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

# FORM 10-K

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

For the fiscal year ended December 30, 2000 Commission file number 0-21835

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

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|---|---|
| FLORIDA | 59-2754337 |
| (State or Other Jurisdiction of Incorporation or Organization) | (I.R.S. Employer Identification No.) |

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|---|---|
| 1500 WEST UNIVERSITY PARKWAY SARASOTA, FLORIDA | 34243 |
| (Address of Principal Executive Offices) | (Zip Code) |

941/362-1200
(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act: None
Securities registered pursuant to Section 12(g) of the Act:

Common Stock, Par Value $.001 per share
(Title of Class)

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 [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

The aggregate market value of the voting stock held by non-affiliates of the Registrant on February 26, 2001, was $23,013,273 based upon the closing sale price of $7.125 on the Nasdaq Stock Market's National Market for that date. As of February 26, 2001, there were 6,384,948 shares outstanding.

## PART I

## ITEM 1. BUSINESS

Certain statements contained in this "Item 1. Business" that are not historical facts are "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934. See "Item 7. Forward-Looking Information."

OVERVIEW

The Company is a leading designer and manufacturer of high-performance screw-in hydraulic cartridge valves and manifolds, which control force, speed and motion as integral components in fluid power systems. The innovative floating construction of the Company's screw-in cartridge valves and the design of the cavities in which they are installed provides demonstrable performance and reliability advantages compared to other available screw-in cartridge valves. The Company designs and manufactures one of the most comprehensive lines of screw-in hydraulic cartridge valves and manifolds in the world. The Company has generated a profit every year since 1972 and has paid a dividend every quarter since its public offering in 1997. The Company believes that its success is primarily a result of its innovative product design, consistent high quality, superior product performance and the breadth of the markets it serves.

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

Management believes that screw-in hydraulic cartridge valves and manifolds have captured approximately $750 million of the worldwide market for all non-aerospace hydraulic valves and manifolds since their introduction in the 1950s. Management believes this market to be in excess of $4 billion. Screw-in cartridge valves are an accepted alternative to conventional forms of hydraulic valving, offering significant design flexibility, as well as substantial size, weight and efficiency benefits to designers of hydraulic systems. A manifold is a solid block of metal, usually aluminum, steel or ductile iron, that is machined to create threaded cavities and channels into which screw-in cartridge valves are installed and through which the hydraulic fluids flow. Fluid power engineers can package standard or customized manifolds with screw-in cartridge valves to create application-specific, multiple-function hydraulic control systems that are safe, reliable and provide substantial control.

The Company's products include valves that provide directional control, pressure and flow control, and motion and load control, as well as a variety of other functions. Valves are currently available in up to five different size ranges, and are suitable for flows from 1 to 400



gallons per minute and continuous operating pressures up to 5,000 pounds per square inch. The Company believes its floating construction is a significant competitive advantage due to its self-alignment characteristic that accommodates potential manufacturing deviations common in the thread-making operations of screw-in cartridge valves and manifolds. Floating construction significantly differentiates the Company from most of its competitors, which predominantly design and manufacture rigid screw-in cartridge valves that fit into an industry common cavity. The Company believes that competing products typically do not offer the inherent reliability of the Company's products and cannot provide equivalent operating performance because of the design constraints imposed by the industry common cavity. Some competitors have begun to manufacture products that fit into the Company's cavity. Strategically, the Company believes the markets for its products will expand more rapidly as other competitors manufacture products that fit the Company's cavity. In addition to screw-in cartridge valves, the Company also designs and produces the most comprehensive line of standard, cataloged manifolds in the screw-in cartridge valve and manifold industry, as well as custom manifolds that incorporate the Company's screw-in cartridge valves.

The Company sells its products primarily through a global network of independent fluid power distributors to a diverse universe of end users, for use in various "mobile" applications, such as construction, agricultural and utility equipment (approximately 66% of net sales), and a broad array of "industrial" applications, such as machine tools and material handling equipment (approximately 34% of net sales). While many of the Company's end users are subject to cyclical demand for their products, the Company mitigates this exposure through the wide variety of applications and industries it serves. Sales to the Company's largest distributor represented less than 7.5% of net sales in 2000, and the Company believes that aggregate sales by its distributors to the largest end user represented less than 3% of net sales in 2000.

The Company believes that screw-in cartridge valves will continue to achieve significant growth at the expense of conventional hydraulic valves as design engineers recognize the inherent advantages of screw-in cartridge valves. The Company believes that additional growth potential for screw-in cartridge valve applications exists as a result of a trend toward miniaturization as end users require smaller, lighter-weight and more efficient components. Custom manifolds that utilize screw-in cartridge valves allow customers to design an optimal solution for control of their fluid power systems that significantly reduces assembly time and expense. The United States and Western Europe are the largest developed markets for screw-in cartridge valves and the Company believes these markets will continue to expand. The Company believes the long-term future growth prospects are particularly attractive in the Pacific Rim, Eastern Europe, and South America where the adoption of screw-in cartridge valves is in the early stage. During 2000, approximately 40% of the Company's net sales were outside the United States.

The Company's goal is to grow its business by helping to increase the market awareness of the benefits of using screw-in cartridge valves, expanding its geographic presence, and continuing to expand its product offerings to increase its market share.

The Company was organized as a Florida corporation in 1986 to take over the operations of the business of the Company's predecessor, Suninco, Inc. (f/k/a Sun Hydraulics Corporation).



Suninco, Inc. was founded in 1970 by Robert E. Koski for the specific purpose of developing and promoting screw-in cartridge valve technology. The address of the Company's executive offices is 1500 West University Parkway, Sarasota, Florida 34243, its telephone number is (941) 362-1200, and its website address is www.sunhydraulics.com.

## INDUSTRY BACKGROUND

Fluid power is one of three basic technologies, along with electrical and mechanical, utilized to achieve power transmission and motion control. Due to its mechanical advantage, fluid power is widely employed to move and position materials, control machines, vehicles and equipment, and improve industrial efficiency and productivity. Fluid power can perform work on very light loads with a high degree of accuracy or develop enormous forces to move and position materials and equipment that weigh many tons.

Screw-in hydraulic cartridge valves first appeared in the late 1950s as an alternative to conventional forms of hydraulic valving. Conventional hydraulic valves are generally larger in size, typically manufactured from cumbersome iron castings, relatively limited in their ability to interface with machinery and equipment, and are usually simple devices designed to control a single task. Screw-in cartridge valves represent a miniaturization of hydraulic valves, providing the same functional characteristics as conventional valves, but in a smaller package size. In addition to being lighter-weight and more compact, screw-in cartridge valves frequently offer significant advantages in interface flexibility and cost over conventional hydraulic valves.

Screw-in cartridge valves have achieved greater marketplace acceptance in recent years as hydraulic system design engineers increasingly use them to develop multiple-function control systems. A number of screw-in cartridge valves can be grouped together in a manifold, creating a hydraulic control system that is functionally analogous to an electronic integrated circuit. End users can utilize screw-in cartridge valves and custom manifolds to design an optimal solution for control of their fluid power systems that significantly reduces assembly time and expense.

STRATEGY

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

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



Offer a Wide Variety of Standard Products. The Company currently offers one of the most comprehensive lines of non-solenoid screw-in cartridge valves and manifolds in the world and has recently released solenoid screw-in cartridge valves. The Company is committed to producing functionally superior, standard products that contain a high degree of common content to minimize work in process and maximize manufacturing efficiency. Products are designed for use by a broad base of industries to minimize the risk of dependence on any single market segment or customer. The Company, in the future, will seek to expand its business through development of new products that are complementary to its existing products. The Company will also consider expanding the size ranges of products it offers by sizing certain products to larger sizes.

Expand the Product Line. The Company is continuously engaged in new product development programs to offer new and better cartridge valve solutions to its customers. New cartridge products generally fit into existing cavities, often allowing them to be installed in existing standard manifolds. The Company also sizes its products to meet different application requirements. The recent introduction of the Series `0' products in 1996 halved the flow capacity of the Company's Series `1' products. In the future, the Company may continue to size some of its products with the intent of offering products suitable for different application areas. In 1999, the Company introduced the first products in a new range of electrically actuated (solenoid) cartridge valves. The new solenoid cartridge valves establish a foundation to expand this range of products into other electrically actuated control valves, including proportional controls. With the introduction of these products, the Company believes it gains the opportunity to obtain sales for which it previously could not compete, and further believes that the solenoid cartridge valves will help increase sales of the Company's other cartridge valve and manifold products.

Capitalize on Custom Manifold Opportunities. Because fluid power system design engineers are increasingly incorporating screw-in cartridge valves into custom control systems, the Company will concentrate its efforts in custom manifolds in two ways. The Company will design and manufacture manifolds, which incorporate the Company's screw-in cartridge valves for sale to original equipment manufacturers ("OEMs"). The Company's internally-developed, proprietary expert system software allows the Company to manufacture manifolds efficiently in low quantities. The Company will also encourage competitive manifold manufacturers to utilize the Company's screw-in cartridge valves in their manifold designs. The Company sells tooling for machining its cavities, allowing independent manifold manufacturers easily to incorporate the Company's screw-in cartridge valves into their designs.

Expand Global Presence. The Company intends to continue to increase its global presence through expansion of its distribution network and its international manufacturing capabilities. In addition to operating units in the United States, England, Germany, Korea and a joint venture in China, the Company has strong distributor representation in most developed and developing markets, including Canada, Western Europe, Taiwan, Singapore, Australia, and Japan. In 2000, the Company generated approximately 40% of its net sales outside the United States. Key areas for expansion where the Company has minimal presence include Central and South America, China and Eastern Europe. The Company believes that further expansion of its international manufacturing facilities could enhance its competitive position in certain foreign



markets. In addition, custom manifolds provide an opportunity for operating units and distributors to offer significant value-added content through the local production of manifolds that incorporate the Company's screw-in cartridge valves. This strategy helps minimize potential tariffs and duties that could inflate the price of the Company's products in foreign markets.

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

Leverage Manufacturing Capability and Know-how as Competitive Advantages. The Company believes that one of its competitive advantages is its ability to manufacture products to demanding specifications. The Company's strong process capability allows it to machine parts to exacting dimensional tolerances, resulting in the high performance characteristics of its screw-in cartridge valves. The Company has the ability to control manufacturing processes to replicate products consistently and can, if desired, manufacture most of the components of its products with the exception of springs, elastomer seals, and electrical coils. The Company has in-house heat treatment capability to provide consistent and reliable control of this critical operation. Many of the processes discovered and/or developed by the Company often allow cartridge valve design engineers to create new products that otherwise may not have been considered.

Sell Through Distributors. Due to the variety of potential customers and the Company's desire to avoid unnecessary bureaucracy, the sales function has been performed primarily by independent distributors. The Company has approximately 75 distributors, 52 of which are located outside the United States, and a majority of which have strong technical backgrounds or capabilities, which enable them to develop practical, efficient, and cost-effective fluid power systems for their customers. Many of these distributors sell products manufactured by other companies that allow them to provide a complete hydraulic system to the customer. The Company provides a high level of technical support to its distributors through open access to the Company's engineering staff, technical documentation, and technical training programs. In addition, the Company maintains close relationships with many OEMs and end users of its products to help it understand and predict future needs for fluid power control devices and to test and refine new product offerings.

Brand Label and License Manufacturing where desirable. Two areas the Company has not historically exploited to increase the market penetration of its products are brand labeling and manufacturing licensing agreements. In 1999, the Company entered into a non-exclusive supply agreement with Mannesmann Rexroth, A.G. ("Rexroth"), a German full-line hydraulic



component and systems manufacturer, under which the Company will manufacture selected products carrying the Rexroth logo. In addition, the Company has a non-exclusive licensing agreement whereby Rexroth will manufacture some of the Company's products for use in its own fluid power systems. The Company may also consider entering into similar agreements with other manufacturers of fluid power components if it deems it to be of strategic benefit.

PRODUCTS

SCREW-IN CARTRIDGE VALVES

The Company designs and manufactures high-performance, screw-in hydraulic cartridge valves in up to five size ranges, suitable for flows from one to 400 gallons per minute and continuous operating pressures up to 5,000 pounds per square inch. The floating construction pioneered by the Company provides demonstrable performance and reliability advantages compared to most competitors' product offerings due to its self-alignment characteristic that accommodates potential manufacturing deviations common in the thread-making operations of screw-in cartridge valves and manifolds. This floating construction significantly differentiates the Company from most of its competitors, which design and manufacture rigid screw-in cartridge valves that fit an industry common cavity. The floating construction of the Company's screw-in cartridge valves eliminates the tendency of working parts inside the cartridge valves to bind when screwed into the manifold, which leads to unnecessary stress and, often, premature failure. Recently some competitors have begun to manufacture products that fit the Company's cavity. Strategically, the Company believes the markets for its products will expand more rapidly if other sources are available for products that fit the Company's cavity. One company specifically, Rexroth, has formally announced that it will begin designing and manufacturing a line of screw-in cartridge valves that fit the Company's cavity. The Company considers this announcement a strong endorsement of its design principles and is working with Rexroth as it begins its design program.

The Company has historically developed new market opportunities by sizing its screw-in cartridge valves to accommodate application requirements with various flow ranges. Most recently, the Company sized some of its products downward and introduced its series `0' valve in 1996. Management believes that these products contribute to increased sales because of their suitability to a broad segment of market-application areas. Management believes that upward sizing of the product line may represent an opportunity for future growth.

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

Load Control Valves. The Company considers itself to be the world's recognized leader in the design and manufacture of load control valves and believes that it holds a dominant market share position in multiple end use applications. Load control valves are pressure devices that are used to control the motion and locking of linear and rotary



hydraulic actuators (cylinders and motors) and often are used as safety devices in many critical system areas. Typical applications for these products include cranes, manlifts, and aerial platforms. The uncompromising requirement for smooth and reliable operation in these applications has helped build the Company's reputation as a high quality, screw-in cartridge valve manufacturer. Load control valves represent the Company's largest selling product family. The Company believes that most valves that fit the Company's cavity that are being manufactured by competitors are load control valves. The Company does not believe any competitive manufacturer produces sufficient volume, or offers the variety of different valve configurations that the Company does, to materially affect the Company's revenues.

