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 28, 2002 | Commission file number 0-21835

SUN HYDRAULICS CORPORATION

(Exact Name of Registration as Specified in its Charter)

Florida	**59-2754337**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
1500 West University Parkway Sarasota, Florida	**34243**
(Address of Principal Executive Offices)	(Zip Code)

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. [ ]

Rider A

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes [ ] No [X]

The aggregate market value of the shares of voting common stock held by non-affiliates of the Registrant, computed by reference to the closing sales price of such shares on the Nasdaq National Market, as of the last business day of the Registrant's most recently completed second fiscal quarter was $29,733,114.

As of March 17, 2003, there were 6,448,406 shares of common stock 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.

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 (historically, approximately 66% of net sales), and a broad array of “industrial” applications, such as machine tools and material handling equipment (historically, 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. In 2002, sales to the Company’s largest distributor represented less than 6.1% of net sales, and approximately 48% of the Company’s net sales were outside the United States.

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 Company’s executive offices are located at 1500 West University Parkway, Sarasota, Florida 34243, and its telephone number is (941) 362-1200. The Company’s 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 increase the use of 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, expands its business through the development of new products that are complementary to its existing products.

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. 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 concentrates its efforts in custom manifolds in two ways. The Company designs and manufactures 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 encourages 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 2002, the Company generated approximately 48% 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 will 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 strives to maintain its horizontal management structure that encourages communication, creativity, 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 69 distributors, 47 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 Bosch Rexroth, A.G., 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 may manufacture some of the Company's products for use in its own fluid power systems. Currently, Rexroth has elected not to manufacture any products under the licensing agreement, but continues to purchase these same products from the Company. 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. The Company believes the supply and manufacturing agreements with Bosch Rexroth are a strong endorsement of its design principles.

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.

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.

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.

At its Sarasota, Florida, facilities, 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 of incoming parts and to assess opportunities for better control of both price and quality. Manufacturing and design processes in the United States are certified to ISO 9001. Those in Korea are certified to ISO 9001 and 14001. England's manufacturing processes are certified to ISO 9002 and its manufacturing and design processes are in the process of being certified to ISO 9001. Completion of the certification is expected in 2003.

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 structures 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 69 distributors, 47 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 2002, sales to the Company's largest distributor represented less than 6.1% of net sales and net sales outside of the United States represented approximately 48% 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 information via the internet website and catalogues. This program is intended to provide design engineers with all information necessary to specify and obtain the Company's products. In December 2001, the Company launched a new website which disseminates product information quickly and is widely available to help stimulate global demand and pull product through the distribution channel. The time from the engineering release of products to their appearance in the marketplace has been drastically reduced. The Company is continuing to invest in this technology as one of the best ways to keep its broad product offering available to provide hydraulic control solutions for customers around the world.

Customers

Management does not believe that the loss of any one customer would 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 historically 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 historically 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 in 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 there is an ongoing effort to standardize a modified version of this cavity in the United States. The International Standards Organization (ISO) has developed a standard screw-in cartridge cavity that is different from the industry common cavity, but 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. Some 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.

Employees

As of December 28, 2002, the Company had 517 full-time employees in the United States, 81 in England, 25 in Germany, and 32 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 in its geographic areas. 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.

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 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 undertook capacity expansion programs during 1997-2002, 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 recently 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 which 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. The downturn in the industry, which began in 2001, has had a material adverse effect on the Company’s business and results of operation.

International Sales. In 2002, approximately 48% 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, the Euro, or the Korean Won. 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 costs and output would not be materially and adversely affected by operational or financial difficulties experienced by one or more of its suppliers.

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 funds will be funds available for this purpose in the future. 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 shareholders, 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 their 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 December 1, 2011. Under the mortgage loan, monthly payments of principal with interest of 6.5% on the unpaid balance are required. At December 28, 2002, $4.3 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 55%.

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.

In 2002, the Company completed an expansion of its United Kingdom facility in Coventry, England, adding 12,000 square feet of manufacturing space. The 37,000 square foot facility is free of any encumbrances. This facility has a productive capacity of approximately $20 million and currently, is operating at 60% of its productive capacity.

The Company owns a 10,000 square foot distribution and manufacturing facility in Inchon, Korea, free of any encumbrances.

