interest, debt discount and expense, goodwill, patents, trademarks, copyrights, franchises, licenses, amounts due from officers, directors, stockholders and affiliates, and such other assets as are properly classified "intangible assets" under generally accepted accounting principles) less (ii) liabilities at such date, all computed in accordance with generally accepted accounting principles applied on a consistent basis.

H. Maintain Borrower's debt service coverage ratio, on a consolidated basis with its subsidiaries ("Debt Service Coverage Ratio") throughout the term of the Loan at a minimum of 1.2:1.0 on a calendar year basis for all operations of the Borrower and its

3

subsidiaries, computed as follows: net profits plus interest, plus depreciation, all divided by interest plus current maturities of long term debt and capitalized leases, plus unfunded capital expenditures and advances/withdrawals made to shareholders of Borrower and/or its subsidiaries.

5. NEGATIVE COVENANTS. Neither Borrower nor any of its subsidiaries will, without prior written consent of Lender:

A. Collaterally assign, mortgage, pledge, encumber or grant any security interest in any of its assets, whether now owned or hereafter acquired.

B. Enter into any merger or consolidation, or sell, lease, transfer, or otherwise dispose of all or any substantial part of its assets, whether now owned or hereafter acquired.

C. Change the name in which it does business.

D. Move its principal place of business without giving written notice thereof to Lender at least 30 days prior thereto.

E. Incur any new debt whether secured or unsecured, except trade debt for the purchase of equipment which does not exceed \$100,000.00 for any item of equipment, and trade debt for the purchase of inventory.

F. Execute any guarantees or assumptions of any debt, or endorse any obligations, except that Borrower may guaranty any trade debt for the purchase of equipment which does not exceed \$100,000.00 for any item of equipment, and trade debt for the purchase of inventory which is incurred by a subsidiary of Borrower.

G. Enter into any asset sale/leaseback arrangement.

H. Cause or permit any change in management of Borrower's operations.

6. EVENTS OF DEFAULT. The Lender shall have the option to declare the entire unpaid balance due on the Loan without notice of any kind, if any of the following events occur:

A. Failure or omission to pay, within fifteen (15) days after payment is due, the Note (or any installment of principal or interest thereunder).

B. Default in the payment (other than payment of principal and interest) or performance of any obligation, covenant, agreement or liability contained or referred to in the Security Agreement, Note, or any other Loan Document, or upon the existence or occurrence of any circumstance or event deemed a default under the Note or any other Loan Document.

C. Any warranty, representation or statement made or furnished by Borrower for the purpose of inducing Lender to make the Loan proves to have

been false in any material respect when made or furnished.

4

D. A default under any other mortgage on the Collateral (whether such other mortgage be held by Lender or by a third party).

E. The institution of foreclosure proceedings of another mortgage or lien of any kind on the Collateral (whether such other mortgage or lien be held by Lender or by a third party).

F. The default by Borrower or any party obligated under the Note or any guaranty thereof in the payment or performance of any obligation, covenant, agreement, or liability contained in any other mortgage, note, obligation or agreement held by Lender, including but not limited to that certain revolving line of credit loan in the amount of \$5,000,000.00 made by Lender to Borrower and evidenced by Renewal Master Note of even date hereof.

G. The death, dissolution, termination of existence, insolvency, or business failure of Borrower or any party obligated under the Note or any guaranty thereof.

H. The appointment of a receiver of any part of the Collateral.

I. The assignment for the benefit of creditors or the commencement of any proceedings in bankruptcy or insolvency by or against Borrower or by or against any person obligated under the Note or any guaranty thereof.

J. The determination by Lender that a material adverse change has occurred in the financial condition of Borrower or any person obligated under the Note or any guaranty thereof, from the conditions set forth in the most recent financial statement of such person heretofore furnished to Lender or from the condition of such person as heretofore most recently disclosed to Lender in any manner.

K. The failure by Borrower or any party obligated under the Note or any guaranty thereof to make any payment of principal or interest when due under any obligation to any other creditor, if such failure continues beyond any applicable grace period.