Pressure Control Valves. The Company manufactures a variety of screw-in cartridge valves that control pressure in fluid power systems. Types of pressure controls include relief valves, reducing valves, reducing/relieving valves, sequence valves, and unloading valves. Typically, the Company provides many alternatives of each different type of pressure control valve, which allows machine designers to more optimally design their fluid power systems. Most hydraulic systems incorporate at least one pressure relief valve for over-pressure protection. A new, patented "soft-ramp" relief valve recently designed by the Company is being introduced in 2001.

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

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

Electrically Actuated Control Valves ("Solenoid") The Company manufactures high-pressure spool-type pilot solenoid valves and other pilot devices that can be used to actuate its logic and directional control valves and other screw-in cartridge valves. Recognizing the need for direct-acting solenoid valves, the Company, in 1999, introduced a range of full-flow poppet and spool solenoid cartridge valves that can be used for directional control. These products give the Company entry into a large market not currently served by the Company's other screw-in cartridge valves. In addition, the Company believes that by offering its own solenoid cartridge valves, it will be in a better position to compete for custom manifold business. The basic design of the Company's solenoid cartridge valves establishes a foundation to develop other electrical/hydraulic valves, including proportional valves.



Other Complementary Products. The Company designs and manufactures a broad array of screw-in cartridge valves that can be applied in combination with other Company products to offer useful and unique functionality. For example, the Company's Air-Bleed and Start-Up cartridge valves help protect a fluid power system from potential damage by releasing air trapped in the system when a machine is shut down for maintenance. Many of these functional products are not manufactured by any other competitors, providing the Company with additional sales opportunities. While these products are not generally demanded in high volumes, their usefulness across industries helps strengthen the Company's brand name and market penetration. The Company will continue to develop other complementary products in the future.

## MANIFOLDS

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

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

- Line Mounted Manifolds can be placed anywhere in a hydraulic system and are easily connected to various standard couplings. These specific products are suitable for both mobile and industrial applications.

- Subplates and Sandwich Manifolds are offered in six different sizes and industry standard interface patterns, and generally are used in industrial applications. The Company believes that the breadth of different functional screw-in cartridge valves it manufactures allows it to offer more functionally unique standard sandwich manifolds than any other cartridge valve or conventional valve manufacturer.

- Motor Mount Manifolds fit a variety of the most common commercially available hydraulic motor interface patterns. These products allow users of hydraulic motors to buy standard control elements to interface simply and easily with their motors.

- Pre-packaged Valve Assemblies are pre-configured packages designed to control common hydraulic circuits such as hydrostatic drives, accumulator unloading, and cylinder regeneration. These products typically contain at least two dissimilar cartridges and allow designers to conveniently purchase a standard valve package for common hydraulic circuit requirements.



Custom Manifolds. Custom manifolds are designed for a customer-specific application and typically combine many different screw-in cartridge valves in a single package or multiple packages. The Company's internally-developed, proprietary expert system software allows the Company to manufacture manifolds efficiently in low volumes. The innovative design of the Company's screw-in cartridge valves allows manifolds to be physically smaller for certain applications than functionally similar manifolds containing competitors' screw-in cartridges that fit industry common cavities. The Company believes many of the custom manifolds that incorporate cartridge valves, which fit industry common cavities require testing after assembly. The Company does not routinely test manifolds that contain its screw-in cartridge valves because of the inherent reliability of the cartridge valves and believes this provides a significant competitive advantage. Custom manifolds provide many benefits to end users and equipment manufacturers, including reduced assembly time, reduced leakage points, neater packaging, potentially fewer hose and fitting connections, and more control functions in a single location.

ENGINEERING

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

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

During product development, engineers work closely with manufacturing personnel to define the processes required to manufacture the product reliably and consistently. The close link between engineering and manufacturing helps smooth the transition from design to market. Design changes to facilitate manufacturing processes are sometimes considered but not if product performance levels would be compromised. The Company practices a continuous improvement process, which it believes is largely attributable to its horizontal management structure that empowers employees and encourages their creative contribution. At various times the Company may incorporate design changes in a product to improve its performance or life expectancy. All of the Company's engineers provide application support to customers and distributors.



MANUFACTURING

The Company is a process intensive manufacturing operation that extensively utilizes computer numerically controlled ("CNC") machinery to manufacture its products. Where commercial machinery is not available for specific manufacturing or assembly operations, the Company often designs and builds its own machinery to perform these tasks. The Company makes extensive use of automated handling and assembly technology (robotics) where possible to perform repetitive tasks, thus promoting manufacturing efficiencies and workplace safety. The Company has its own electric heat treatment furnaces to provide consistent and reliable control of this important operation. A new heat treatment furnace was installed in February 2000 in the Company's Manatee, Florida, facility. The additional heat treatment furnace allows the Company to increase capacity, reduce manufacturing cycle times and create redundant capability for most of its in-house manufacturing processes.

The Company's manufacturing operations include turning, grinding, honing and lapping operations for its screw-in cartridge valves and milling and drilling operations for its manifolds. Most machinery employed by the Company is computer numerically controlled, including CNC lathes and machining centers. The Company also employs robots and a variety of vision systems for inspection and decision making tasks. The Company utilizes internally developed, proprietary, personal computer based software to program some machines off-line and to minimize setup times. The Company also employs an expert system that supports the use of compound angle holes in manifold designs, a technique that allows manifolds to be made smaller in size with fewer potential leak points.

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

The Company employs a build-to-order philosophy and relies on its distributors to purchase and maintain sufficient inventory to meet their customers' demands. With this build-to-order philosophy, most raw materials, including aluminum and steel, are delivered on a just-in-time basis. These and other raw materials are commercially available from multiple sources.

The Company controls most critical finishing processes in-house but does rely on a small network of outside manufacturers to machine cartridge components to varying degrees of completeness. Many high-volume machining operations are performed exclusively at outside suppliers. The Company is very selective in establishing its supplier base and attempts to develop and maintain long-term relationships with suppliers. The Company continually reviews all of its suppliers to improve the quality incoming parts and to assess opportunities for better control of both price and quality. Manufacturing processes at the existing facilities in the United States, England and Korea are certified to ISO 9002.



SALES AND MARKETING

The Company's products are sold globally, primarily through independent fluid power distributors. Distributors are supported with product education programs conducted by the Company at its facilities. Technical support is provided by each of the Company's manufacturing operations (Florida, England, Germany, Korea, and China). Included in the Company's sales and marketing staff are hydraulic engineers who have significant experience in the fluid power industry. Discount pricing structure encourage distributors to buy in moderate to high volumes to ensure there is a local inventory of products in the marketplace.

The Company currently has approximately 75 distributors, 52 of which are located outside the United States and a majority of which have strong technical backgrounds or capabilities, which enable them to develop practical, efficient, and cost-effective fluid power systems for their customers. In 2000, sales to the Company's largest distributor represented less than 7.5% of net sales and net sales outside of the United States represented approximately 40% of total net sales.

In addition to distributors, the Company sells directly to other companies within the hydraulic industry under a pricing program that does not undermine the primary distributors' efforts. Companies that participate in this program utilize the Company's products in a value-added application, integrating the Company's screw-in cartridge valves into other fluid power products or systems of their manufacture. Management believes this strategy strengthens the Company by encouraging other manufacturers to buy from the Company. The "goodwill" relationships that result from this strategy also help to keep the Company abreast of technological advances within the fluid power industry, aiding in new product development.

In 1999, the Company signed a non-exclusive supply agreement with Rexroth, a German manufacturer of fluid power components and systems, which allows Rexroth to purchase the Company's standard products for incorporation into its hydraulic systems. Rexroth is one of the largest hydraulic manufacturers of fluid power systems in the world and has significant presence in all major markets. Through this relationship, the Company believes that it will gain entry into new markets, both geographically and for new applications. Management anticipates that it will evaluate similar agreements with other manufacturers' of fluid power components when to do so would be of strategic benefit.

While the Company principally sells its products through distributors, it provides end users with technical literature that sometimes include suggested list prices along with suggested customer discounts. This program is intended to provide design engineers with all information necessary to specify and obtain the Company's products. Publishing and distributing technically comprehensive catalogs in multiple languages makes the Company's products easy to purchase.



CUSTOMERS

The Company believes that its single largest end use customer represented less than 3% of net sales in 2000, minimizing risks of dependence on major customers. Management does not believe that the loss of any one customer would not have a material adverse effect on the Company's business. End-users are classified by whether their primary applications for the Company's products are "mobile" or "industrial."

Mobile applications involve equipment that generally is not fixed in place and is often operated in an uncontrolled environment, such as construction, agricultural and utility equipment. Mobile customers were the original users of screw-in cartridge valves due to the premium that these industries place on considerations of space, weight, and cost. Mobile customers currently account for approximately 66% of the Company's net sales.

Industrial applications involve equipment that generally is fixed in place in a controlled environment. Examples include presses, injection molding equipment, and machine tools. The requirements of the industrial marketplace are more demanding than most mobile applications since industrial equipment typically operates at significantly higher cycles. The Company's products are designed to withstand these operating imperatives, and industrial applications currently account for approximately 34% of the Company's net sales. Many conventional valve designs are still used in industrial applications and represent substitution opportunities for the Company's products.

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

COMPETITION

The hydraulic valve industry is highly fragmented and intensely competitive. The Company has a large number of competitors, some of which are full-line producers and others that are niche suppliers similar to the Company. Most competitors market globally. Full-line producers have the ability to provide total hydraulic systems to customers, including components functionally similar to those manufactured by the Company. There has been increasing consolidation activity within the industry recent years, with large, full-line producers filling out their product lines by acquiring or entering into relationships with other hydraulics companies, and management expects there will be further consolidation in the future. The Company believes that it competes based upon quality, reliability, price, value, speed of delivery and technological characteristics.



Most of the Company's screw-in cartridge valve competitors produce screw-in cartridge valves that fit an industry common cavity that sometimes allows their products to be interchangeable. The industry common cavity is not currently supported by any national or global standards organizations. Although the International Standards Organization (ISO) has developed a standard screw-in cartridge cavity that is different from the industry common cavity, the Company is not aware of any major competitor that currently produces a full line of standard products conforming to the ISO standard. The Company does not manufacture a product that fits either the industry common or the ISO standard cavity. A few competitors manufacture selected screw-in cartridge valves that fit the Company's cavity. The Company believes the majority of these products are load control valves. To help expand market opportunities, the Company, in late 1999, entered into a non-exclusive sales agreement and a non-exclusive license agreement with Rexroth, under which products will be brand-labeled for, or manufactured under, license by Rexroth using the Company's unique cavity. Management believes that increased use of the Company's cavity will be beneficial in the long term because, although competition will increase, markets and applications for the Company's products also will increase.

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

EMPLOYEES

As of December 30, 2000, the Company had 545 full-time employees in the United States, 86 in England, 20 in Germany, and 44 in Korea. The Company continues to focus its efforts in designing and manufacturing standard products, allowing it to maintain over 90% of its employees in manufacturing, distribution, and engineering functions. No employees are represented by a union in any of the Company's operating units, and management believes that relations with its employees are good.

Employees are paid either hourly or with an annual salary at rates that are competitive with other companies in the industry and geographic area. Management believes that the combination of competitive salary, above average health and retirement plans, and a safe and pleasant working environment discourages employee turnover and encourages efficient, high-quality production. Nevertheless, due to the nature of the Company's manufacturing business, it is often difficult to attract skilled personnel.

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

PATENTS AND TRADEMARKS

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

BUSINESS RISK FACTORS

In addition to the other information in this Form 10-K Report, the following should be considered in evaluating the Company's business and its prospects:

POTENTIAL MARKETPLACE ADOPTION OF INDUSTRY STANDARD. The Company's screw-in cartridge valves fit into a unique cavity for which, to date, few other manufacturers have designed products. Accordingly, the Company's screw-in cartridge valves are not interchangeable with those of other manufacturers. Most competitive manufacturers produce screw-in cartridge valves that fit into an industry common cavity. There is an ongoing effort in the United States to produce a new international standard for screw-in hydraulic cartridge valve cavities based on the industry common cavity. Additionally, the International Standards Organization ("ISO") has an existing industry standard for screw-in hydraulic cartridge valve cavities, which is different from the Company's cavity and the industry common cavity. In the Company's view, the industry common cavity as well as the suggested standardized form of this cavity and the ISO standard cavity fail to address critical functional requirements, which could result in performance and safety problems of significant magnitude for end users. No major competitor has converted its products to fit the ISO standard cavity. Any move by a substantial number of screw-in cartridge valve and manifold manufacturers toward the adoption of ISO standard or another standard, based on the existing industry common cavity, could have a material adverse effect on the Company's business, financial condition and results of operation. See "Business - Competition."

RISKS RELATING TO GROWTH STRATEGY. In pursuing its growth strategy, the Company intends to expand its presence in its existing markets and enter new geographic markets. In addition, the Company may pursue acquisitions and joint ventures to complement its business. Many of the expenses arising from the Company's expansion efforts may have a negative effect on operating results until such time, if at all, these expenses are offset by increased revenues. The Company initiated capacity expansion programs during 1997-1999, including the construction of new manufacturing facilities in the United States and Germany, plant improvements in England, equipment purchases and, through acquisition, a facility in Korea. The Company, during 1999 and 2000, also completed the implementation of new accounting and manufacturing computer software systems at its Florida and U.K. facilities, and reconfigured its manufacturing units at its two Florida facilities. In addition to monetary expense, these matters required significant attention from senior management and contributed to the Company's past delivery problems. Management has now refocused its efforts on improving delivery times and customer responsiveness, reducing



manufacturing costs, and achieving greater profitability. There can be no assurance that the Company will be able to improve its market share or profitability, recover its expenditures for these capital improvements, or successfully implement its growth strategy. See "Business - Strategy."

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

DEPENDENCE ON KEY EMPLOYEES AND SKILLED PERSONNEL. The Company's success depends, to a significant extent, upon a number of key individuals. The loss of the services of one or more of these individuals could have a material adverse effect on the business of the Company. The Company's future operating results depend to a significant degree upon the continued contribution of its key technical personnel and skilled labor force. Competition for management and engineering personnel is intense, and the Company competes for qualified personnel with numerous other employers, some of whom have greater financial and other resources than the Company. The Company conducts a substantial part of its operations at its facilities in Sarasota, Florida. The Company's continued success depends on its ability to attract and retain a skilled labor force at this location. While the Company has been successful in attracting and retaining skilled employees in the past, there can be no assurance that the Company will continue to be successful in attracting and retaining the personnel it requires to develop, manufacture and market its products and expand its operations. See "Business - Employees."