The Company's 45,000 square foot distribution and manufacturing facility in Erkelenz, Germany has a mortgage loan, which is due September 30, 2008, and has a fixed interest rate of 6.05%. At December 28, 2002, 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 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 does not believe that any pending litigation 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 28, 2002.

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
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
2001		
First quarter	$ 7.688	$6.500
Second quarter	8.000	7.050
Third quarter	8.130	7.350
Fourth quarter	8.000	6.800
2002		
First quarter	$ 8.380	$7.560
Second quarter	8.700	8.000
Third quarter	8.600	8.050
Fourth quarter	8.450	7.650

Holders

There were 105 shareholders of record of Common Stock on March 17, 2003. 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 2002 and 2001. 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 2003. 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.

	Year Ended				
	Dec 28, 2002	Dec 29, 2001	Dec 30, 2000	Jan 1, 2000	Dec 31, 1998
	(in thousands except per share data)				
Statement of Operations:					
Net sales	$ 64,545	$ 64,983	$ 79,967	$70,449	$ 72,720
Gross profit	15,963	14,625	21,465	16,416	19,234
Operating income	3,420	2,060	7,356	4,038	7,688
Income before income taxes	2,592	1,312	5,919	2,664	8,520
Net income	$ 1,778	$ 950	$ 3,921	$ 1,831	$ 5,647
Basic net income per common share	$ 0.28	$ 0.15	$ 0.61	$ 0.29	$ 0.89
Diluted net income per common share	$ 0.27	$ 0.14	$ 0.60	$ 0.28	$ 0.87
Dividends per common share	$ 0.16	$ 0.16	$ 0.16	$ 0.16	$ 0.16
Other Financial Data:					
Depreciation and amortization	$ 5,100	$ 5,426	$ 5,594	$ 5,043	$ 4,387
Capital expenditures	5,870	4,022	4,374	7,897	8,137
Balance Sheet Data:					
Cash and cash equivalents	$ 3,958	$ 3,611	$ 2,698	$ 1,122	$ 1,592
Working capital	12,828	12,778	12,658	8,717	5,629
Total assets	62,285	61,750	64,374	64,074	61,019
Total debt	9,611	10,663	12,012	14,342	11,907
Redeemable common stock	2,250	—	—	—	—
Shareholders’ equity	42,899	43,738	43,836	41,176	40,015

Quarterly Results of Operations
(in thousands)

	For the Quarter Ended			
	Dec 28, 2002	Sep 28, 2002	Jun 29, 2002	Mar 30, 2002
Net sales	$15,476	$16,043	$17,413	$15,613
Gross profit	3,697	4,048	4,526	3,692
Operating income	626	1,027	1,384	383
Income before income taxes	423	780	1,188	200
Net income	$ 368	$ 507	$ 774	$ 128
	Dec 29, 2001	Sep 29, 2001	Jun 30, 2001	Mar 31, 2001
Net sales	$13,361	$15,119	$17,533	$18,970
Gross profit	1,809	3,270	4,217	5,316
Operating income (loss)	(949)	295	842	1,859
Income (loss) before income taxes	(1,096)	202	620	1,585
Net income (loss)	$ (662)	$ 151	$ 429	$ 1,033
	Dec 30, 2000	Sep 30, 2000	Jul 1, 2000	Apr 1, 2000
Net sales	$17,537	$20,137	$22,060	$20,233
Gross profit	4,721	5,486	6,176	5,082
Operating income	1,377	1,887	2,653	1,439
Income before income taxes	1,021	1,550	2,148	1,200
Net income	$ 667	$ 1,021	$ 1,376	$ 857

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (in millions except per share data)

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.

Industry conditions

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 shipments of hydraulic products decreased 3.0% in 2002 compared to 2001. Historically, the Company's orders trend has tracked closely to the United States measure of manufacturing capacity utilization. At the end of 2002, this measure continued to remain at a depressed level, with the December index at 73.6%.

Results for the 2002 fiscal year

Net sales for the year ended December 28, 2002, were $64.5 million, a decrease of 0.8% compared to net sales of $65.0 million for the year ended December 29, 2001. Net income for 2002 was $1.8 million, or 2.8% of net sales, compared to $1.0 million, or 1.5% of net sales, for 2001. Basic and diluted earnings per share for the year ended 2002, were $0.28 and $0.27 respectively, compared to $0.15 and $0.14 for the year ended December 29, 2001.