L. Any substantial part of the inventory, equipment, or other property of Borrower, real or personal, is damaged or destroyed and the damage or destruction is not covered by collectible insurance.

M. Borrower suffers or permits any lien, encumbrance, or security interest to arise or attach to any of Borrower's property, which is not satisfied within 30 days.

N. Any judgment is entered against Borrower that is not satisfied or appealed within 30 days.

5

O. Falsity in any material respect of, or any material omission in, any representation or statement made to Lender by or on behalf of Borrower or any person obligated under the Note or any guaranty thereof, in connection with the Loan.

7. REMEDIES UPON DEFAULT. Upon the occurrence, or the discovery by Lender of the occurrence, of any of the foregoing events, circumstances, or conditions of default, Lender shall have, in addition to its option to accelerate to maturity the full unpaid balance of the Loan, all of the rights and remedies under applicable law, and in addition shall have the following specific rights and remedies:

A. To exercise Lender's right of set-off against any account, fund, or property of any kind, tangible or intangible, belonging to Borrower which shall be in Lender's possession or under its control.

B. To cure such defaults, with the result that all costs and expenses incurred or paid by Lender in effecting such cure shall be additional

charges on the Loan, shall bear interest at the highest rate permitted by law, and shall be payable upon demand, and shall be secured by the Security Agreement and other Loan Documents.

8. ATTORNEYS' FEES AND COSTS. Borrower promises and agrees to pay all costs of collection and attorneys' fees, including fees for appellate proceedings, bankruptcy proceedings or otherwise, incurred or paid by Lender in enforcing this Agreement or preserving any right or interest of Lender hereunder.

9. WAIVER. No failure or delay on the part of Lender in exercising any power or right hereunder, and no failure of Lender to give Borrower notice of a default hereunder, shall operate as a waiver thereof, nor shall any single or partial exercise of any such right or power preclude any other or further exercise thereof or the exercise of any other right or power hereunder. No modification or waiver of any provision of this Agreement or any instrument executed pursuant hereto or consent to any departure by Borrower from this Agreement or such instrument shall in any event be effective unless the same shall be in writing, and such waiver or consent shall be effective only in the specific instance and for the particular purpose for which given.

10. BENEFIT. This Agreement shall be binding upon and inure to the benefit of Borrower and Lender and their respective successors and assigns. Lender may assign this Agreement in whole or in part. Borrower may not assign this Agreement or its obligations hereunder without Lender's written consent.

11. GOVERNING LAW. This Agreement shall be governed and construed in accordance with the laws of the State of Florida, and any litigation arising out of or relating to this Agreement or the Loan shall be commenced and conducted in the courts of the State of Florida or in the federal courts of the State of Florida.

6

IN WITNESS WHEREOF, the parties hereto have executed this Loan Agreement on the day and year first above written.

SUN HYDRAULICS CORPORATION,  
a Florida corporation

By: /s/ Richard J. Dobbyn

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Richard J. Dobbyn  
As its Chief Financial Officer

BORROWER

NORTHERN TRUST BANK OF FLORIDA, N.A.

By: /s/ Terence E. McGannon

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Terence E. McGannon  
As its Vice President

LENDER

7

Exhibit 4.28

Dated as of July 23, 1999

SECURITY AGREEMENT

FOR VALUE RECEIVED, the undersigned SUN HYDRAULICS CORPORATION, a Florida corporation, hereinafter called Debtor, (and if more than one, each of them jointly and severally) does hereby grant to NORTHERN TRUST BANK OF FLORIDA, N.A., hereinafter called Secured Party, a security interest in and to the following property ("Collateral"):

All equipment now owned or hereafter acquired by Debtor, including but not limited to all equipment heretofore or hereafter identified by copies of invoices or other documentation furnished by Debtor to Secured Party,

together with (a) all increases, parts, fittings, accessories, equipment and special tools now or hereafter affixed to all or any part thereof or used in connection therewith, and all replacements of all or any part thereof; (b) any proceeds, return premiums and rebates from any property insurance on the property securing this loan; and (c) any proceeds received should any of the foregoing be sold, exchanged, collected or otherwise disposed of, provided however, no provisions herein shall be construed as or deemed authority for Debtor to sell, exchange or otherwise dispose of the Collateral, without the prior written consent of Secured Party, except for inventory sold in the ordinary course of Debtor's business.