COMPETITION. The hydraulic valve and manifold industry is highly fragmented and intensely competitive, with the Company facing competition from a large number of competitors, some of which are full-line producers and others that are niche suppliers like the Company. Full-line producers have the ability to provide total hydraulic systems to customers, including components functionally similar to those manufactured by the Company. The Company believes that it competes based upon quality, reliability, price, value, speed of delivery and technological characteristics. Many of the Company's screw-in cartridge valve competitors are owned by corporations, which are significantly larger than the Company and have greater financial resources than the Company. There can be no assurance that the Company will continue to be able to compete effectively with these companies.

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



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

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

INTERNATIONAL SALES. In 2000, approximately 40% of the Company's net sales were outside of the United States. The Company is expanding the scope of its operations outside the United States, both through direct investment and distribution and expects that international sales will continue to account for a significant portion of net sales in future periods. International sales are subject to various risks, including unexpected changes in regulatory requirements and tariffs, longer payment cycles, difficulties in receivable collections, potentially adverse tax consequences, trade or currency restrictions and, particularly in emerging economies, potential political and economic instability and regional conflicts. Furthermore, the Company's international operations generate sales in a number of foreign currencies, particularly British pounds, German marks, Korean Won, or the Euro. Therefore, the Company's financial condition and results of operation are affected by fluctuations in exchange rates between the United States dollar and these currencies. Any or all of these factors could have a material adverse effect on the Company's business, financial condition, and results of operations.

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

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

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



render the Company's products or technologies obsolete or noncompetitive. See "Business - Strategy."

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

PARTS SUPPLIERS. The Company's largest expense in the cost of sales is purchased cartridge valve parts. There is no assurance that the Company's manufacturing cost and output would not be materially and adversely effected by operational or financial difficulties experienced by a supplier.

PAYMENT OF DIVIDENDS. Although the Company has paid a cash dividend each quarter since its Common Stock has been publicly traded, there can be no assurance that there will be funds available therefore. The declaration and payment of dividends is subject to the sole discretion of the Board of Directors of the Company and will depend upon the Company's profitability, financial condition, capital needs, future prospects and other factors deemed relevant by the Board of Directors, and may be restricted by the terms of the Company's credit agreements.

CERTAIN ANTI-TAKEOVER PROVISIONS. The Company's Articles of Incorporation provides for a classified Board of Directors. In addition, the Articles of Incorporation gives the Board of Directors the authority, without further action by the stockholders, to issue and fix the rights and preferences of a new class, or classes, of preferred stock. These and other provisions of the Articles of Incorporation and the Company's Bylaws may deter or delay changes in control of the Company, including transactions in which shareholders might otherwise receive a premium for the shares over then current market prices. In addition, these provisions may limit the ability of shareholders to approve transactions that they may deem to be in their best interests.

CONTROL BY CERTAIN SHAREHOLDERS AND MANAGEMENT. Members of the Koski family, including two Directors, Robert E. Koski, the Company's founder and former Chairman, and Christine L. Koski, own or control approximately 41% of the outstanding shares of Common Stock. Accordingly, the members of the Koski family have the ability to control the election of the Company's Directors and the outcome of certain corporate actions requiring shareholder approval and to control the business of the Company. Such control could preclude any acquisition of the Company and could adversely affect the price of the Common Stock. Additionally, all Directors and Executive Officers of the Company as a group beneficially own or control approximately 50% of the outstanding shares of Common Stock. (See Item 12. Security Ownership of Certain Beneficial Owners and Management).

ITEM 2. PROPERTIES

The Company's major locations include facilities in the United States, United Kingdom, Germany, and Korea, as set forth below.

The Company owns a 66,000 square foot facility in Sarasota, Florida, which houses manufacturing, design, marketing and other administrative functions. The Sarasota facility does



not have any financial encumbrances and is well suited for the design, testing and manufacture of the Company's products.

The Company also owns a 60,000 square foot manufacturing facility in Manatee County, Florida, which is encumbered by a mortgage loan due July 1, 2006. Under the mortgage loan, monthly payments of principal with interest on the unpaid balance at 7.375% are required. At December 30, 2000, $4.6 million was outstanding under this credit facility. The Manatee County facility, constructed in 1997, has a productive capacity similar to the Sarasota facility.

The close proximity of the United States facilities allows for quick change and the ability to shift resources, including machinery and people, to effectively meet changing business requirements. The Company believes the combined productive capacity of these facilities is approximately $100 million. The Company estimates its combined current capacity utilization to be approximately 65%.

The Company also owns vacant land in Manatee County, Florida, for future expansion requirements. There is no mortgage on this property and the Company believes the land to be well-suited to add over 30,000 square feet of manufacturing capacity.

The Company owns a 10,000 square foot manufacturing facility in Inchon, Korea, free of any encumbrances. This facility is operating at approximately 90% of capacity.

The Company owns a 25,000 square foot manufacturing facility in Coventry, England, free of any encumbrances. This facility has a productive capacity of approximately $15 million and currently, is operating at 90% of its productive capacity. The Company is planning an expansion of the United Kingdom facility in 2001, adding an additional 12,000 square feet.

The Company's 45,000 square foot facility in Erkelenz, Germany has a mortgage loan with a term of eight years and a fixed interest rate of 6.05%. At December 30, 2000, the principal balance was $1.1 million. This facility is well suited to house equipment used for manufacturing and testing of the Company's products. Currently, a small portion of the manufacturing area is utilized. The productive capacity of this facility if fully equipped is believed to be approximately $40.0 million.

The Company believes that its properties have been adequately maintained, are generally in good condition, and are suitable and adequate for its business as presently conducted. The extent of utilization of the Company's properties varies from time to time and among its facilities.

ITEM 3. LEGAL PROCEEDINGS

The Company from time to time is involved in routine litigation incidental to the conduct of its business. The Company believes that no litigation pending against it will have a material adverse effect on its consolidated financial position or results of operations.



## ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to a vote of the security holders of the Company through the solicitation of proxies or otherwise during the fourth quarter of the fiscal year ended December 30, 2000.

# PART II

## ITEM 5. MARKET FOR REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

### Market Information

The Common Stock of the Company has been trading publicly under the symbol SNHY on the Nasdaq National Market since the Company's initial public offering on January 9, 1997. The following table sets forth the high and low closing sale prices of the Company's Common Stock as reported in the Nasdaq National Market for the periods indicated:

| | High | Low |
|---|---|---|
| **1998** | | |
| First quarter | $14.250 | $11.500 |
| Second quarter | 18.250 | 13.500 |
| Third quarter | 16.500 | 9.250 |
| Fourth quarter | 11.500 | 8.000 |
| **1999** | | |
| First quarter | $ 9.750 | $ 6.375 |
| Second quarter | 9.500 | 6.750 |
| Third quarter | 9.250 | 6.875 |
| Fourth quarter | 8.000 | 5.750 |
| **2000** | | |
| First quarter | $12.000 | $ 5.875 |
| Second quarter | 9.000 | 7.203 |
| Third quarter | 8.813 | 8.000 |
| Fourth quarter | 8.000 | 6.250 |

### Holders

There were 89 shareholders of record of Common Stock on February 26, 2001. The number of record holders was determined from the records of the Company's transfer agent and does not include beneficial owners of Common Stock whose shares are held in the names of securities brokers, dealers, and registered clearing agencies. The Company believes that there are approximately 2,000 beneficial owners of Common Stock.



### Dividends

The Company declared cash dividends of $0.04 per share to shareholders of record on the last day of each calendar quarter during 2000 and 1999. These dividends were paid on the 15th day of each month following the date of declaration.

The Company's Board of Directors currently intends to continue to pay a quarterly dividend of at least $0.04 per share during 2001. However, the declaration and payment of future dividends is subject to the sole discretion of the Board of Directors, and any determination as to the payment of future dividends will depend upon the Company's profitability, financial condition, capital needs, future prospects and other factors deemed pertinent by the Board of Directors.

## ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The following summary should be read in conjunction with the consolidated financial statements and related notes contained herein. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Item 1. Business."

As of January 1, 1999, the Company changed from a calendar reporting year ending on December 31st to a fiscal year which will end on the Saturday closest to December 31st. Each quarter consists of two 4-week periods and one 5-week period.

<TABLE>
<CAPTION>

| <S> | YEAR ENDED DEC 30, 2000 <C> | YEAR ENDED JAN 1, 2000 <C> | YEARS ENDED DECEMBER 31, 1998 <C> | 1997 <C> | 1996(1) <C> |
|---|---|---|---|---|---|
| | (IN THOUSANDS EXCEPT PER SHARE DATA) | | | | |
| STATEMENT OF INCOME DATA: | | | | | |
| Net sales | $79,967 | $70,449 | $72,720 | $64,947 | $55,209 |
| Gross profit | 21,465 | 16,416 | 19,234 | 19,479 | 17,304 |
| Operating income | 7,356 | 4,038 | 7,688 | 8,302 | 5,290 |
| Income before income taxes | 5,919 | 2,664 | 8,520 | 7,264 | 4,200 |
| Net income | $ 3,921 | $ 1,831 | $ 5,647 | $ 4,710 | $ 1,071 |
| Basic net income per common share | $ 0.61 | $ 0.29 | $ 0.89 | $ 0.75 | $ 0.27 |
| Diluted net income per common share | $ 0.60 | $ 0.28 | $ 0.87 | $ 0.73 | $ 0.26 |
| OTHER FINANCIAL DATA: | | | | | |
| Depreciation and amortization | $ 5,594 | $ 5,043 | $ 4,387 | $ 3,706 | $ 2,857 |
| Capital expenditures | 4,374 | 7,897 | 8,137 | 6,490 | 16,963 |

</TABLE>



<TABLE>
<CAPTION>

| <S> | YEAR ENDED DEC 30, 2000 <C> | YEAR ENDED JAN 1, 2000 <C> | YEARS ENDED DECEMBER 31, 1998 <C> | 1997 <C> | 1996(1) <C> |
|---|---|---|---|---|---|
| | (IN THOUSANDS EXCEPT PER SHARE DATA) | | | | |
| BALANCE SHEET DATA: | | | | | |
| Cash and cash equivalents | $ 2,698 | $ 1,122 | $ 1,592 | $ 1,249 | $ 1,038 |
| Working capital | 12,658 | 8,717 | 5,629 | 6,100 | 958 |
| Total assets | 64,374 | 64,074 | 61,019 | 53,389 | 48,416 |
| Total debt | 12,012 | 14,342 | 11,907 | 9,564 | 17,218 |
| Shareholder's equity | 43,836 | 41,176 | 40,015 | 35,000 | 22,397 |

</TABLE>

- ----------

(1) Pro forma net income is based on historical income as adjusted to reflect a provision for income taxes calculated using the statutory rates in effect during the applicable periods, as if the Company had been a C Corporation since inception. Unaudited pro forma net income was $2,617 for the year ended December 31, 1996. Pro forma net income per share is based on estimated weighted average number of shares outstanding during the period, after giving effect to the reorganization and the initial public

offering. Unaudited diluted pro forma net income per share was $0.40 for the year ended December 31, 1996.



## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Overview

Sun Hydraulics Corporation 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, primarily though independent distributors. Approximately 66% of product sales are used by the mobile market, characterized by applications where the equipment is not fixed in place, the operating environment is often unpredictable, and duty cycles are generally moderate to low. The remaining 34% of sales are used by industrial markets, which are characterized by equipment that is fixed in place, typically in a controlled environment, with higher pressures and duty cycles. The Company sells to both markets with a single product line. In 2000, the Company generated approximately 40% of its net sales outside of the United States, and its single largest end-user customer represented less than 3% of net sales.

Demand for the Company's products is dependent on demand for the capital goods into which the products are incorporated. The capital goods industries in general, and the fluid power industry specifically, are subject to economic cycles. According to the National Fluid Power Association (the fluid power industry's trade association in the United States), United States orders for mobile hydraulic product increased 4.7% in 2000 compared to 1999, and orders of industrial hydraulic products increased 6.1% for the same time period.

Company orders for the year were $76.5 million, an increase of $7.0 million, or 10.1%, over 1999. Orders in the United States operation increased 5.0% in 2000, compared to 1999. Orders in the first half of 2000 in the United States increased 26.1% over 1999 and orders in the second half of 2000 decreased 13.1% compared to the same period in 1999. The order slowdown in the second half of 2000 was experienced throughout the United States fluid power industry. Orders in the European operations increased 16.1% in 2000 over 1999 with some slowdown occurring in the second half. The Korean operation's orders increased 54.5% in 2000 over 1999.

Net sales for the year were $80.0 million, an increase of $9.5 million, or 13.5%, over 1999. Gross profit as a percentage of net sales increased from 23.3% to 26.8%. Net income was $3.9 million, or 4.9% of net sales. This compares with $1.8 million, or 2.6% of sales, in 1999.

The Company's past investments in facilities, machinery, automated processes equipment and business systems produced favorable results in the year 2000. A significant decrease in production lead times greatly improved the Company's response to its customer product delivery requirements. Productivity improvements reduced product costs. Capacity constraints, which have hampered operating results in the past, are no longer an issue.

The Company is currently focusing on marketing programs to stimulate demand by increasing the availability of product information to distributors and end users. The Company plans to expand the production space in the United Kingdom operation during the year 2001.



This production capacity increase is in anticipation of future growth in Europe. The Company continues to explore new channels to market, including licensing, brand labeling, and other collaborative efforts within the industry.

### Outlook

Prime manufacturing costs as a percent of sales in the first half of 2000 showed marked improvement over 1999. Customer order reductions in the second half of 2000 necessitated a lower level of production. Despite the lower volume, prime manufacturing, or variable costs as a percentage of sales, remained in line with the first half of 2000. Therefore, management believes that an increase in demand will result in gross profit levels as a percent of sales in excess of recent historical levels.

The order rate to date in the first quarter of 2001 is running approximately 26.6% higher than the fourth quarter of 2000. Management projects that net sales in the first quarter of 2001 will be in the range of $18.5 to $19.5 million.