The 1% decrease in year-to-year sales was composed of increases in the German and Korean operations, which were more than offset by sales decreases in the United States and United Kingdom operations.

The increase in net income in 2002 compared to 2001 was primarily due to an improvement in gross profit as a percent of net sales. The improvement in gross profit as a percentage of sales was the result of productivity improvements and lower manufacturing overhead spending in the United States operations, and the strength of local currencies against the U.S. dollar in the foreign operations.

The productivity improvement experienced in 2002 was muted by the Company decision to retain its investment in its production workforce. Management believes the many manufacturing productivity improvements put in place during the economic slowdown of the past two years will substantially increase margins as sales volume rises.

Fourth Quarter

Net sales for the fourth quarter ended December 28, 2002, were $15.5 million, an increase of 15.7% compared to net sales of $13.4 million for the fourth quarter of 2001. Net income for the quarter ended December 28, 2001, was $0.4 million, compared to a net loss of $0.7 million for the fourth quarter of 2001. Basic and diluted net income per share for the fourth quarter were $0.06.

Cash Flow

The Company continues to have a strong balance sheet and cash flow. Net cash generated from operations for the year was $7.5 million. Capital expenditures for the year were $5.9 million, debt decreased $1.1 million, and $1.0 million was paid to shareholders in dividends. Cash on hand at December 28, 2002, was $4.0 million, an increase of $0.3 million for the year.

Outlook

Management is unable to make a meaningful projection of sales for 2003 due to the uncertainty in global economic conditions. Sales and net income results for the first quarter of 2003 are projected to be approximately the same as the first quarter of 2002.

Dividend

Sun Hydraulics Corporation declared a $0.04 per share quarterly dividend on its common stock on March 1, 2003. The dividend is payable on April 15, 2003, to shareholders of record as of March 31, 2003.

Other Highlights

The Company recently announced its intention to open an operation near Kansas City, Kansas, for the promotion and production of custom engineered hydraulic valve packages. The purpose is to increase the sales of custom valves (standard cartridge valves in custom manifolds) by providing quick delivery and close support to the Company’s distributors in the Midwest.

Results of Operations

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

	For the Year Ended				
	Dec 28, 2002	Dec 29, 2001	Dec 30, 2000	Jan 1, 2000	Dec 31, 1998
Net sales	100.0%	100.0%	100.0%	100.0%	100.0%
Gross profit	24.7%	22.5%	26.8%	23.3%	26.4%
Operating income	5.3%	3.2%	9.2%	5.7%	10.6%
Income before income taxes	4.0%	1.5%	7.4%	3.8%	11.7%

Segment Information (in thousands)

	United States	Korea	United Kingdom	Germany	Elimination	Consolidated
2002						
Sales to unaffiliated customers	$41,937	$5,899	$10,200	$6,509	$ —	$ 64,545
Intercompany sales	10,643	—	1,569	32	(12,244)	—
Operating income (loss)	2,029	431	618	416	(75)	3,419
Identifiable assets	43,407	2,035	11,596	6,207	(955)	62,290
Depreciation and amortization	3,905	104	783	308	—	5,100
Capital expenditures	2,219	136	3,429	86	—	5,870
2001						
Sales to unaffiliated customers	$43,158	$4,244	$11,248	$6,333	$ —	$ 64,983
Intercompany sales	10,326	—	1,544	37	(11,907)	—
Operating income (loss)	667	(20)	1,257	95	61	2,060
Identifiable assets	44,463	1,764	11,257	5,861	(1,595)	61,750
Depreciation and amortization	4,219	177	725	305	—	5,426
Capital expenditures	1,939	72	1,357	654	—	4,022
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 income (loss)	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

Comparison of Years Ended December 28, 2002 and December 29, 2001

Net Sales

Net sales for 2002 were $64.5 million, a decrease of $0.5 million, or 0.8%, from $65.0 million in 2001. Domestic net sales decreased 6.1%, or $2.2 million, in 2002, compared to 2001. International net sales increased 6.0%, or $1.7 million, with increases in Korea and Germany of 39.0% and 4.9%, respectively, offset by a decrease of 10.4% in the United Kingdom. Increases in Korea were due to specific customers demands.