This security interest and assignment is given as security for the payment of a certain promissory note of even date herewith ("Note") and given by Debtor to Secured Party in the amount of \$7,500,000.00 payable as therein provided together, and for the payment of any and all other indebtedness and liabilities whatsoever of Debtor to Secured Party, due or to become due, direct, indirect, contingent, several, joint, joint and several and howsoever evidenced or arising and howsoever owned, held or acquired by Secured Party whether through discount, overdraft, purchase, loan, advance, endorsement, guaranty or any other manner whatsoever.

Except for the security interest granted hereby, Debtor is the owner of the Collateral, free from any adverse lien, security interest or encumbrance and Debtor will defend the Collateral against all claims and demands of all persons at any time claiming the same or interest thereon.

Debtor authorizes Secured Party to file in Florida a Financing Statement signed only by Secured Party describing the Collateral as is described herein, and to amend the Financing Statement from time to time to cover the changes in the Collateral or to specifically identify the Collateral, and to do all other acts and things that Secured Party may request to establish and maintain any valid security interest in the Collateral free of all other liens and claims whatsoever to secure the payment of the Note.

Debtor will keep the Collateral at the business properties of Debtor located at 1500 University Parkway, Sarasota, Florida, and 701 Tallevast Road, Sarasota, Florida ("Property"), and will not remove the Collateral from the Property without the prior written consent of Secured Party.

Debtor will not sell, transfer, lease or otherwise dispose of any of the Collateral or interest therein without the prior written consent of Secured Party, except for inventory sold in the ordinary course of Debtor's business. Debtor will at all times keep the Collateral free from any adverse liens, security interest or encumbrance and in good order and repair and will not waste or destroy the Collateral or any part thereof. Debtor will not use the Collateral in violation of any statute or ordinance. Secured Party may examine and inspect the Collateral at any time, wherever located.

Debtor will at all times keep the Collateral insured against loss, damage, theft and such other risks as Secured Party may require in such amounts and companies and under such policies and in such form and for such periods as shall be satisfactory to Secured Party, and each policy shall provide that the loss thereunder and proceeds payable shall be payable to Secured Party as its interest may appear. Secured Party may pay proceeds of such insurance to

payment of the obligations secured hereby, whether or not due. Each such policy shall provide for 30 days written minimum cancellation notice to Secured Party and each policy shall if Secured Party requests, be deposited with Secured Party.

Debtor will promptly pay when due all taxes and assessments upon the Collateral or for its use or operation or upon this agreement or upon the Note.

At its option, Secured Party may cure any default existing under this Security Agreement and may charge the Debtor for any expenses or costs thereby sustained, which amounts shall be immediately due and payable by Debtor, and shall accrue at the maximum rate permitted by law from the date of payment by Secured Party.

Debtor shall be in default under this agreement upon the occurrence of any of the following: (a) failure or omission to pay, within fifteen (15) days after payment is due, the Note (or any installment of principal or interest thereunder); (b) default in the payment (other than payment of principal and interest) or performance of any obligation, covenant, agreement or liability contained or referred to in this Security Agreement, the Note, or any other loan document executed in connection herewith, or upon the existence or occurrence of any circumstance or event deemed a default under the Note or any other loan document executed in connection therewith; (c) any warranty, representation or statement made or furnished by any obligor to Secured Party for the purpose of inducing Secured Party to make the loan evidenced by the Note, proves to have been false in any material respect when made or furnished; (d) a default under any other mortgage on the Collateral (whether such other mortgage be held by Secured Party or by a third party); (e) the institution of foreclosure proceedings of another mortgage or lien of any kind on the Collateral (whether such other mortgage or lien be held by Secured Party or by a third party); (f) the default by Debtor in the payment or performance of any obligation, covenant, agreement, or liability contained in any other mortgage, note, obligation or agreement held by Secured Party, including but not limited to that certain revolving line of credit loan in the amount of \$5,000,000.00 made by Secured Party to Debtor evidenced by Renewal Master Note dated on even date herewith; (g) the death, dissolution, termination of existence, insolvency, or business failure of any obligor; (h) the appointment of a receiver of any part of the Collateral; (i) the assignment for the benefit of creditors or the commencement of any proceedings in bankruptcy or insolvency by or against any obligor; (j) the determination by Secured Party that a material adverse change has occurred in the financial condition of any obligor from the conditions set forth in the most recent financial statement of such obligor heretofore furnished to Secured Party or from the condition of such obligor as heretofore most recently disclosed to Secured Party in any manner; (k) the failure by Debtor or any party