Results of Operations

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

| | YEAR ENDED | YEAR ENDED | YEARS ENDED DECEMBER 31, | |
|---|---|---|---|---|
| | DEC 30, 2000 | JAN 1, 2000 | 1998 | 1997 |
| Net sales | 100.0% | 100.0% | 100.0% | 100.0% |
| Gross profit | 26.8 | 23.3 | 26.4 | 30.0 |
| Operating income | 9.2 | 5.7 | 10.6 | 12.8 |
| Income before income taxes | 7.4% | 3.8% | 11.7% | 11.3% |

Comparison of Years Ended December 30, 2000 and January 1, 1999

Net Sales

Net sales for the year were $80.0 million, an increase of $9.5 million, or 13.5%, over 1999. This increase was due to strong orders in the first half of the year across all business segments. North American net sales increased 9.8% over 1999. European operations increased 19.0% over 1999. Net sales to Asian distributors increased 27.3% and Korean net sales increased 31.8% over 1999.

Gross Profit

Gross profit increased to $21.5 million in 2000, compared to $16.4 million in 1999. Gross profit as a percentage of net sales increased to 26.8% in 2000, compared to 23.3% in 1999. The increase in gross profit as a percent of sales was primarily due to prime manufacturing cost



reductions in the United States operation resulting from lower material costs and increased productivity.

Selling, Engineering, and Administrative Expenses

Selling, engineering and administrative expenses increased $1.7 million, or 14.0%, to $14.1 million in 2000, compared to $12.4 million in 1999. $0.4 million of the increase was for product catalogues and $0.3 million of the increase was related to systems and network development costs. The balance of the increase was primarily due to wage and fringe benefit increases.

Interest Expense

Interest expense was $1.1 million and $1.0 million in 2000 and 1999, respectively. The interest expense related to the unsecured line of credit, long-term mortgages and related party debt decreased $0.2 million, while interest on the secured line of credit in the United States, which was converted to a four year note on July 23, 2000 (See Note 9 to the Financial Statements), increased $0.3 million.

Miscellaneous (Income) Expense

Miscellaneous expense was $0.3 million in 2000, compared to $0.4

million in 1999. The $0.1 decrease was due to a decrease in equity losses on the joint venture in China and a decrease in foreign currency exchange losses.

Income Taxes

The provision for income taxes for the year ended December 30, 2000, was 33.8% of pretax income compared to 31.3% for the year ended January 1, 2000. This increase is due to Korean tax provision requirements that were not previously believed to be applicable. In both years, tax savings were realized in the United States from the Sun Hydraulics Foreign Sales Corporation.

Comparison of Years Ended January 1, 2000 and December 31, 1998

Net Sales

Net sales decreased 3.1%, or $2.3 million, to $70.4 million in fiscal 1999, compared to $72.7 million in 1998. Excluding the Korean operation, acquired in September 1998, net sales decreased approximately 6.2%, or $4.4 million. This decrease was due primarily to a slowdown in the capital goods industry, and thus, the fluid power industry. Many agricultural, mining, paper and machine tool equipment makers saw significant volume declines in 1999. Domestic net sales decreased $4.9 million, European net sales decreased $0.6 million, and Asian net sales, excluding Korea, were flat for the year, with a large increase in the fourth quarter of 1999 over the fourth quarter of 1998.



Gross Profit

Gross profit decreased to $16.4 million in fiscal 1999, compared to $19.2 million in 1998. Gross profit as a percentage of net sales decreased to 23.3% in 1999, from 26.4% in 1998. The decrease in gross profit as a percent of sales was due primarily to lower net sales spread over a higher fixed cost base. Also, productivity in the United States and United Kingdom operations was adversely affected by the implementation of new, fully integrated manufacturing systems. The resultant increases in direct labor and related expenses were partially offset by reduced material costs related to the Company's supplier initiative program.

Selling, Engineering and Administrative Expenses

Selling, engineering and administrative expenses increased $0.9 million, or 7.8%, to $12.4 million in 1999, compared to $11.5 million in 1998. Approximately $0.3 million of the increase was due to the Korean operation acquired in September 1998. The balance of the increase represents higher wages, increased advertising, and one time system implementation costs offset by lower pension costs.

Interest Expense

Interest expense was $1.0 million and $0.8 million in 1999 and 1998, respectively. The interest expense related to long-term mortgages and related party debt decreased while interest on the unsecured and secured lines of credit in the United States increased $0.2 million. The new secured line of credit was used to facilitate cash flow related to specific capital acquisitions over a four-year term.

Miscellaneous (Income) Expense

Miscellaneous expense was $0.4 million in 1999 compared to $1.7 million of income in 1998. In 1998, the Company received a $1.7 million payment in settlement of a business- interruption insurance claim. This claim was related to a fire in September 1996, at the Manatee County facility while it was under construction, and delayed the opening of operations. Other expenses increased primarily as the result of the disposal of certain equipment in the United States operation no longer used in production, equity losses on the joint venture in China, and foreign currency exchange transactions.

Income Taxes

The provision for income taxes for the year ended January 1, 2000, was 31.3% of pretax income compared to 33.7% for the year ended December 31, 1998.

Excluding income from the Korean operation, the provision for income taxes in the twelve months ended January 1, 2000, was 32.5%, compared to 33.2% in 1998. Tax savings were realized in the United States from the Sun Hydraulics Foreign Sales Corporation and in Korea from provisions of local law.



<TABLE>
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QUARTERLY RESULTS OF OPERATIONS

Quarter Ended
(in thousands)

| | Dec 30 2000 | Sep 30 2000 | Jul 1 2000 | Apr 1 2000 | Jan 1 2000 | Sep 30 1999 | Jun 30 1999 | Mar 31 1999 |
|---|---|---|---|---|---|---|---|---|
| <S> | <C> | <C> | <C> | <C> | <C> | <C> | <C> | <C> |
| Net Sales | $17,537 | $20,137 | $22,060 | $20,233 | $17,801 | $ 17,863 | $ 16,120 | $18,665 |
| Gross profit | 4,721 | 5,486 | 6,176 | 5,082 | 4,562 | 4,458 | 2,907 | 4,489 |
| Operating income | 1,377 | 1,887 | 2,653 | 1,439 | 1,404 | 1,333 | (129) | 1,430 |
| Income before income taxes | 1,021 | 1,550 | 2,148 | 1,200 | 1,035 | 891 | (341) | 1,079 |
| Net Income | $ 667 | $ 1,021 | $ 1,376 | $ 857 | $ 735 | $ 588 | $ (216) | $ 724 |

</TABLE>

LIQUIDITY AND CAPITAL RESOURCES

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

Cash flow from operations in 2000 was $9.5 million, compared to $5.6 million in 1999 and $8.6 million in 1998. The increase in the Company's cash flow from operations in 2000 compared to 1999 was due primarily to an increase in net income of $2.1 million and an increase in depreciation and amortization of $0.6 million. The decrease in the Company's cash flow from operations in 1999 compared to 1998 was due primarily to a decrease in net income of $3.8 million, offset by an increase in depreciation and amortization of $0.7 million

Capital expenditures were $4.4 million in 2000, compared to $7.9 million in 1999 and $8.1 million in 1998. Capital expenditures in the year 2001 will include approximately $2.2 million to cover the cost of an expansion of the United Kingdom operation.

On July 23, 2000, the Company replaced its $5.0 million unsecured, revolving credit facility with a two year, unsecured, revolving credit facility of $7.5 million and converted the outstanding balance of $5.7 million on its $7.5 million secured, revolving credit facility to a four year, secured, term loan. The $7.5 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. The term loan has an interest rate equal to the bank lender's prime rate less 1%. At December 30, 2000, the interest rate for both facilities was 7.99%. At December 30, 2000, the balances outstanding on the unsecured and secured facilities were $0 and $5.2 million, respectively. Both credit facilities are subject to certain debt covenants.

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 December 30, 2000, $4.6 million was outstanding under this mortgage loan.

In Germany, the Company has a $0.9 million line of credit, denominated in Euros, which bears interest at a variable rate equal to 1.5% over the Euribor and expires on October 31, 2002. At December 30, 2000, there was no balance outstanding on this credit 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 December 30, 2000, the outstanding balances on these facilities were $0.2 million, $0, and $0.6 million, respectively.

In May 1996, the Company obtained a mortgage loan of approximately $2.4 million, denominated in German marks, for the new facility in Erkelenz, Germany. This loan had a term of 12 years with variable interest of 6.47%. During 1999, the Company renegotiated this loan with a mortgage note, bearing fixed interest at 6.05%, with monthly payments and a maturity date of September 30, 2008. At December 30, 2000, $1.1 million was outstanding under this mortgage note.

On September 8, 2000, the Company obtained a loan in Korea for approximately $0.1 million, secured by equipment. The loan has a fixed interest rate of 10.2%. Monthly payments of interest and principle began in November 2000, with the final payment due in September 2001. At December 30, 2000 the outstanding balance was $0.1 million.

In April 2000, the Company obtained a loan in Korea for approximately $0.1 million, secured by equipment. The loan has a variable interest rate of between 3% and 5%; the current rate on the loan is 4%. Terms are monthly interest payments only through April 2003, and monthly principal and interest payments from May 2003 through April 2006.

Sun Korea has a secured note denominated in Korean Won, with interest payable at a fixed rate of 6%, with a maturity date of June 25, 2001. At December 30, 2000, $0 was outstanding under this credit facility.

In England, the Company has a $1.2 million line of credit, denominated in British pounds, which bears interest at a floating rate equal to 2.25% over the bank's base rate and is payable on demand. At December 30, 2000, there was no balance outstanding on this credit facility.

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 the last day of each calendar quarter in 2000 and 1999. These dividends were paid on the 15th day of each month following the date of declaration.

The Company's Board of Directors currently intends to continue to pay a quarterly dividend of at least $0.04 per share during 2001. However, the declaration and payment of future dividends is subject to the sole discretion of the Board of Directors, and any determination as to the payment of future dividends will depend upon the Company's profitability, financial condition, capital needs, future prospects and other factors deemed pertinent by the Board of Directors.

SEASONALITY

The Company generally has experienced reduced activity during the fourth quarter of the year, largely as a result of fewer working days due to holiday shutdowns. As a result, the Company's fourth quarter net sales, income from operations, and net income typically are the lowest of any quarter during the year. However, during fiscal 1999, due to the Company's poor second quarter results, this was not the case.

INFLATION

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

EURO In January 2000 the German Operation adopted the Euro as its primary currency. The Company presently believes that, with remediation measures, any material risks associated with the Euro Conversion can be mitigated.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE 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 December 30, 2000, the Company had approximately $5.4 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 unsecured debt financing at its lenders' prime rate less 1%, or the Libor rate plus 1.9%, whichever is the more 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; and (vi) the Company's ability to respond to changes in customer demand domestically and internationally, including as a result of standardization. Although the Company believes that its expectations are based on reasonable assumptions, it can give no assurance that the anticipated results will occur.

Important factors that could cause the actual results to differ materially from those in the forward-looking statements include, among other items, (i) the economic cyclicality of the capital goods industry in general and the hydraulic valve and manifold industry in particular, which directly affect customer orders, lead times and sales volume; (ii) conditions in the capital markets, including the interest rate environment and the availability of capital; (iii) changes in the competitive marketplace that could affect the Company's revenue and/or cost bases, such as increased competition, lack of qualified engineering, marketing, management or other personnel, and increased labor and raw materials costs; (iv) changes in technology or customer requirements, such as standardization of the cavity into which screw-in cartridge valves must fit, which could render the Company's products or technologies noncompetitive or obsolete; (v) new product introductions, product sales mix and the geographic mix of sales nationally and internationally; and (vi) changes relating to the Company's international sales, including changes in regulatory requirements or tariffs, trade or currency restrictions, fluctuations in exchange rates, and tax and collection issues. Further information relating to factors that could cause actual results to differ from those anticipated is included but not limited to information under the headings

"Business," particularly under the subheading, "Business Risk Factors" and "Management's Discussion and Analysis of Financial Conditions and Results of Operations" in this Form 10-K for the year ended December 30, 2000. 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.



## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Index to financial statements:





## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors and Shareholders
of Sun Hydraulics Corporation

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, changes in shareholders' equity and comprehensive income, and of cash flows present fairly, in all material respects, the financial position of Sun Hydraulics Corporation and its subsidiaries at December 30, 2000, January 1, 2000, and December 31, 1998, and the results of their operations and their cash flows for the three years then ended, in conformity with accounting principles which, as described in Note 2, are generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

March 2, 2001



SUN HYDRAULICS CORPORATION
CONSOLIDATED BALANCE SHEETS

(IN THOUSANDS)

| | DECEMBER 30, 2000 | JANUARY 1, 2000 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $ 2,698 | $ 1,122 |
| Accounts receivable, net of allowance for doubtful accounts of $163 and $196 | 6,112 | 6,260 |
| Inventories | 9,033 | 8,131 |
| Taxes receivable | -- | 455 |
| Other current assets | 536 | 591 |
| Total current assets | 18,379 | 16,559 |
| Property, plant and equipment, net | 44,984 | 46,529 |
| Other assets | 1,011 | 986 |
| Total assets | $64,374 | $64,074 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | $ 1,787 | $ 2,712 |
| Accrued expenses and other liabilities | 1,585 | 1,464 |
| Long-term debt due within one year | 1,779 | 3,411 |
| Dividends payable | 255 | 255 |
| Income taxes payable | 315 | -- |
| Total current liabilities | 5,721 | 7,842 |
| Long-term debt due after one year | 10,233 | 10,931 |
| Deferred income taxes | 4,106 | 4,125 |
| Deferred royalties | 478 | -- |
| Total liabilities | 20,538 | 22,898 |
| Commitments and contingencies (Note 17) | | |
| Shareholders' equity: | | |
| Preferred stock, 2,000,000 shares authorized, par value $0.001, no shares outstanding | -- | -- |
| Common stock, 20,000,000 shares authorized, par value $0.001, 6,384,948 shares outstanding | 6 | 6 |
| Capital in excess of par value | 24,486 | 24,486 |
| Retained earnings | 19,073 | 16,173 |
| Accumulated other comprehensive income | 271 | 511 |
| Total shareholders' equity | 43,836 | 41,176 |
| Total liabilities and shareholders' equity | $64,374 | $64,074 |

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>

| <S> | FOR THE YEAR ENDED DECEMBER 30, 2000 <C> | JANUARY 1, 2000 <C> | DECEMBER 31, 1998 <C> |
|---|---|---|---|
| NET SALES | $79,967 | $70,449 | $ 72,720 |
| Cost of sales | 58,502 | 54,033 | 53,486 |
| GROSS PROFIT | 21,465 | 16,416 | 19,234 |
| Selling, engineering and administrative expenses | 14,109 | 12,378 | 11,546 |
| OPERATING INCOME | 7,356 | 4,038 | 7,688 |
| Interest expense | 1,114 | 954 | 837 |
| Other miscellaneous (income) expense | 323 | 420 | (1,669) |
| INCOME BEFORE INCOME TAXES | 5,919 | 2,664 | 8,520 |
| Income tax provision | 1,998 | 833 | 2,873 |
| NET INCOME | $ 3,921 | $ 1,831 | $ 5,647 |
| BASIC NET INCOME PER COMMON SHARE | $ 0.61 | $ 0.29 | $ 0.89 |
| WEIGHTED AVERAGE SHARES OUTSTANDING | 6,385 | 6,380 | 6,345 |
| DILUTED NET INCOME PER COMMON SHARE | $ 0.60 | $ 0.28 | $ 0.87 |
| WEIGHTED AVERAGE DILUTED SHARES OUTSTANDING | 6,574 | 6,569 | 6,531 |

</TABLE>

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



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

<TABLE>
<CAPTION>

| <S> | SHARES <C> | COMMON STOCK <C> | CAPITAL IN EXCESS OF PAR VALUE <C> | RETAINED EARNINGS <C> | ACCUMULATED OTHER COMPREHENSIVE INCOME <C> | TOTAL <C> |
|---|---|---|---|---|---|---|
| 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 |
| 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 | | | | (1,021) | | (1,021) |
| Exercise of stock options | 22 | | 75 | | | 75 |
| Issue of stock | 2 | | 13 | | | 13 |
| Tax effect of non-qualified stock options | | | 12 | | | 12 |
| Comprehensive income: | | | | | | |
| Net income | | | | 1,831 | | 1,831 |
| Foreign currency translation adjustments | | | | | 251 | 251 |
| | | | | | | ------- |
| Comprehensive income | | | | | | 2,082 |
| | ----- | ---- | ------- | ------- | ---- | ------- |
| Balance, January 1, 2000 | 6,385 | 6 | 24,486 | 16,173 | 511 | 41,176 |
| Dividends declared | | | | (1,021) | | (1,021) |
| Comprehensive income: | | | | | | |
| Net income | | | | 3,921 | | 3,921 |
| Foreign currency translation adjustments | | | | | (240) | (240) |
| | | | | | | ------- |
| Comprehensive income | | | | | | 3,681 |
| | ----- | ---- | ------- | ------- | ---- | ------- |
| Balance, December 30, 2000 | 6,385 | $ 6 | $24,486 | $19,073 | $271 | $43,836 |
| | ===== | ==== | ======= | ======= | ==== | ======= |

</TABLE>

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



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

<TABLE>
<CAPTION>

| | FOR THE YEAR ENDED | | |
|---|---|---|---|
| | DECEMBER 30, 2000 | JANUARY 1, 2000 | DECEMBER 31, 1998 |
| <S> | <C> | <C> | <C> |
| Cash flows from operating activities: | | | |
| Net income | $ 3,921 | $ 1,831 | $ 5,647 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 5,594 | 5,043 | 4,387 |
| Loss on disposal of assets | 273 | 281 | -- |
| Compensation expense of stock options | -- | 13 | -- |
| Provision for deferred income taxes | (19) | 481 | 453 |
| (Increase) decrease in: | | | |
| Accounts receivable | 181 | (945) | (665) |
| Allowance for doubtful accounts | (33) | 27 | 122 |
| Inventories | (902) | (6) | (877) |
| Income tax receivable, net | 455 | (700) | -- |
| Other current assets | 55 | 300 | 38 |
| Other assets | 19 | 30 | 86 |
| Increase (decrease) in: | | | |
| Accounts payable | (925) | (165) | (167) |
| Accrued expenses and other liabilities | 121 | (601) | (279) |
| Income taxes payable, net | 315 | -- | (135) |
| Deferred royalties | 478 | -- | -- |
| | ------- | -------- | ------- |
| Net cash provided by operating activities | 9,533 | 5,589 | 8,610 |
| | ------- | -------- | ------- |
| Cash flows from investing activities: | | | |

| | | | |
|---|---|---|---|
| Investment in acquisition and joint venture | (100) | -- | (1,110) |
| Capital expenditures | (4,374) | (7,897) | (8,137) |
| Proceeds from dispositions of equipment | 108 | 96 | 143 |
| Net cash used in investing activities | (4,366) | (7,801) | (9,104) |
| Cash flows from financing activities: | | | |
| Proceeds from debt | 2,999 | 13,206 | 9,323 |
| Repayment of debt | (4,951) | (10,106) | (7,039) |
| Repayment of notes payable to related parties | (378) | (663) | (765) |
| Proceeds from exercise of stock options | -- | 75 | 223 |
| Dividends to shareholders | (1,021) | (1,021) | (983) |
| Net cash provided by (used in) financing activities | (3,351) | 1,491 | 759 |
| Adjustment for other comprehensive income | (240) | 251 | 78 |
| Net increase (decrease) in cash and cash equivalents | 1,576 | (470) | 343 |
| Cash and cash equivalents, beginning of period | 1,122 | 1,592 | 1,249 |
| Cash and cash equivalents, end of period | $ 2,698 | $ 1,122 | $ 1,592 |
| Supplemental disclosure of cash flow information: | | | |
| Cash paid for: | | | |
| Interest | $ 1,114 | $ 1,002 | $ 954 |
| Income taxes | $ 1,247 | $ 1,052 | $ 2,555 |

</TABLE>

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



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

## 1. 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, Korea, and China. 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 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, "Sun GmbH"). Sun Ltd. operates a manufacturing and distribution facility located in Coventry, England, and Sun GmbH, operates a manufacturing and distribution facility located in Erkelenz, Germany. Sun Hydraulics Korea Corporation ("Sun Korea"), a wholly-owned subsidiary of Sun Hydraulics, located in Inchon, South Korea, operates a manufacturing and distribution facility. Sun Hydraulics Systems (Shanghai) Co., Ltd., ("Sun China"), a 50/50 joint venture between Sun Hydraulics and Links Lin, the owner of Sun Hydraulics Corporation's Taiwanese distributor, is located in Shanghai, China, and operates a manufacturing and distribution facility.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts and operations of Sun Hydraulics and its direct and indirect subsidiaries. All significant intercompany accounts and transactions are eliminated in consolidation.

RECLASSIFICATION

Certain amounts shown in the 1998 and 1999 consolidated financial statements have been reclassified to conform with the 2000 presentation. These reclassification did not have any effect on total assets, total liabilities, stockholders' equity or net income.

MANAGEMENT ESTIMATES AND ASSUMPTIONS

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



52 WEEK FISCAL YEAR

Commencing in 1999, the Company implemented a fiscal year which ends on the Saturday nearest to the end of the month of December. Each quarter consists of two 4-week periods and one 5-week period.

CASH AND CASH EQUIVALENTS

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

INVENTORIES

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

PROPERTY, PLANT AND EQUIPMENT

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

| | Years |
|---|---|
| Computer equipment | 3 - 5 |
| Machinery and equipment | 4 - 12 |
| Furniture and fixtures | 4 - 10 |
| Leasehold and land improvements | 5 - 15 |
| Buildings | 40 |

CAPITALIZED SOFTWARE COSTS

Capitalized software costs are accounted for under "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" ("SOP 98-1") and are recorded at cost less accumulated depreciation. Software is capitalized upon the successful testing of the system. Depreciation is charged to income over the estimated useful life of the software. The amounts capitalized during 2000 and 1999 were $152 and $528, respectively.

VALUATION ASSESSMENT OF LONG-LIVED ASSETS

Management periodically evaluates long-lived assets for potential impairment and will reserve for impairment whenever events or changes in circumstances indicate the carrying amount of the assets may not be fully recoverable. As of December 30, 2000, management does not believe that any assets are impaired.

OTHER ASSETS

Other assets consists of goodwill and an equity investment. Goodwill, which represents the excess of the purchase price of acquisitions over the fair value of the net assets acquired and other acquisition costs are carried at cost, net of accumulated amortization and amortized on a straight-line basis over fifteen years. The equity investment represents the Company's joint



venture in China. The equity investment was recorded at cost and adjusted for investment income or loss and dividend distributions for each period.

REVENUE RECOGNITION

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

RESEARCH AND DEVELOPMENT EXPENSE

Included in selling, engineering and administrative expenses are amounts incurred for research and development costs paid to third parties for the Company's manufacturing processes and related software which approximated $61, $50, and $466 for the years ended December 30, 2000, January 1, 2000, and December 31, 1998, respectively.

ADVERTISING COSTS

The Company expenses the costs for advertising and promotional literature during the year incurred. Included in selling, engineering and administrative expenses are amounts incurred for advertising and promotional literature which approximated $1,095, $728, and $262 for the years ended December 30, 2000, January 1, 2000, and December 31, 1998, respectively.

FOREIGN CURRENCY TRANSLATION AND TRANSACTIONS

The Company follows the translation policy provided by Statement of Financial Accounting Standards No. 52, "Foreign Currency Translation." The Pound Sterling is the functional currency of Sun Ltd. The Euro is the functional currency of GmbH. The South Korean Won is the functional currency of Sun Korea. The U.S. Dollar is the functional currency for Sun Hydraulics and the reporting currency for the consolidated group. The monetary assets and liabilities of Sun Ltd., Sun GmbH, and Sun Korea are translated at the exchange rate in effect at the balance sheet date, and income and expense items are translated at the average annual rate of exchange for the period. The resulting unrealized translation gains and losses are included in the component of shareholders' equity designated as "accumulated other comprehensive income." Realized gains and losses from foreign currency translations are included in miscellaneous (income) expense.

INCOME TAXES

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

STOCK-BASED COMPENSATION

The Company has elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25) and related interpretations in accounting for its employee stock options. Under APB 25, because the exercise price of employee stock options equals the market price of the underlying stock on the date of grant, no compensation



expense is recorded. The Company has adopted the disclosure-only provisions of

Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (Statement 123).

3. FAIR VALUE OF INVESTMENTS

The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation. The following methods and assumptions were used to estimate the fair value of each class of financial instruments.

The carrying amounts of cash and cash equivalents, accounts receivable, other current assets, accounts payable, accrued expenses and other liabilities approximate fair value due to the nature of their short maturities.

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

4. INVENTORIES

| | December 30, 2000 | January 1, 2000 |
|---|---|---|
| Raw materials | $3,300 | $2,602 |
| Work in process | 3,145 | 3,452 |
| Finished goods | 2,588 | 2,077 |
| | $9,033 | $8,131 |

5. PLANT, PROPERTY, and EQUIPMENT

| | December 30, 2000 | January 1, 2000 |
|---|---|---|
| Machinery and equipment | $ 41,443 | $ 37,065 |
| Office furniture and equipment | 8,755 | 8,124 |
| Buildings | 19,618 | 18,518 |
| Leasehold and land improvements | 1,038 | 881 |
| Construction in progress | 1,125 | 3,518 |
| Land | 2,481 | 2,481 |
| | 74,460 | 70,587 |
| Less: Accumulated depreciation | (29,476) | (24,058) |
| | $ 44,984 | $ 46,529 |

Depreciation expense for the years ended December 30, 2000, January 1, 2000, and December 31, 1998 totaled $5,538, $4,993, and $4,387, respectively.



6. OTHER ASSETS

| | December 30, 2000 | January 1, 2000 |
|---|---|---|
| Goodwill and other acquisition costs - Sun Korea | $ 758 | $817 |
| Equity investment in joint venture | 194 | 146 |
| Other | 59 | 23 |
| | $1,011 | $986 |

====== ====

7. ACCRUED EXPENSES AND OTHER LIABILITIES

| | December 30, 2000 | January 1, 2000 |
|---|---|---|
| Compensation and benefits | $1,161 | $ 677 |
| Deferred grant | -- | 424 |
| Insurance | 207 | 177 |
| Other accrued expenses | 217 | 186 |
| | $1,585 | $1,464 |

8. LONG-TERM DEBT

<TABLE>
<CAPTION>

| <S> | December 30, 2000 <C> | January 1, 2000 <C> |
|---|---|---|
| $7,500 two year, unsecured, revolving credit line in U.S., interest at Bank lender's prime rate less 1% or LIBOR plus 1.9% (7.99% at December 30, 2000), due July 23, 2002 | $ -- | $ 2,215 |
| $5,677 four year, note, secured by U.S. equipment, interest at Bank lender's prime rate less 1% or LIBOR plus 1.9% (7.99% at December 30, 2000), due July 23, 2004 | 5,167 | 4,616 |
| $6,187 10-year mortgage note with 15-year amortization schedule on the U.S. Manatee County facility, fixed interest rate of 7.375%, due July 1, 2006 | 4,575 | 4,725 |
| $2,400 12-year mortgage note on the German facility, fixed interest rate of 6.05%, due September 30, 2008 | 1,118 | 1,352 |
| 10-year notes, fixed interest rates ranging from of 3.5- 5.1%, secured by equipment in Germany and due in February, 2009 | 811 | 933 |

</TABLE>



<TABLE>

| <S> | <C> | <C> |
|---|---|---|
| Notes, fixed and variable interest ranging from 3-10.2%, secured by equipment in Korea | 240 | 22 |
| Other | 101 | 479 |
| | 12,012 | 14,342 |
| Less amounts due within one year | (1,779) | (3,411) |
| | $ 10,233 | $ 10,931 |

</TABLE>

The remaining principal payments are due as follows: 2002 - $2,098; 2003 - $1,979; 2004 - $1,418; 2005 - $514; and 2006 thereafter - $4,224.