Gross Profit

Gross profit increased 9.2% to $16.0 million in 2002, compared to $14.6 million in 2001. Gross profit as a percentage of net sales increased to 24.7% in 2002, compared to 22.5% in 2001. The increase in gross profit as a percentage of net sales was the result of productivity improvements and lower manufacturing overhead spending in the United States operations, and the strength of local currencies against the U.S. dollar in the foreign operations.

Selling, Engineering, and Administrative Expenses

Selling, engineering and administrative expenses were flat at $12.6 million in 2002 compared to 2001. Reductions in spending in the United States for advertising/catalogues and professional fees were offset by increases in spending in the United Kingdom for outside services and professional fees.

Interest Expense

Interest expense was $0.6 million and $0.9 million in 2002 and 2001, respectively. The reduction was due to a reduction of $0.2 million in interest on the secured equipment loan and $0.1 million in interest on the mortgage loan in the United States. Total average debt was reduced by $1.2 million in 2002 compared to 2001.

Foreign Currency Transaction (Gain) Loss

Foreign currency transaction loss in 2002 of $0.1 million was due primarily to a loss on revaluation of United Kingdom balance sheet items which were held in U.S. dollars.

Miscellaneous (Income) Expense

Miscellaneous expense was $0.2 million in 2002, compared to miscellaneous income of $0.1 million in 2001. The $0.3 million change was due to an increase in loss on sale of fixed assets in the United States and the United Kingdom.

Income Taxes

The provision for income taxes for the year ended December 28, 2002, was 34.0% of pretax income compared to 27.6% for the year ended December 29, 2001. The increase was due to a change in the relative levels of income and different tax rates in effect among the countries in which the Company sells its products.

Comparison of Years Ended December 29, 2001 and December 30, 2000

Net Sales

Net sales for 2001 were $65.0 million, a decrease of $15.0 million, or 18.7%, from $80.0 million in 2000. Domestic net sales decreased 25.9%, or $12.5 million, in 2001, compared to 2000. The primary reason for the decrease was the prolonged decline in the United States manufacturing sector, evidenced by the United States manufacturing capacity utilization index, which was at an eighteen year low at the end of 2001. International net sales decreased 7.7%, or $2.5 million, with decreases across all markets except Germany.

Gross Profit

Gross profit decreased to $14.6 million, or 32.1%, in 2001, compared to $21.5 million in 2000. Gross profit as a percentage of net sales decreased to 22.5% in 2001, compared to 26.8% in 2000. The decrease in gross profit as a percentage of net sales was due to fewer sales dollars available to cover indirect manufacturing costs, despite an overall decrease in these costs. The decrease in gross profit as a percentage of net sales was also due to a loss of productivity in the U.S. operations. Management decided to maintain production headcount despite reduced production requirements in order to preserve its long-term investment in the workforce.

Selling, Engineering, and Administrative Expenses

Selling, engineering and administrative expenses decreased $1.5 million, or 10.6%, to $12.6 million in 2001, compared to $14.1 million in 2000. $0.7 million of the decrease was due to significantly reduced spending for product catalogues. The new company website significantly reduces the amount of product information required to be published. The balance of the decrease was due to lower wage and warranty expenses as well as reductions in many discretionary expense categories such as outside services and travel.

Interest Expense

Interest expense was $0.9 million and $1.1 million in 2001 and 2000, respectively. There was no interest expense on the unsecured line of credit in 2001 since the outstanding balance remained at $0 for the entire year. This resulted in a decrease in interest expense of $0.1 million from 2000 to 2001. Interest expense on the Company’s long-term mortgages and other debt also decreased $0.1 million.

Miscellaneous (Income) Expense

Miscellaneous income was $0.1 million in 2001, compared to miscellaneous expense of $0.3 million in 2000. The $0.4 million change was due to a decrease in equity losses on the joint venture in China, a decrease in foreign currency exchange losses, and a decrease in loss on sale of fixed assets.

Income Taxes

The provision for income taxes for the year ended December 29, 2001, was 27.6% of pretax income compared to 33.8% for the year ended December 30, 2000. The decrease was due to a change in the relative levels of income and different tax rates in effect among the countries in which the Company sells its products.