2

obligated under the Note or any guaranty thereof to make any payment of principal or interest when due under any obligation to any other creditor, if such failure continues beyond any applicable grace period; (l) any substantial part of the inventory, equipment, or other property of Debtor, real or personal, is damaged or destroyed and the damage or destruction is not covered by collectible insurance; (m) Debtor suffers or permits any lien, encumbrance, or security interest to arise or attach to any of Debtor's property, which is not satisfied within 30 days; (n) any judgment is entered against Debtor that is not satisfied or appealed within 30 days; or (o) falsity in any material respect of, or any material omission in, any representation or statement made to Secured Party by or on behalf of any obligor in connection with the loan evidenced by this Note. Upon the occurrence of any such default or at any time thereafter, subject to the grace period, if any, provided in the Note, Secured Party may, at its option, declare the whole amount of principal and interest provided for in and by the Note, and any and all other secured indebtedness, immediately due and payable without demand or notice of any kind to any person, and the same thereupon shall become immediately due, payable and collectible (by foreclosure or otherwise) at once and without notice to Debtor. Any default hereunder shall constitute a default under any other mortgage, note, obligation or agreement of Debtor held by Secured Party. The agreements contained in this paragraph to create cross-defaults under all mortgages, notes, obligations and agreements between Debtor and Secured Party, whether currently existing or hereafter created, in the event of default under one or more of such mortgages, notes, obligations or agreements are a material and specific inducement and

consideration for the making by Secured Party of the loan evidenced by the Note.

Upon the occurrence of any such default or at any time thereafter, Secured Party may at its option declare all obligations secured hereby immediately due and payable without notice and may thereupon exercise, with respect to the Collateral or any part thereof, any or all rights and remedies available to it under the Florida Uniform Commercial Code. All expenses of recovering and disposing of the Collateral shall be borne by Debtor. The requirement of reasonable notice shall be met if such notice is mailed postage prepaid to Debtor at the address shown at the beginning of this Agreement or at any other address shown on the records of Secured Party at least five days before the time of the sale or disposition. Debtor shall be and remain liable for any deficiency, and Secured Party shall account to Debtor for any surplus arising after any sale of the Collateral.

Upon the occurrence of any default, Secured Party shall have the right to enter and/or remain upon the Property, without any obligation to pay rent to Debtor or others, or any other place or places where any of the Collateral is located or kept, and to remove the Collateral therefrom to the premises of Secured Party or any agent of Secured Party, for such time as Secured Party may desire, in order to maintain, sell, collect and/or liquidate the Collateral; or use the Collateral, together with materials, supplies, books and records of Debtor, to maintain possession and/or the condition of the Collateral, and to prepare the Collateral for selling, liquidating or collecting. Secured Party may require Debtor to assemble the Collateral and make it available to Secured Party at a place to be designated by Secured Party which is reasonably convenient to both parties.

Debtor hereto grants to Secured Party, as the attorney-in-fact of Debtor, full power of substitution and full power to do any and all things necessary to be done in and about the Property and with respect to the Collateral as fully and effectively as Debtor might or could do but for this appointment, and hereby ratifies all that Secured Party shall lawfully do or cause to be done by virtue of such power of attorney. Neither Secured Party nor its agents shall be liable for any acts or omissions or for any error of judgment or mistake of fact or law in its capacity as such attorney-in-

3

fact. This power of attorney is coupled with an interest and shall be irrevocable so long as any indebtedness secured by this Agreement shall remain outstanding.