The Company has three revolving lines of credit agreements totaling $9,576 with various banks. Interest rates on these credit facilities are variable based on the prime rate in the U.S. and the equivalent rate in the U.K. and Germany, respectively. All lines of credit expire in 2002. None of these arrangements contain pre-payment penalties. The total outstanding on these credit facilities at December 30, 2000 and January 1, 2000 was $0 and $2,215, respectively.

Capitalized interest was $90 for the year ended December 31, 1998.

Certain of these debt instruments are subject to debt covenants including consolidated net working capital not less than $2,000,000 and a current ratio not less than 1.2:1.0 at all times during the term of the loan.

Subsequent to December 30, 2000, Germany has obtained two loans: a government backed loan of $381, secured by equipment, and a bank loan of $191 for the remainder of the equipment not covered by the government loan. The loans are due on March 31, 2011 and December 31, 2010, respectively.

9. DISTRIBUTIONS AND DIVIDENDS TO SHAREHOLDERS

The Company declared distributions of $ 1,021, $1,021, and $1,016 to shareholders in 2000, 1999, and 1998, respectively.

On March 3, 2001, the Company declared a cash dividend of $0.04 per share to shareholders of record on March 31, 2001, payable on April 15, 2001. The Company declared quarterly dividends of $0.04 per share to shareholders of record on the last day of each quarter in 2000 and 1999. These dividends were paid on the 15th day of each month following the date of declaration.



10. INCOME TAXES

Pretax income is taxed under the following jurisdictions:

| | For the year ended | | |
|---|---|---|---|
| | December 30, 2000 | January 1, 2000 | December 31, 1998 |
| United States | $3,807 | $1,439 | $6,854 |
| Foreign | 2,112 | 1,325 | 1,666 |
| Total | $5,919 | $2,764 | $8,520 |

The income tax provision consists of the following:

| | For the year ended | | |
|---|---|---|---|
| | December 30, 2000 | January 1, 2000 | December 31, 1998 |
| Current tax expense: | | | |
| United States | $ 1,300 | $ 38 | $1,662 |
| State and local | 110 | 1 | 159 |
| Foreign | 594 | 326 | 600 |
| Total current | 2,004 | 365 | 2,421 |
| Deferred tax expense (benefit): | | | |
| United States | 0 | 573 | 411 |
| State and local | 0 | 51 | 36 |
| Foreign | (6) | (156) | 5 |
| Total deferred | (6) | 468 | 452 |
| Total income tax provision | $ 1,998 | $ 833 | $2,873 |

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

<TABLE>
<CAPTION>

| <S> | For the year ended December 30, 2000 <C> | January 1, 2000 <C> | December 31, 1998 <C> |
|---|---|---|---|
| U.S. federal taxes at statutory rate | $ 2,012 | $ 940 | $ 2,897 |
| Increase(decrease) | | | |
| Benefit of foreign sales corporation | (30) | (59) | (60) |
| Foreign income taxed at lower rate | (129) | (104) | (59) |
| Nondeductible items | 70 | 27 | (42) |
| State and local taxes, net | 75 | 29 | 137 |
| Income tax provision | $ 1,998 | $ 833 | $ 2,873 |

</TABLE>

Deferred tax assets and liabilities at fiscal year end are as follows:

<TABLE>
<CAPTION>

| <S> | December 30, 2000 <C> | January 1, 2000 <C> | December 31, 1998 <C> |
|---|---|---|---|
| Deferred taxes, non-current: | | | |
| Assets | | | |
| Accrued expenses and reserves not currently deductible | $ 161 | $ 109 | $ 132 |
| Compensation expense recognized for book, not yet deductible for tax | 329 | 329 | 388 |
| Deferred royalty income | 177 | -- | -- |
| Deferred tax asset, non-current | 667 | 438 | 520 |
| Liabilities | | | |
| Depreciation | (4,773) | (4,563) | (4,176) |
| Net deferred tax liability, non-current | $(4,106) | $(4,125) | $(3,656) |

</TABLE>

11. STOCK OPTION PLANS

During 1996, the Company adopted the 1996 Stock Option Plan (the "Stock Option Plan"), which provides for the grant of incentive stock options and nonqualified stock options for the purchase of up to an aggregate of 1,000 shares of the Company's common stock by officers, employees and Directors of the Company. Under terms of the plan, incentive stock options may be granted to employees at an exercise price per share of not less than the fair value per common share on the date of the grant (not less than 110% of the fair value in the case of holders of more than 10% of the Company's voting stock). Nonqualified stock options may be granted at the



discretion of the Company's Board of Directors. The maximum term of an option may not exceed 10 years, and options become exercisable at such times and in such installments as determined by the Board of Directors.

A summary of the Company's stock option plan for each of the three years ended December 30, 2000, is summarized as follows:

<TABLE>
<CAPTION>

(share amounts are in thousands)

| <S> | Number of shares <C> | Exercise price range <C> | Weighted average exercise price <C> |
|---|---|---|---|
| Under option, December 31, 1997 (357 shares exercisable) | 587 | $ 3.00 - 9.50 | $ 6.69 |
| Granted | 220 | $ 10.00 - 16.75 | $ 15.22 |
| Exercised | (39) | $ 3.00 - 9.50 | $ 5.75 |
| | --- | --------------- | |
| Under option, December 31, 1998 (385 shares exercisable) | 768 | $ 3.00 - 16.75 | $ 9.18 |
| Exercised | (22) | $ 3.00 - 3.47 | $ 3.39 |
| Forfeitures | (80) | $ 9.50 | $ 9.50 |
| | --- | --------------- | |
| Under option, January 1, 2000 (453 shares exercisable) | 666 | $ 3.00 - 16.75 | $ 9.19 |
| Granted | 103 | $ 6.00 - 8.00 | $ 7.36 |
| Forfeitures | (13) | $ 10.00 - 16.75 | $ 15.19 |
| | --- | --------------- | |
| Under option, December 30, 2000 (526 shares exercisable) | 756 | $ 3.00 - 16.75 | $ 7.84 |

</TABLE>

A summary of outstanding and exercisable options at December 30, 2000 is summarized as follows:

<TABLE>
<CAPTION>

| Options Outstanding | | | | Options Exercisable | |
|---|---|---|---|---|---|
| Range of exercise prices <S> | Number of shares <C> | Weighted-average remaining contractual life <C> | Weighted-average exercise price <C> | Number of shares <C> | Weighted-average exercise price <C> |
| $ 3.00 | 62,746 | 3.08 | $ 3.00 | 62,746 | $ 3.00 |
| 3.43-5.05 | 189,068 | 5.75 | 4.41 | 189,068 | 4.41 |
| 6.00 | 10,000 | 9.00 | 6.00 | 60,000 | 6.00 |
| 6.75 | 37,000 | 9.83 | 6.75 | -- | 6.75 |
| 8.00 | 56,000 | 9.67 | 8.00 | -- | 8.00 |
| 9.50 | 194,385 | 5.35 | 9.50 | 150,592 | 9.50 |
| 10.00 | 47,000 | 7.92 | 10.00 | 47,000 | 10.00 |
| 16.75 | 160,000 | 7.33 | 16.75 | 67,000 | 16.75 |

</TABLE>

The Company has adopted the disclosure-only provisions of SFAS No. 123. Accordingly, no compensation cost has been recognized for the stock option plans other than for nonqualified stock options. Had compensation costs for the stock option plans been determined based on the fair value at the grant date for awards in 2000 and 1998 (there were no options



granted in 1999) consistent with the provisions of SFAS No. 123, the Company's net income and earnings per share would have been reduced to the pro forma amounts indicated below:

<TABLE>
<CAPTION>

| <S> | For the year ended December 30, 2000 <C> | January 1, 2000 <C> | December 31, 1998 <C> |
|---|---|---|---|
| Net income: | | | |
| As reported | $ 3,921 | $ 1,831 | $ 5,647 |
| Pro forma | 3,418 | 1,404 | 5,188 |
| Basic earnings per common share: | | | |
| As reported | 0.61 | 0.29 | 0.89 |
| Pro forma | 0.54 | 0.22 | 0.82 |
| Diluted earnings per common share: | | | |
| As reported | 0.60 | 0.28 | 0.87 |
| Pro forma | 0.52 | 0.21 | 0.79 |

</TABLE>

These pro forma amounts may not be representative of future disclosures since the estimated fair value of stock options is amortized to expense over the vesting period and additional options may be granted in future years. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants in 2000 and 1998: cumulative volatility of 40.0%, and 43.09% for 2000 and 1998, respectively; dividend yields of 2.41%, and 1.68%, for 2000 and 1998, respectively; risk-free interest rate of 5.11%, and 5.72%, for 2000 and 1998, respectively; and expected terms of 3.00 to 6.00 years for 2000 and 6.59 years for 1998.

12. EMPLOYEE BENEFITS

The Company has a defined contribution retirement plan covering substantially all of its eligible United States employees. Employer contributions under the retirement plan amounted to approximately $1,195, $702, and $982 during 2000, 1999, and 1998, respectively.

The Company provides supplemental pension benefits to its employees of foreign operations in addition to mandatory benefits included in local country payroll tax statutes. These supplemental pension benefits amounted to approximately $110, $124, and $93 during 2000, 1999, and 1998 respectively.

13. 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 supercedes SFAS 14, "Financial Reporting for Segments of a Business Enterprise," replacing the "industry segment" approach with the "management" approach of determining reportable segments of an organization. The management approach designates the internal organization that is used by



management for making operational decisions and addressing performance as the source of determining the Company's reportable segments. Management bases its financial decisions by the geographical location of its operations.

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

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

Segment information is as follows:

<TABLE>
<CAPTION>

| | United States | Korea | United Kingdom | Germany | Elimination | Consolidated |
|---|---|---|---|---|---|---|
| <S> | <C> | <C> | <C> | <C> | <C> | <C> |
| 2000 | | | | | | |
| Sales to unaffiliated customers | $55,488 | $ 5,537 | $13,026 | $ 5,916 | $ -- | $79,967 |
| Intercompany sales | 11,232 | -- | 1,814 | 29 | (13,075) | -- |
| Operating profits | 5,021 | 307 | 1,834 | 281 | (87) | 7,356 |
| Identifiable assets | 48,717 | 1,966 | 10,285 | 4,757 | (1,351) | 64,374 |
| Depreciation and amortization | 4,283 | 166 | 874 | 271 | | 5,594 |
| Capital expenditures | 3,213 | 450 | 762 | (51) | | 4,374 |
| 1999 | | | | | | |
| Sales to unaffiliated customers | $50,327 | $ 4,202 | $10,858 | $ 5,062 | $ -- | $70,449 |
| Intercompany sales | 8,354 | -- | 2,016 | 43 | (10,413) | -- |
| Operating profits | 2,492 | 81 | 1,059 | 354 | 52 | 4,038 |
| Identifiable assets | 49,539 | 857 | 8,044 | 5,902 | (268) | 64,074 |
| Depreciation and amortization | 3,802 | 112 | 827 | 302 | | 5,043 |
| Capital expenditures | 5,953 | 119 | 1,323 | 502 | | 7,897 |
| 1998 | | | | | | |
| Sales to unaffiliated customers | $55,768 | 556 | $11,719 | $ 4,677 | $ -- | $72,720 |
| Intercompany sales | 8,340 | -- | 2,281 | 40 | (10,661) | -- |
| Operating profits | 5,902 | (169) | 1,937 | 190 | (172) | 7,688 |
| Identifiable assets | 47,850 | 329 | 8,882 | 4,032 | (74) | 61,019 |
| Depreciation and amortization | 3,434 | -- | 732 | 221 | -- | 4,387 |
| Capital expenditures | 6,104 | (26) | 1,254 | 805 | -- | 8,137 |

</TABLE>

Net foreign currency gains (losses) reflected in results of operations were ($39), ($168), and ($35), for the years 2000, 1999, and 1998, respectively. Operating profit is total sales and other operating income less operating expenses. In computing segment operating profit, interest expense and net miscellaneous income (expense) have not been deducted (added).



Included in U.S. sales to unaffiliated customers were export sales, principally to Canada and Asia, of $7,134, $6,056, and $6,415, during 2000, 1999, and 1998, respectively.

14. COMMITMENTS AND CONTINGENCIES

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



ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

PART III.

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

DIRECTORS AND EXECUTIVE OFFICERS

The Board of Directors ("Board") of the Company currently consists of eight members. The Board is divided into three classes of Directors serving staggered three-year terms. Directors hold their positions until the annual meeting of shareholders in the year in which their term expires, and until their respective successors are elected and qualified or until their earlier resignation, removal from office or death. Executive Officers serve at the pleasure of the Board of Directors.

The following table sets forth the names and ages of the Company's Directors and Executive Officers and the positions they hold with the Company.

| NAME | AGE | POSITION |
|---|---|---|
| Clyde G. Nixon................ | 65 | Chairman of the Board of Directors (term expiring in 2001) |
| Allen J. Carlson ............ | 50 | President, Chief Executive Officer, Director (term expiring in 2003) |
| Jeffrey Cooper................ | 59 | Engineering Manager |
| Richard J. Dobbyn............. | 57 | Chief Financial Officer |
| Peter G. Robson ............ | 56 | General Manager, Sun Hydraulics Limited |
| John S. Kahler................ | 61 | Director (term expiring in 2003), and a member of the Audit and Compensation Committees |
| Christine L. Koski............ | 43 | Director (term expiring in 2002) |



| NAME | AGE | POSITION |
|---|---|---|
| Robert E. Koski ............ | 71 | Director (term expiring in 2003), and a member of the Compensation Committee |
| Ferdinand E. Megerlin......... | 61 | Director (term expiring in 2001) and a member of the Compensation Committee |
| Taco van Tijn ................ | 77 | Director (term expiring in 2002) and a member of the Audit Committee |
| David N. Wormley.............. | 61 | Director (term expiring in 2002) and a member of the Compensation Committee |

MR. NIXON joined the Company in January 1988, and served as its President and Chief Executive Officer from November 1988 until May 2000, at which time he was named Chairman of the Board. From September 1985 to January 1988, he served as Vice President of Cross & Trecker Corporation and was President of Warner & Swasey Company, its wholly-owned subsidiary. From 1964 to 1985, he served in various management capacities with Brown & Sharpe Manufacturing Corporation, most recently as Vice President of its fluid power division and President of Double A Products Company, its wholly-owned subsidiary. Mr. Nixon is a graduate of Cornell University and the Harvard Business School, and is Past Chairman of the Board of the National Fluid Power Association. Mr. Nixon has over 32 years experience in the fluid power industry.