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, pay dividends to shareholders, make capital expenditures, and service debt.

Net cash flow from operations in 2002 was $7.5 million, compared to $7.3 million in 2001 and $9.5 million in 2000. The increase in the Company’s net cash flow from operations in 2002, compared to 2001, was due to the increase in net income of $0.8 million combined with lower inventory and higher accounts payable, offset by increased accounts receivable. The decrease in the Company’s net cash flow from operations in 2001, compared to 2000, was due primarily to the decrease in net income of $3.0 million and lower accounts receivable and inventory, partially offset by income taxes receivable.

Capital expenditures were $5.9 million in 2002, compared to $4.0 million in 2001 and $4.4 million in 2000. Capital expenditures in 2002 included $1.5 million for the expansion of the building in the United Kingdom. Capital expenditures in the year 2003 are projected to be $4.0 million.

The Company has $9.6 million in outstanding debt secured by buildings and equipment. The Company has two revolving lines of credit totaling $8.8 million with various banks. There were no outstanding balances on these credit facilities at December 28, 2002. The line of credit in the United Kingdom totaling $1.3 million expires in 2006, while the line of credit in the U.S. expires in 2004.

The Company declared quarterly dividends of $0.04 per share to shareholders of record on the last day of each calendar quarter in 2002 and 2001. These dividends were paid on the 15th day of each month following the date of declaration. 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.

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. In the event that economic conditions were to severely worsen for a protracted period of time, the Company would have the following options available to ensure liquidity in addition to increased borrowing. Capital expenditures could be postponed since they primarily pertain to long-term improvements in operations. Additional operating expense reductions also could be made. Finally, the dividend to shareholders could be reduced or suspended.

Critical Accounting Policies and Estimates

It is the Company's accounting policy to report revenues when products are shipped and expenses when costs are incurred. The effect of material non-recurring events is provided for when they become known. The Company currently only applies judgment and estimates, which may have a material effect on the eventual outcome of assets, liabilities, revenues and expenses, for accounts receivable, inventory, goodwill and accruals. The following explains the basis and the procedure for each balance sheet account where judgment and estimates are applied.

Accounts Receivable

The Company sells to most of its customers on a recurring basis primarily through distributors with which the Company maintains long-term relationships. As a result, bad debt experience has not been material. The allowance for doubtful accounts is determined on a specific identification basis by a review of those accounts that are significantly in arrears. There is no assurance that a distributor or a large direct sale customer with overdue accounts receivable balances will not develop financial difficulties and default on payment. See balance sheet for allowance amounts.

Inventory

The Company offers a wide variety of standard products and as a matter of policy does not discontinue products. On an ongoing basis, component parts found to be obsolete through design or process changes are disposed of and charged to material cost. The Company reviews on-hand balances of products and component parts against specific criteria. Products and component parts without usage or that have excess quantities on hand are evaluated. An inventory reserve is then established for the full inventory carrying value of those products and component parts deemed to be obsolete or slow moving. See Note 4 for inventory reserve amounts.

Goodwill

The Company acquired its Korean operations in September 1998 using the purchase method. As a result, goodwill is reflected on the consolidated balance sheet. A valuation based on the cash flow method was performed at December 28, 2002, and it was determined that the value of the goodwill was not impaired. There is no assurance that the value of the acquired company will not decrease in the future due to changing business conditions. See Note 6 for goodwill amounts.

Accruals

The Company makes estimates related to certain employee benefits and miscellaneous accruals. Estimates for employee benefit accruals are based on information received from plan administrators in conjunction with management's assessments of estimated liabilities related to workers' compensation, the 401(k) plan discretionary match, and health care benefits. Estimates for miscellaneous accruals are based on management's assessment of estimated liabilities for costs incurred.

New Accounting Pronouncements

On April 30, 2002, the Financial Accounting Standards Board issued FAS 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." FAS 145 eliminates the requirement that gains and losses from the extinguishment of debt be aggregated and, if material, classified as an extraordinary item, net of the related income tax effect and eliminates an inconsistency between the accounting for sale-leaseback transactions and certain lease modifications that have economic effects that are similar to sale-leaseback transactions. Generally, FAS 145 is effective for transactions occurring after May 15, 2002. The adoption of the standard will have no impact to the Company.