Each of the named Debtors hereunder severally waives all rights of homestead exemption, and of presentment, demand for payment, protest, notice of protest and notice of dishonor; consents that the Note or other obligations secured hereby, or any part hereof may from time to time, be extended or renewed without notice for any period (whether or not longer than the original period of the Note or obligation); agrees that the exchange, release, surrender or sale of all or any Collateral which may be given as security hereunder shall not release or discharge any party obligated hereunder; agrees that the release of any party liable upon or in respect of the Note and other obligations secured shall not release any other such party; and hereby agrees to pay, in the event of a default, all costs, expenses and reasonable attorneys' fees (which shall include fees for legal assistants) incurred by Secured Party as a result of such default by Debtor, whether or not incurred in connection with litigation or other legal proceedings, including those costs, expenses and reasonable attorneys' fees incurred in appellate proceedings.

Secured Party shall have the right in its own name or in the name of Debtor to ask, demand, collect, receive, receipt for, sue for, compound and give acquittance for, any and all amounts due or to become due on the Collateral and to endorse the name of Debtor on all commercial paper given in payment or part payment thereof and in its discretion to file any claim or take any other action or proceeding which Secured Party may deem necessary or appropriate to protect and preserve and realize upon the security interest of Secured Party in the Collateral.

No waiver by Secured Party of any default shall operate as a waiver of any other default or of the same default on a future occasion. No delay or omission on the part of Secured Party in exercising any right of remedy shall



operate as a waiver hereof and no single or partial exercise by Secured Party of any right or remedy shall preclude any other or further exercise thereof or the exercise of any other right or remedy. Time is of the essence of this agreement. The provisions of this agreement are cumulative and in addition to the other provisions of any liability on the Note or other writing evidencing any liability secured by this agreement or otherwise, and Secured Party shall have all of the benefits, rights and remedies of and under the Note or other writing evidencing any liability secured hereby. In addition to all other rights granted hereunder, Secured Party shall have all of the rights granted a secured party under the Uniform Commercial Code.

All of the terms used herein which are defined in the Uniform Commercial Code of Florida have, except where the context indicates otherwise, the same meaning herein as in said Code, and this agreement and the obligations hereunder, including matters of construction, validity and performance, shall be governed by the Laws of Florida. Wherever used herein the singular shall include the plural, the plural the singular and the use of any gender shall include all genders.

4

Dated at Fulton County, Georgia, on July 23, 1999.

SUN HYDRAULICS CORPORATION,  
a Florida corporation

By: /s/ Richard J. Dobbyn

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Richard J. Dobbyn  
As its Chief Financial Officer

5

Exhibit 4.29

Dated as of July 23, 1999

NOTE

\$7,500,000.00

July 23, 1999

FOR VALUE RECEIVED, SUN HYDRAULICS CORPORATION, a Florida corporation ("Maker"), hereby promises, jointly and severally, to pay to the order of NORTHERN TRUST BANK OF FLORIDA, N.A. ("Lender") at 1515 Ringling Boulevard, Sarasota, FL 34236, or at such other place as the holder hereof may from time to time designate in writing, the principal sum of Seven Million Five Hundred Thousand and 00/100 Dollars (\$7,500,000.00), or so much thereof as may be disbursed by Lender to Maker or for Maker's account from time to time, together with interest at the rate hereinafter specified on such indebtedness as shall from time to time remain unpaid, until paid in full, such principal and interest being payable in lawful money of the United States which shall be legal tender in payment of all debts at the time of payment. Interest will be calculated on the basis of a 365/360 method, which computes a daily amount of interest for a hypothetical year of 360 days, then multiplies such amount by the actual number of days elapsed in an interest calculating period.