MR. CARLSON joined the Company in March 1996 and served as Vice President from January 2000 until May 2000, when he was named President and Chief Executive Officer. From October 1977 to March 1996, Mr. Carlson held various engineering, marketing and management positions for Vickers Incorporated, a wholly-owned subsidiary of Trinova Corporation. He is a graduate of the Milwaukee School of Engineering and the Advanced Management

Program at the Harvard Business School. Mr. Carlson has over 29 years experience in the fluid power industry.

MR. COOPER joined the Company in December 1990 as an engineer and has been Engineering Manager since September 1991. From August 1987 to December 1990, he was Engineering Manager, Mobile Valves, of Vickers, Incorporated, a wholly-owned subsidiary of Trinova Corporation, and from September 1979 to August 1986, he served as Vice President of Engineering for Double A Products Company. Mr. Cooper is an engineering graduate of Willesden College of Technology, London, England. Mr. Cooper has over 31 years experience in the fluid power industry.

MR. DOBBYN joined the Company in October 1995 and was named Chief Financial Officer in July 1996. From June 1995 to October 1995, Mr. Dobbyn served as the Controller of Protek Electronics. From July 1994 to June 1995, he served as the Fiscal Director of a non-profit child care agency. From September 1984 to July 1994, Mr. Dobbyn was Senior Vice President-Finance and Administration for Loral Data Systems, formerly Fairchild Weston Systems, a



Schlumberger company. Mr. Dobbyn is a Certified Public Accountant and a graduate of Boston College.

MR. ROBSON has served as a Director of Sun Hydraulics Limited, Coventry, England, since May 1993, and has been employed by the Company as the General Manager of its United Kingdom operations since 1982. Mr. Robson is a Chartered Engineer and a graduate of Coventry University. Mr. Robson has over 33 years experience in the fluid power industry.

MR. KAHLER is the President, CEO and a Director of Cincinnati Incorporated. Mr. Kahler has served in various management positions with Cincinnati Incorporated since 1989. He is a graduate of Carnegie-Mellon University and the Harvard Business School.

MS. KOSKI since 1980 held various positions in sales, product management, purchasing, sales management, and international marketing with Celanese Ltd. or its former affiliates, including Hoechst AG and Hoechst Celanese Chemical Group Ltd. From April 1996 through March 2000, Ms. Koski was Global Marketing Manager - Acrylic Acid and Monomers business line of Celanese AG. Ms. Koski currently is pursuing an MBA degree from Southern Methodist University.

MR. KOSKI is a co-founder of the Company and served as its Chairman of the Board from the Company's inception in 1970 until his retirement in May of 2000. He was also its President and Chief Executive Officer from 1970 until November 1988. He is a graduate of Dartmouth College and past Chairman of the Board of the National Fluid Power Association. Mr. Koski has over 38 years experience in the fluid power industry, and has served as Chairman of the Fluid Power Systems and Technology Division of the American Society of Mechanical Engineers, and as a member of the Board of Directors of the National Association of Manufacturers.

DR. MEGERLIN is Chairman and Joint Managing Director of Linde AG's Industrial Trucks and Hydraulics Division in Aschaffenburg, Germany. He is also Chairman of Linde's U.S. subsidiaries Linde Hydraulics Corp., Canfield, Ohio, and Linde Lift Truck Corp., Sommerville, South Carolina. Within VDMA, German's association for mechanical and plant engineering, Dr. Megerlin serves as Vice Chairman of the German Fluid Power Association. He is a mechanical engineer and received his Dipl-Ing (M.S.) degree from the Technical University of Karlsruhe, Germany, and his Dr.-Ing. (Ph.D.) from TH Aachen, Germany. Dr. Megerlin has over 30 years of experience in the fluid power industry.

MR. VAN TIJN is an attorney (solicitor), who has practiced law in London, England, since May 1977. Since June 1998, he has been a consultant with Rooks Rider. Mr. van Tijn has been a Director of the Company since February 1989, and the principal statutory officer of Sun Hydraulik Holdings Limited since January 1991.

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



No family relationships exist between any of the Company's Directors and executive officers, except that Ms. Koski is the daughter of Mr. Koski. Ms. Koski and Mr. Koski beneficially own 37.6% and 41%, respectively, of the outstanding shares of Common Stock. There are no arrangements or understandings between Directors and any other person concerning service as a Director.

The Board of Directors has Audit and Compensation Committees. The Company does not have a Nominating Committee; instead, the entire Board of Directors functions as a Nominating Committee.

The Audit Committee was appointed in February 1997 and held four meetings in 2000. The functions of the Audit Committee are to recommend annually to the Board of Directors the appointment of the independent public accountants of the Company, to discuss and review the scope of and the fees for the prospective annual audit with the independent public accountants, to review the results thereof with the independent public accountants, to review and approve non-audit services of the independent public accountants, to review compliance with existing major accounting and financial policies of the Company, to review the adequacy of the financial organization of the Company, to review management's procedures and policies relative to the adequacy of the Company's internal accounting controls, to review compliance with federal and state laws relating to accounting practices and to review and approve (with the concurrence of a majority of the disinterested Directors of the Company) transactions, if any, with affiliated parties.

A Compensation Committee was formed in December 1996 to review, approve and recommend to the Board of Directors the terms and conditions of all employee benefit plans or changes thereto, to administer the Company's stock option plans and carry out the responsibilities required by the rules of the Securities and Exchange Commission. The Committee met twice during 2000.

The Board of Directors held four meetings during 2000. Each Director attended all of the meetings of the Board and of each committee of which he was a member in 2000.

## SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's Directors, officers and holders of more than 10% of the Company's Common Stock to file with the Securities and Exchange Commission initial reports of ownership and reports of changes in ownership of Common Stock and any other equity securities of the Company. To the Company's knowledge, based solely upon a review of the forms, reports and certificates filed with the Company by such persons, all of them complied with the Section 16(a) filing requirements in 2000.



## ITEM 11. EXECUTIVE COMPENSATION

## SUMMARY COMPENSATION

The following table is a summary of the compensation paid or accrued by the Company for the last three fiscal years for services in all capacities to the Company's Chief Executive Officer and each of its four most highly compensated executive officers who earned more than $100,000 from the Company in 2000 under the rules of the Securities and Exchange Commission (the "Named Executive Officers").

### SUMMARY COMPENSATION TABLE

<TABLE>
<CAPTION>

| NAME AND PRINCIPAL POSITION | YEAR | SALARY | LONG TERM COMPENSATION AWARDS-- SECURITIES UNDERLYING OPTIONS/SARS(#) | OTHER ANNUAL COMPENSATION(1) |
|---|---|---|---|---|
| <S> | <C> | <C> | <C> | <C> |
| Clyde G. Nixon, | 2000 | 205,200 | -- | $19,816(2) |
| Chairman of the | 1999 | 205,200 | -- | 11,703 |
| Board of Directors | 1998 | 191,300 | -- | 17,084 |
| Allen J. Carlson | 2000 | 157,500 | -- | $10,230 |
| President and Chief Executive | 1999 | 122,000 | -- | 2,850 |
| Officer | 1998 | 110,350 | -- | 2,466 |
| Jeffrey Cooper | 2000 | 138,100 | -- | $14,677 |
| Engineering Manager | 1999 | 133,100 | -- | 7,246 |
| | 1998 | 126,525 | -- | 11,683 |
| Richard J. Dobbyn | 2000 | 130,000 | -- | $ 9,560 |
| Chief Financial Officer | 1999 | 118,000 | -- | 4,228 |
| | 1998 | 107,575 | -- | 5,773 |
| Peter G. Robson | 2000 | 103,976 | -- | $18,589 |
| General Manager, | 1999 | 100,181 | -- | 18,402 |
| Sun Hydraulics Limited | 1998 | 95,628 | -- | 17,772 |

</TABLE>

- ---------------
(1) Except as otherwise noted, reflects primarily contributions made by the Company on behalf of the employee to the Company's 401(k) plan and excess life insurance premiums.

(2) Includes dues of $750.



OPTION/SAR GRANTS IN LAST FISCAL YEAR

<TABLE>
<CAPTION>

| NAME | INDIVIDUAL GRANTS: NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED (#) | PERCENT OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN FISCAL YEAR | EXERCISE OR BASE PRICE ($/SH) | EXPIRATION DATE | POTENTIAL REALIZABLE VALUE AT ASSUMED ANNUAL RATES OF STOCK PRICE APPRECIATION FOR OPTION TERM (1): 5%($) | 10%($) | 0%($) |
|---|---|---|---|---|---|---|---|
| (a) | (b) | (c) | (d) | (e) | (f) | (g) | (h) |
| <S> | <C> | <C> | <C> | <C> | <C> | <C> | <C> |
| Clyde G. Nixon | 20,000 | 19.4% | 8.00 | 09/09/10 | $66,159 | $162,954 | -- |
| Allen Carlson | 10,000 | 35.0% | 6.00 | 01/03/10 | 33,080 | 81,477 | -- |
| | 26,000 | | 8.00 | 09/09/10 | 86,007 | 211,840 | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Jeffrey Cooper | 2,000 | 1.9% | 6.75 | 11/16/10 | 6,616 | 16,295 | -- |
| Richard J. Dobbyn | 2,000 | 1.9% | 6.75 | 11/16/10 | 6,616 | 16,295 | -- |
| Peter G. Robson | 5,000 | 4.9% | 6.75 | 11/16/10 | 16,540 | 40,738 | -- |

</TABLE>

- ---------------

(1) The options were granted on January 3, 2000, September 9, 2000, and November 16, 2000, at exercise prices of $6.00, $8.00, and $6.75, respectively, the closing prices for the shares of Common Stock on such dates. The 5% and 10% assumed annual rates of stock price appreciation are provided in compliance with Regulation S-K under the Securities Exchange Act of 1934. The Company does not necessarily believe that these appreciation calculations are indicative of actual future stock option values or that the price of Common Stock will appreciate at such rates.



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

<TABLE>
<CAPTION>

| NAME | SHARES ACQUIRED ON EXERCISE(#) | VALUE REALIZED ($) | NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS/SARS AT FISCAL YEAR-END(#) EXERCISABLE/ UNEXERCISABLE | VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS/SARS AT FISCAL YEAR-END($) EXERCISABLE/ UNEXERCISABLE |
|---|---|---|---|---|
| (a) | (b) | (c) | (d) | (e) |
| <S> | <C> | <C> | <C> | <C> |
| Clyde G. Nixon | -- | -- | 136,869/16,677 | $ 627,818/0 |
| Allen J. Carlson | -- | -- | 22,000/38,000 | $ 66,250/0 |
| Jeffrey Cooper | -- | -- | 77,369/19,420 | $ 289,440/0 |
| Richard J. Dobbyn | -- | -- | 34,000/15,000 | 0/0 |
| Peter G. Robson | -- | -- | 89,574/13,421 | $ 370,245/0 |

</TABLE>

- ---------------

(1) Based upon the December 30, 2000, closing stock price of $6.625 per share, as reported on the Nasdaq National Market.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION IN COMPENSATION DECISIONS

The Board of Directors determined the compensation, including salary and bonus, of the Executive Officers of the Company for the fiscal year ended December 30, 2000. The initial compensation for the current fiscal year through the date hereof and future compensation of the Company's Executive Officers will be determined by the Compensation Committee of the Board of Directors, comprised of John Kahler, Robert E. Koski, Ferdinand E. Megerlin, and David N. Wormley. See "Item 10. Directors and Executive Officers of the Registrant."

DIRECTOR COMPENSATION

Directors who are not officers of the Company are paid $2,500 for attendance at each meeting of the Board of Directors, as well as each meeting of each Board Committee on which they serve when the committee meeting is not held within one day of a meeting of the Board of Directors. Directors also are reimbursed for their expenses incurred in connection with their attendance at such meetings.



## ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth as of February 26, 2001, information as to the beneficial ownership of the Company's Common Stock by (i) each person or entity known by the Company to be the beneficial owner of more than 5% of the outstanding shares of Common Stock, (ii) each Director, (iii) Each Named Executive Officer of the Company, and (iv) all Directors and executive officers of the Company as a group.

| NAME AND ADDRESS OF BENEFICIAL OWNER(1) | AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP(2) | PERCENT OF CLASS |
|---|---|---|
| Robert E. Koski(3)(4)(5) | 2,618,921 | 41.0 |
| Beverly Koski(3)(4)(5) | 2,618,921 | 41.0 |
| Christine L. Koski(3)<br>3525 Turtle Creek Boulevard #19B<br>Dallas, Texas 75219 | 2,397,838 | 37.6 |
| Robert C. Koski(3)(5)<br>315 Sycamore Street<br>Decatur, Georgia 30030 | 2,375,543 | 37.2 |
| Koski Family Limited Partnership<br>3525 Turtle Creek Boulevard #19B<br>Dallas, Texas 75219 | 2,333,543 | 36.5 |
| Thomas L. Koski(3)<br>Six New Street<br>East Norwalk, Connecticut 06855 | 2,333,543 | 36.5 |
| Royce & Associates, Inc.(6)<br>Royce Management Company<br>Charles M. Royce<br>1414 Avenue of the Americas<br>New York, NY 10019 | 597,500 | 9.4 |
| Bradley S. Ferrell(7)<br>5924 Cranbrook Way, #101<br>Naples, Florida 34112 | 460,642 | 7.2 |
| Robert S. and Ann R. Ferrell(8)<br>5924 Cranbrook Way, #101<br>Naples, Florida 34112 | 323,537 | 5.1 |
| Clyde G. Nixon(9) | 239,144 | 3.7 |
| Peter G. Robson(10) | 97,995 | 1.5 |
| Jeffrey Cooper(10) | 82,789 | 1.3 |
| Richard J. Dobbyn(11) | 42,500 | * |
| Taco van Tijn(12) | 23,920 | * |
| Allen J. Carlson(13) | 22,500 | * |
| David N. Wormley(14) | 3,940 | * |
| John S. Kahler(15) | 3,200 | * |
| Ferdinand E. Megerlin | 0 | -- |
| All Directors and Executive Officers as a Group (11 persons) | 3,199,204 | 50.1 |

- ---------------

* Less than 1%.