In June 2002, the Financial Accounting Standards Board (FASB) issued FAS 146, "Accounting for Exit or Disposal Activities." FAS 146 addresses significant issues regarding the recognition, measurement, and reporting of costs that are associated with exit and disposal activities, including restructuring activities that are currently accounted for pursuant to the guidance that the Emerging Issues Task Force (EITF) has set forth in EITF Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity including Certain Costs Incurred in a Restructuring." The scope of FAS 146 also includes (1) costs related to terminating a contract that is not a capital lease and (2) termination benefits that employees who are involuntarily terminated receive under the terms of a one-time benefit arrangement that is not an ongoing benefit arrangement or an individual deferred-compensation contract. FAS 146 will be effective for exit or disposal activities that are initiated after December 31, 2002. Management expects that there will be no impact on the Company's reported operating results, financial position, and existing financial statement disclosure from the adoption of SFAS 146.

In November 2002, the FASB issued Interpretation No. (FIN) 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of others (an interpretation of FAS No. 5, 57, and 107 and rescission of FAS Interpretation No. 34), which modifies the accounting and enhances the disclosure of certain types of guarantees. FIN 45 requires that upon issuance of certain guarantees, the guarantor must recognize a liability for the fair value of the obligation it assumes under the guarantee. FIN 45's provisions for the initial recognition and measurement are to be applied to guarantees issued or modified after December 31, 2002. The disclosure requirements are effective for financial statements of annual periods that end after December 15, 2002. The Company guarantees a loan of its German subsidiary totaling approximately $0.3 million. The debt is recorded in the consolidation, see note 8.

In December 2002, the FASB issued FAS 148, *Accounting for Stock-Based Compensation – Transition and Disclosure,* an amendment of FASB Statement No. 123. This standard amends FAS 123, *Accounting for Stock-Based Compensation,* to provide alternative methods of transition for companies that voluntarily change to fair value based method of accounting for stock-based employee compensation. It also requires accounting policy decisions with respect to stock-based employee compensation in both annual and interim financial statements. The transition provisions and annual disclosure requirements are effective for all fiscal years ending after December 15, 2002, while the interim period disclosure requirements are effective for all interim periods beginning after December 15, 2002. The Company has elected to continue the use of the intrinsic value method for fiscal 2002, but has adopted the disclosure provision.

On January 17, 2003, the FASB issued FASB Interpretation (FIN) No. 46, *Consolidation of Variable Interest Entities, an interpretation of ARB No. 51,* which imposes a new approach in determining if a reporting entity should consolidate legal entities defined as variable interest entities or VIE's. A legal entity is considered a VIE if it does not have sufficient equity at risk to finance its own activities without relying on financial support from other parties. Additional criteria must be applied to determine if this condition is met or if the equity holders, as a group, lack any one of the three stipulated characteristics of a controlling financial interest. If the legal entity is a VIE, then the reporting entity determined to be the primary beneficiary must consolidate it. Even if a reporting entity is not obligated to consolidate a VIE, then certain disclosures must be made about the VIE if the reporting entity has a significant variable interest. Certain transition disclosures are required for all financial statements issued after January 31, 2003. The on-going disclosure and consolidation requirements are effective for all interim financial periods beginning after June 15, 2003.

The Company uses the equity method of accounting to account for investments in its joint venture in China in which it does not have a majority ownership or exercise control. Based on a preliminary review, the Company does not believe that its investment in the China Joint Venture is VIE and within the scope of FIN 46.

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 historically are the lowest of any quarter during the year.

Inflation

The impact of inflation on the Company's operating results has been moderate in recent years, reflecting generally lower rates of inflation in the economy. 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.

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 28, 2002. 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 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 28, 2002, the Company had $0.1 million in variable-rate debt outstanding and, as such, the market risk is immaterial. The Company manages this risk by selecting unsecured debt financing at its lenders' prime rate less 1%, or the Libor rate plus 2.0%, whichever is the more advantageous.

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 operations, 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 28, 2002 and December 29, 2001, and the results of their operations and their cash flows for each of the three years in the period ended December 28, 2002, in conformity with accounting principles 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.