From the date hereof to and including July 23, 2000, interest on the unpaid principal sum outstanding from time to time shall accrue at a variable rate equal to the prime rate announced by Lender from time to time, minus one percent (1.00%). The interest rate will be adjusted accordingly on each date of change in the Prime Rate. The Prime Rate is not necessarily the lowest interest rate charged by Lender for monies loaned, and is intended solely as an index reference. Interest shall be due and payable in arrears on the 23rd day of each calendar month, with the first payment being due and payable August 23, 1999.

Beginning July 23, 2000, interest on the unpaid principal sum outstanding from time to time shall accrue at a fixed rate equal to the weekly average yield on United States Treasury securities, adjusted to a constant maturity of four years, as made available by the Federal Reserve Board, plus one and three-quarter percent (1.75%). The figures so used to compute the change in interest rate shall be those figures made most recently available at least ten days prior to July 23, 2000. In the event said index ceases to be available, Lender shall have the right to substitute another comparable index selected in Lender's discretion. Commencing August 23, 2000, principal and interest payments will be due and payable in consecutive monthly installments in amount established by Lender to amortize payments under this Note over a four (4) year period. The entire unpaid principal balance, together with accrued interest shall be due and payable July 23, 2004.

All payments made hereunder shall be applied first to accrued interest then due and owing; next to amounts expended by Lender to cure any default under this Note, the Security Agreement (as hereinafter defined), or any other loan documents executed in connection herewith; next to charges, costs, expenses, or attorneys' fees then due and payable to Lender under this Note, the Security Agreement, or any other loan documents; and the balance, if any, to principal.

This Note may be prepaid, in whole or in part, at any time without penalty. All prepayments made hereunder shall be applied in the same manner as other payments made hereunder, as set forth above. The making of any prepayment shall not relieve Maker from the obligation to make the payments next due hereunder on a timely basis.

If any payment is more than fifteen (15) days late, Maker agrees to pay to Lender a late charge equal to five percent (5%) of the payment. Notwithstanding the foregoing, however, all payments shall be due and payable as of the dates set forth above, and the failure to make all payments when due shall constitute a default under this Note.

This Note is secured by a security agreement (the "Security Agreement") of even date herewith made by Maker in favor of Lender encumbering personal property described therein (the "Collateral") owned by Maker.

The entire unpaid principal balance hereof together with all accrued

interest due shall, at Lender's sole option, become immediately due and payable in the event of the sale or transfer of (i) all or any part of the Collateral, or any interest therein, or (ii) any beneficial or ownership interest in Maker, whether held or owned directly or indirectly, if such sale or transfer of beneficial or ownership interest results in less than thirty five percent (35%) of Maker being owned by Robert Koski and/or his immediate family (collectively, "Koski Family"), or by trusts, partnerships or other entities that are, in turn, owned and controlled by the Koski Family.

Each and every party to this Note, whether as Maker, endorser, surety, guarantor, or otherwise ("Obligor"), hereby waives all rights of homestead and other exemptions granted by the constitution or laws of Florida, and further waives presentment, demand, protest, notice of dishonor, notice of nonpayment, notice of protest, and diligence in collection, and assents to the terms hereof and to any extension or postponement of the time for payment or any other indulgence. It is further specifically agreed that this Note or any part of the principal or interest due hereon may be renewed, modified or extended, in whole or in part, such modification to include but not be limited to changes in payment schedules and interest rates, from time to time by the holder of this Note, at the request of the then owners of all or part of the Collateral, or at the request of any party bound hereon or who has assumed or may hereafter assume payment hereof, without the consent of or notice to other parties bound hereon and without releasing them from any liabilities then existing.

Each and every Obligor hereby consents that the real or personal property securing this Note, or any part of such security, may be released, exchanged, added to or substituted for by Lender, without in any way modifying, altering, releasing, affecting or limiting their respective liabilities or the lien of the Security Agreement, and further agrees that Lender shall not be required first to institute any suit, or to exhaust any of its remedies against Maker or any other person or party liable or to become liable hereunder, in order to enforce payment of this Note, and further agrees that Maker or any other party liable hereunder may be released by Lender from any or all liability under this Note and such release shall in no way affect or modify the liability of the remaining parties hereto.