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

(2) This column sets forth shares of the Company's Common Stock which are deemed to be "beneficially owned" by the persons named in the table under Rule 13d-3 of the Securities and Exchange Commission. Except as otherwise indicated, the persons listed have sole voting and investment power with respect to all shares of Common Stock owned by them, except to the extent such power may be shared with a spouse.

(3) Includes 2,333,543 shares owned by the Koski Family Limited Partnership, over which Christine L. Koski, Robert C. Koski, Thomas L. Koski, Robert E. Koski and Beverly Koski share voting and investment power as the general partners in the Partnership. Christine L. Koski, Robert C. Koski and Thomas L. Koski are the adult children of Robert E. Koski and Beverly Koski.

(4) Includes 141,216 shares owned by Beverly Koski and 117,162 shares owned by Robert E. Koski. Beverly Koski is the spouse of Robert E. Koski.

(5) Includes 27,000 shares owned by the Koski Family Foundation, Inc., over which Robert E. Koski, Beverly Koski and Robert C. Koski share voting and investment power.

(6) According to Amendment No. 2 to the Schedule 13G, filed February 5, 2001, by Royce & Associates, Inc. ("Royce") and Royce Management Company ("RMC"), registered investment advisors, and Charles M. Royce, Royce has sole voting and investment power with respect to 590,700 shares, and RMC has sole voting and investment power with respect to 6,800 shares. According to the Schedule 13G, Charles M. Royce may be deemed to be a controlling person of Royce and RMC, and as such may be deemed to beneficially own the shares beneficially owned by Royce and RMC. According to the Schedule 13G, Mr. Royce does not own any shares outside of Royce and RMC, and disclaims beneficial ownership of the shares held by Royce and RMC.

(7) Includes 38,205 shares owned by Mr. Ferrell, over which Mr. Ferrell has sole voting and investment power, and 422,437 shares beneficially owned by Mr. Ferrell in his capacity as trustee of various trusts, over which Mr. Ferrell has shared voting and investment power.

(8) Includes 6,500 shares owned by the Robert S. Ferrell Trust, of which Robert S. Ferrell is the sole trustee, 186,125 shares owned by Bradley S. Ferrell, Trustee of Robert S. Ferrell Flint Trust, dated 06/16/98, 6000 shares owned by the Ann R. Ferrell Trust, of which Ann R. Ferrell is the sole trustee, 125,312 shares owned by Bradley S. Ferrell, Trustee of Ann R. Ferrell Flint Trust dated 06/16/98, and 600 shares owned individually by Ann R. Ferrell. Robert S. Ferrell is the spouse of Ann R. Ferrell.

(9) Includes 147,395 shares subject to currently exercisable options and 49,522 shares in the Joan Nixon Trust.

(10) Represents shares subject to currently exercisable options.

(11) Includes 41,000 shares subject to currently exercisable options.

(12) Includes 3,920 shares subject to currently exercisable options, 2,500 shares owned by Mr. van Tijn's spouse, and 15,000 shares owned by Taco van Tijn Settlement, of which Mr. van Tijn and his spouse have a life interest.

(13) Includes 22,000 shares subject to currently exercisable options.

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

(15) Includes 2,200 shares owned in trust, of which Mr. Kahler's spouse is the trustee and beneficiary.

## ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

During fiscal 2000, neither the Company nor either of its subsidiaries entered into or proposed to enter into any transactions with a value in excess of $60,000 with any director, or executive officer, or security holder known to own of record or beneficially more than 5% of the Company's common stock. Further, no director or executive officer had a business relationship with or was indebted to the Company or either of its subsidiaries reportable under the rules of the Securities and Exchange Commission during fiscal 2000.



# PART IV

## ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) 1. The following financial statements are included in Part II, Item 8:



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

3. Exhibits:

| EXHIBIT NUMBER | EXHIBIT DESCRIPTION |
|---|---|
| 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 S1 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 Company's Quarterly report on Form 20-Q for the quarter ended October 2, 1999 and incorporated by reference herein). |



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 S1 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 S1 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.

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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 S1 filed on October 15, 1996 (File No. 333-14183) and incorporated herein by reference).

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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 S1 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 S1 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 S1 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 S1 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 S1 filed on October 15, 1996 (File No. 333-14183) and incorporated herein by reference).

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 S1 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 Hydraulics 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 S1 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. (previously filed as Exhibit 4.26 to the Company's Quarterly Report on Form 10-Q for the quarter ended July 3, 1999 and incorporated herein by reference).



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. (previously filed as Exhibit 4.27 to the Company's Quarterly Report on Form 10-Q for the quarter ended July 3, 1999 and incorporated herein by reference).

4.28 Security Agreement, dated July 23, 1999, between the Company and Northern Trust Bank of Florida, N.A. (previously filed as Exhibit 4.28 to the Company's Quarterly Report on Form 10-Q for the quarter ended July 3, 1999 and incorporated herein by reference).

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. (previously filed as Exhibit 4.29 to the Company's Quarterly Report on Form 10-Q for the quarter ended July 3, 1999 and incorporated herein by reference).

4.30 Loan Agreement, dated July 23, 2000, by and among Northern Trust Bank of Florida, N.A. as Lender, Sun Hydraulics Corporation as Borrower, and Sun Hydraulik Holdings Limited, Sun Hydraulics Limited and Sun Hydraulik GmbH as Guarantors. (previously filed as Exhibit 4.30 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2000 and incorporated herein by reference).

4.31 First Amendment to Security Agreement, dated July 23, 2000, by and among Northern Trust Bank of Florida, N.A. and Sun Hydraulics Corporation. (previously filed as Exhibit 4.31 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2000 and incorporated herein by reference).

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4.33 Amended and restated Loan Agreement by and among Northern Trust Bank of Florida, N.A., Sun Hydraulics Corporation, Sun Hydraulik Holdings Limited, Sun Hydraulics Limited and Sun Hydraulik GmbH dated November 1, 2000.

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10.6+ Sun Hydraulics Corporation Employee Stock Award Program (previously filed as Exhibit 4 to the Company's registration statement on Form S-8 filed on July 20, 1999, and incorporated herein by reference).

23.1 Consent of Independent Certified Public Accountants.

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\+ Executive management contract or compensatory plan or arrangement.

(b) Reports on Form 8-K

1. Report on Form 8-K (dated November 7, 2000) filed November 7, 2000, announcing the Company's third quarter financial results.

2. Report on Form 8-K (dated December 15, 2000) filed December 15, 2000, announcing a regular quarterly dividend of $0.04.

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 March 9, 2001.

SUN HYDRAULICS CORPORATION

By: /s/ Allen J. Carlson
------------------------------------
Allen J. Carlson, President and
Chief Executive Officer

Pursuant to requirements of the Securities Exchange Act of 1934, this Report has been signed by the following persons on behalf of the Registrant and in the capacities indicated on March 9, 2001.

| Signature | Title |
|---|---|
| /s/ Allen J. Carlson<br>- ---------------------------------<br>Allen J. Carlson | President, Chief Executive Officer and Director |
| /s/ Richard J. Dobbyn<br>- ---------------------------------<br>Richard J. Dobbyn | Chief Financial Officer (Principal Financial and Accounting Officer) |
| /s/ John S. Kahler<br>- ---------------------------------<br>John S. Kahler | Director |
| /s/ Christine L. Koski<br>- ---------------------------------<br>Christine L. Koski | Director |
| /s/ Robert E. Koski<br>- ---------------------------------<br>Robert E. Koski | Director |
| /s/ Ferdinand E. Megerlin<br>- ---------------------------------<br>Ferdinand E. Megerlin | Director |
| /s/ Clyde G. Nixon<br>- ---------------------------------<br>Clyde G. Nixon | Chairman of the Board of Directors |
| /s/ Taco van Tijn<br>- ---------------------------------<br>Taco van Tijn | Director |
| /s/ David N. Wormley<br>- ---------------------------------<br>David N. Wormley | Director |



EXHIBIT INDEX

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10.6+ Sun Hydraulics Corporation Employee Stock Award Program (previously filed as Exhibit 4 to the Company's registration statement on Form S-8 filed on July 20, 1999, and incorporated herein by reference).

23.1 Consent of Independent Certified Public Accountants.

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\+ Executive management contract or compensatory plan or arrangement.

EXHIBIT 4.33

AMENDED AND RESTATED LOAN AGREEMENT

THIS AMENDED AND RESTATED LOAN AGREEMENT made on this 1st day of November, 2000, by and among NORTHERN TRUST BANK OF FLORIDA, N.A. ("Lender"), SUN HYDRAULICS CORPORATION, a Florida corporation ("Borrower"), and SUN HYDRAULIK HOLDINGS LIMITED, a corporation organized and existing under the laws of the United Kingdom, SUN HYDRAULICS LIMITED, a corporation organized and existing under the laws of the United Kingdom, and SUN HYDRAULIK GMBH, a corporation organized and existing under the laws of Germany (collectively referred to herein as "Guarantors").

W I T N E S S E T H :

WHEREAS, Lender has made a revolving line of credit loan to Borrower in the maximum principal amount of $7,500,000.00 ("Loan"), which loan is evidenced by a renewal master note of even date herewith in the principal amount of $7,500,000.00 ("Note"), and

WHEREAS, the Note renewed, restated, amended and replaced in its entirety, that certain renewal master note dated July 23, 1999, in the principal amount of $5,000,000.00, and

WHEREAS, in connection with making the Loan, Borrower, Guarantors, and Lender entered into a loan agreement dated July 23, 2000 ( "Original Loan Agreement"), and

WHEREAS, Borrower has requested Lender to modify certain terms of the Original Loan Agreement and other loan documents, and Lender has agreed to do so provided that Borrower enter into this Amended and Restated Loan Agreement ("Loan Agreement"),

NOW, THEREFORE, in consideration of the premises and of the covenants and agreements herein contained, 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 the Note, an amendment to that certain Loan Agreement dated July 23, 1999 (the "First Amendment to Loan Agreement"), an amendment to that certain Security Agreement dated July 23, 1999 (the "First Amendment to Security Agreement"), and other documents related to the Loan. Guarantors have each executed separate guaranties of the Loan ("Guaranties"). The Note, First Amendment to Loan Agreement, First Amendment to Security Agreement, Guaranties, 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 applicable 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, to Borrower's knowledge, threatened litigation that is reasonably likely to 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, to Borrower's knowledge, 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. GUARANTORS' REPRESENTATIONS AND WARRANTIES. To induce Lender to make the Loan, each Guarantor makes the following representations and warranties:

A. The financial information for each Guarantor 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 any Guarantor from that reflected on such financial information.

B. 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 any Guarantor pursuant to any instrument, order, or other agreement to which a Guarantor is a party or by which a Guarantor or any of its property is bound, other than those created by the Loan Documents.

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

D. No Guarantor has incurred any debts, liabilities, or obligations (whether direct or contingent) and has not committed 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.

E. No Guarantor has made any assignment for the benefit of his creditors, admitted in writing its inability to pay its 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.

F. There are no actions, suits or proceedings pending or, to Guarantor's knowledge, threatened against or affecting any Guarantor, at law or in equity, or before or by any governmental authorities, and Guarantor is not in default with respect to any order, writ, injunction, decree or demand of any court or any governmental authority.

G. 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 any Guarantor is a party or by which its property may be bound or affected.

5. 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 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 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.

6. GUARANTORS' AFFIRMATIVE COVENANTS. Each Guarantor will:

A. Furnish to Lender (i) within 90 days after the close of each calendar year, a financial statement, including income information and contingent liabilities, certified to Lender; (ii) within 30 days after filing each year, an executed copy of Guarantor's Federal income tax return; and (iii) such other information reflecting the financial condition of Guarantor as Lender may request from time to time. In the event such financial statements disclose a material, adverse change in the financial condition of Guarantor from the conditions set forth in any prior financial statement of Guarantor theretofore furnished to Lender, same shall constitute a default which shall entitle Lender to all of the rights and remedies provided for in the Note, Security Agreement, or other Loan Documents.

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

C. Inform Lender immediately of any material adverse change in the financial condition of Guarantor. Each Guarantor will also promptly inform Lender of any litigation or threatened litigation which might substantially affect such Guarantor's financial condition.

7. 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 without providing Lender prior written notice thereof.

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 senior management of Borrower's operations.

8. 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, Loan Agreement, Note, Guaranties, 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, where such default is not cured within 30 days.

C. Any warranty, representation or statement made or furnished by Borrower or Guarantors for the purpose of inducing Lender to make the Loan proves to have been false in any material respect when made or furnished.

D. 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.

E. The death, dissolution, termination of existence, insolvency, or business failure of Borrower, or any party obligated under the Note or Guaranties.

F. 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 Guaranties.

G. 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.

H. The failure by Borrower or any party obligated under the Note or Guaranties 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; provided, however, that the aggregate outstanding obligation is in excess of $100,000.00, and is not being contested in good faith.

I. 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.

J. 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.

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

L. 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.

9. 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.

10. 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.

11. 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.

12. 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.

13. 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.

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
--------------------------------------------

Richard J. Dobbyn
As its Chief Financial Officer

BORROWER

NORTHERN TRUST BANK OF FLORIDA, N.A.

By: /s/ TERENCE E. MCGANNON
---------------------------------------------
Terence E. McGannon
As its Vice President

LENDER



SUN HYDRAULIK HOLDINGS LIMITED,
a corporation organized under the laws of the
United Kingdom

By: /s/ CLYDE NIXON
-----------------------------------------------
Clyde Nixon
As its Deputy Chairman

SUN HYDRAULIKS LIMITED,
a corporation organized under the laws of the
United Kingdom

By: /s/ CLYDE NIXON
-----------------------------------------------
Clyde Nixon
As its Director

SUN HYDRAULIK GmbH,
a corporation organized under the laws of Germany

By: /s/ CLYDE NIXON
-----------------------------------------------
Clyde Nixon
As its Geschaftsfuhrer

GUARANTORS

Exhibit 23.1

CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 333-30801 and 333-83269) of Sun Hydraulics Corporation of our report dated March 2, 2001 relating to the financial statements and financial statement schedules, which appears in this Form 10-K.

PricewaterhouseCoopers LLP
Tampa, Florida
March 2, 2001