As discussed in Note 6, the Company changed its method of accounting for amortization of goodwill in accordance with FAS 142, "Goodwill and Other Intangible Assets" effective January 1, 2002.

PricewaterhouseCoopers LLP
Tampa, FL
February 28, 2003

Sun Hydraulics Corporation
Consolidated Balance Sheets
(in thousands)

	December 28, 2002	December 29, 2001
Assets		
Current assets:		
Cash and cash equivalents	$ 3,958	$ 3,611
Accounts receivable, net of allowance for doubtful accounts of $194 and $195	5,690	4,755
Inventories	6,846	7,238
Taxes receivable	—	668
Other current assets	810	985
Total current assets	17,304	17,257
Property, plant and equipment, net	43,987	43,555
Other assets	994	938
Total assets	**$ 62,285**	**$ 61,750**
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$ 1,706	$ 1,323
Accrued expenses and other liabilities	1,081	1,494
Long-term debt due within one year	1,421	1,405
Dividends payable	258	257
Taxes payable	10	—
Total current liabilities	4,476	4,479
Long-term debt due after one year	8,190	9,258
Deferred income taxes	4,092	3,848
Other noncurrent liabilities	378	427
Total liabilities	17,136	18,012
Commitments and contingencies (Note 16)	—	—
Redeemable common stock	2,250	—
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 $0.001, 6,445,567 shares outstanding	6	6
Capital in excess of par value	22,690	24,718
Unearned compensation related to outstanding restricted stock	(170)	(216)
Retained earnings	19,750	19,001
Accumulated other comprehensive income	623	229
Total shareholders' equity	42,899	43,738
Total liabilities and shareholders' equity	**$ 62,285**	**$ 61,750**

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

Sun Hydraulics Corporation
Consolidated Statements of Operations
(in thousands, except per share data)

	For the year ended		
	December 28, 2002	December 29, 2001	December 30, 2000
Net sales	**$ 64,545**	**$ 64,983**	**$ 79,967**
Cost of sales	48,581	50,358	58,502
Gross profit	**15,964**	**14,625**	**21,465**
Selling, engineering and administrative expenses	12,544	12,565	14,109
Operating income	**3,420**	**2,060**	**7,356**
Interest expense	578	878	1,114
Foreign currency transaction loss (gain)	68	(34)	39
Miscellaneous expense (income)	182	(96)	284
Income before income taxes	**2,592**	**1,312**	**5,919**
Income tax provision	814	362	1,998
Net income	**$ 1,778**	**$ 950**	**$ 3,921**
Basic net income per common share	**$ 0.28**	**$ 0.15**	**$ 0.61**
Weighted average basic shares outstanding	**6,433**	**6,392**	**6,385**
Diluted net income per common share	**$ 0.27**	**$ 0.14**	**$ 0.60**
Weighted average diluted shares outstanding	**6,589**	**6,554**	**6,574**

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

Sun Hydraulics Corporation
Consolidated Statement of Shareholders' Equity and Comprehensive Income
(in thousands)

	Shares	Preferred Stock	Common stock	Capital in excess of par value	Unearned Compensation related to restricted stock	Retained earnings	Accumulated other comprehensive income	Total
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
Shares issued, Restricted Stock	34			216	(216)			—
Shares issued, Unrestricted Stock	1			8				8
Shares issued, ESPP	1			8				8
Dividends declared						(1,022)		(1,022)
Comprehensive income:								
Net income						950		950
Foreign currency translation adjustments							(42)	(42)
Comprehensive income								908
Balance, December 29, 2001	6,421	$ —	$ 6	$24,718	$ (216)	$19,001	$ 229	$43,738
Shares issued, Restricted Stock	9			129	46			175
Shares issued, Unrestricted Stock	5			23				23
Shares issued, ESPP	11			70				70
Redeemable Common Stock				(2,250)				(2,250)
Dividends declared						(1,029)		(1,029)
Comprehensive income:								
Net income						1,778		1,778
Foreign currency translation adjustments							394	394
Comprehensive income								2,172
Balance, December 28, 2002	6,446	$ —	$ 6	$22,690	$ (170)	$19,750	$ 623	$42,899

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)