2

Each and every Obligor hereby consents and agrees that he is bound, jointly and severally, under the terms hereof and is subject to all of the provisions set forth herein as fully as though each was an undersigned hereof, and further consents and agrees that any Obligor may be sued by Lender without joining any other Obligor, whether primarily or secondarily liable.

Notwithstanding anything contained herein to the contrary or in the Security Agreement, or other loan documents executed in connection herewith, no payee or holder of this Note shall ever be entitled to receive, collect or apply as interest on the obligation evidenced hereby any amount in excess of the maximum rate of interest permitted to be charged by applicable law and, in the event Lender or any holder hereof ever receives, collects or applies as interest any such excess, such amount which would be excessive interest shall be applied to the reduction of the principal sum; and, if the principal sum is paid in full, any remaining excess shall forthwith be paid to Maker. In determining whether or not the interest paid or payable under any specific contingency exceeds the highest lawful rate, Maker and Lender shall, to the maximum extent permitted under applicable law: (a) characterize any non-principal payment as an expense, fee or premium rather than as interest; (b) exclude voluntary prepayments and the effects thereof; and (c) spread the total amount of interest, or charges in the nature of interest, pursuant to applicable law.

As used herein, "Event of Default" shall mean the occurrence of any of the following events or conditions: (a) failure or omission to pay, within fifteen (15) days after payment is due, this Note (or any installment of principal or interest hereunder); (b) default in the payment (other than payment of principal and interest) or performance of any obligation, covenant, agreement or liability contained or referred to in the Security Agreement, this Note, or any other loan document executed in connection herewith, or upon the existence or occurrence of any circumstance or event deemed a default under this Note or any other loan document executed in connection herewith; (c) any warranty, representation or statement made or furnished by any Obligor to Lender for the purpose of inducing Lender to make the loan evidenced by this

Note, proves to have been false in any material respect when made or furnished; (d) a default under any other mortgage on the Collateral (whether such other mortgage be held by Lender or by a third party); (e) the institution of foreclosure proceedings of another mortgage or lien of any kind on the Collateral (whether such other mortgage or lien be held by Lender or by a third party); (f) the default by Maker in the payment or performance of any obligation, covenant, agreement, or liability contained in any other mortgage, note, obligation or agreement held by Lender, including but not limited to that certain revolving line of credit loan in the amount of \$5,000,000.00 made by Lender to Maker evidenced by Renewal Master Note dated on even date herewith; (g) the death, dissolution, termination of existence, insolvency, or business failure of any Obligor; (h) the appointment of a receiver of any part of the Collateral; (i) the assignment for the benefit of creditors or the commencement of any proceedings in bankruptcy or insolvency by or against any Obligor; (j) the determination by Lender that a material adverse change has occurred in the financial condition of any Obligor from the conditions set forth in the most recent financial statement of such Obligor heretofore furnished to Lender or from the condition of such Obligor as heretofore most recently disclosed to Lender in any manner; (k) the failure by Maker or any party obligated under this Note or any guaranty hereof to make any payment of principal or interest when due under any obligation to any other creditor, if such failure continues beyond any applicable grace period; (l) any substantial part of the inventory, equipment, or other property of Maker, real or personal, is damaged or destroyed and the damage or destruction is not covered by collectible insurance; (m) Maker suffers or permits any lien, encumbrance, or

3

security interest to arise or attach to any of Maker's property, which is not satisfied within 30 days; (n) any judgment is entered against Maker that is not satisfied or appealed within 30 days; or (o) falsity in any material respect of, or any material omission in, any representation or statement made to Lender by or on behalf of any Obligor in connection with the loan evidenced by this Note. Upon the occurrence of any such default or at any time thereafter, subject to the grace period, if any, provided in this Note, Lender may, at its option, declare the whole amount of principal and interest provided for in and by this Note, and any and all other secured indebtedness, immediately due and payable without demand or notice of any kind to any person, and the same thereupon shall become immediately due, payable and collectible (by foreclosure or otherwise) at once and without notice to Maker. Any default hereunder shall constitute a default under any other mortgage, note, obligation or agreement of Maker held by Lender. The agreements contained in this paragraph to create cross-defaults under all mortgages, notes, obligations and agreements between Maker and Lender, whether currently existing or hereafter created, in the event of default under one or more of such mortgages, notes, obligations or agreements are a material and specific inducement and consideration for the making by Lender of the loan evidenced by this Note.

It is expressly agreed that upon the occurrence of an Event of Default, or if Lender shall deem itself insecure (because the prospect of timely payments is impaired, because the value of Lender's security is impaired, because the prospect of performance of any covenant or agreement under this Note, the Security Agreement, or any other loan document is impaired, because of any change of circumstance which adversely affects any matters originally considered by Lender in making the loan, or otherwise), then or at any time thereafter at the option of Lender, the whole of the principal sum remaining unpaid hereunder, together with all accrued and unpaid interest thereon, shall become due and payable immediately without notice, anything contained herein to the contrary in any way notwithstanding, and in any such event Lender shall have the right to set-off against this Note all money owed by Lender in any capacity to any Obligor, whether or not due, and Lender shall be deemed to have exercised such right of set-off and to have made a charge against any such money immediately upon the occurrence of an Event of Default although made or entered on the books subsequent thereto. From and after an Event of Default, the interest rate on the entire outstanding principal balance hereunder shall accrue at the highest rate permitted to be charged by applicable law ("Default Rate"). In the event the Default Rate shall be applicable and Lender has not accelerated this Note, the amount of each payment otherwise due hereunder shall be increased to an amount equal to the regular amount of the principal installment due hereunder, plus accrued interest at the Default Rate. Any judgment rendered on this Note shall bear interest at the Default Rate.

Each Obligor shall be obligated to pay as part of the indebtedness evidenced by this Note all costs of collection, whether or not a suit is brought, including any reasonable attorneys' fees that may be incurred in the collection or enforcement hereof. The term "attorneys' fees" shall include but not be limited to any such fees incurred in any appellate or related ancillary or supplementary proceedings, whether before or after final judgment related to the enforcement or defense of this Note.

If at any time any federal, state, county or municipal government or agency thereof shall impose any documentary stamp tax, intangible tax, or any other type of tax upon this Note or the Security Agreement, or upon the indebtedness evidenced hereby (other than any federal, state or

4

local income tax imposed upon Lender), then Maker shall pay same within fifteen (15) days after demand by Lender, together with any interest and penalties thereon.

Time is of the essence of this Note. The remedies of Lender as provided herein or in the Security Agreement, or any other loan document executed in connection herewith, shall be cumulative and concurrent, and may be pursued singularly, successively or together, at the sole discretion of Lender, and may be exercised as often as occasion therefor shall arise. No act or omission of Lender, including specifically any failure to exercise any right, remedy or recourse, shall be deemed to be a waiver or release of such right, remedy or recourse, and any waiver or release may be effected only through a written document executed by Lender and then only to the extent specifically recited therein. A waiver or release with respect to any one event shall not be construed as continuing as a bar to, or as a waiver or release of, any subsequent right, remedy or recourse as to any subsequent event.

The term "Lender" where used herein shall include Lender's successors and assigns. The term "Maker" shall include each person signing this Note, jointly and severally, and their respective heirs, successors and assigns. The term "Obligor" shall include Maker and every person who is an endorser, guarantor, or surety of this Note, or who is otherwise a party hereto, and their respective heirs, successors and assigns. The terms "person" and "party" shall include individuals, firms, associations, joint ventures, partnerships, estates, trusts, business trusts, syndicates, fiduciaries, corporations, and all other groups or combinations. Whenever used herein, the singular number shall include the plural, the plural the singular, and the use of any gender shall include all genders. This Note shall be construed under Florida law.

IN WITNESS WHEREOF, Maker has caused this Note to be duly executed and delivered as of the date first above written.

Maker's Address:

1500 University Parkway  
Sarasota, FL 34243

SUN HYDRAULICS CORPORATION,  
a Florida corporation

By: /s/ Richard J. Dobbyn

-----  
Richard J. Dobbyn  
As its Chief Financial Officer

5

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

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