	For the year ended		
	December 28, 2002	December 29, 2001	December 30, 2000
Cash flows from operating activities:			
Net income	$ 1,778	$ 950	$ 3,921
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	5,100	5,426	5,594
Gain/(Loss) on disposal of assets	190	(2)	273
Compensation expense of stock options	—	—	—
Allowance for doubtful accounts	(1)	32	(33)
Provision for slow moving inventory	(101)	314	24
Provision for deferred income taxes	244	(258)	(6)
(Increase) decrease in:			
Accounts receivable	(934)	1,325	181
Inventories	493	1,481	(926)
Income tax receivable	668	(668)	442
Other current assets	175	(449)	55
Other assets, net	(56)	30	19
Increase (decrease) in:			
Accounts payable	383	(464)	(925)
Accrued expenses and other liabilities	(413)	(91)	121
Dividends payable	1	2	—
Income taxes payable	10	(315)	315
Other liabilities	(49)	(51)	478
Net cash from operating activities	7,488	7,262	9,533
Cash flows used in investing activities:			
Investment in acquisition and joint venture	—	—	(100)
Capital expenditures	(5,870)	(4,022)	(4,374)
Proceeds from dispositions of equipment	148	70	108
Net cash used in investing activities	(5,722)	(3,952)	(4,366)
Cash flows used in financing activities:			
Proceeds from debt	—	571	2,999
Repayment of debt	(1,052)	(1,920)	(5,329)
Proceeds from exercise of stock options	17	—	—
Proceeds from stock issued	251	16	—
Dividends to shareholders	(1,029)	(1,022)	(1,021)
Net cash used in financing activities	(1,813)	(2,355)	(3,351)
Effect of exchange rate changes on cash and cash equivalents	394	(42)	(240)
Net increase (decrease) in cash and cash equivalents	347	913	1,576
Cash and cash equivalents, beginning of period	3,611	2,698	1,122
Cash and cash equivalents, end of period	$ 3,958	$ 3,611	$ 2,698
Supplemental disclosure of cash flow information:			
Cash paid/(received):			
Interest	$ 578	$ 878	$ 1,114
Income taxes	$ (108)	$ 1,603	$ 1,247

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 and other international markets. 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.

Critical Accounting Policies and Estimates

It is the Company’s accounting policy to report revenues when products are shipped and expenses when costs are incurred. The effect of material non-recurring events is provided for when they become known. The Company currently only applies judgment and estimates, which may have a material effect on the eventual outcome of assets, liabilities, revenues and expenses, for accounts receivable, inventory, goodwill and accruals. The following explains the basis and the procedure for each balance sheet account where judgment and estimates are applied.

Accounts Receivable

The Company sells to most of its customers on a recurring basis primarily through distributors with which the Company maintains long-term relationships. As a result, bad debt experience has not been material. The allowance for doubtful accounts is determined on a specific identification basis by a review of those accounts that are significantly in arrears. There is no assurance that a distributor or a large direct sale customer with overdue accounts receivable balances will not develop financial difficulties and default on payment. See balance sheet for allowance amounts.

Inventory

The Company offers a wide variety of standard products and as a matter of policy does not discontinue products. On an ongoing basis, component parts found to be obsolete through design or process changes are disposed of and charged to material cost. The Company reviews on-hand balances of products and component parts against specific criteria. Products and component parts without usage or that have excess quantities on hand are evaluated. An inventory reserve is then established for the full inventory carrying value of those products and component parts deemed to be obsolete or slow moving. See Note 4 for inventory reserve amounts.

Goodwill

The Company acquired its Korean operations in September 1998 using the purchase method. As a result, goodwill is reflected on the consolidated balance sheet. A valuation based on the cash flow method was performed at December 28, 2002, and it was determined that the value of the goodwill was not impaired. There is no assurance that the value of the acquired company will not decrease in the future due to changing business conditions. See Note 6 for goodwill amounts.

Accruals

The Company makes estimates related to certain employee benefits and miscellaneous accruals. Estimates for employee benefit accruals are based on information received from plan administrators in conjunction with management's assessments of estimated liabilities related to workers' compensation, the 401(k) plan discretionary match, and health care benefits. Estimates for miscellaneous accruals are based on management's assessment of estimated liabilities for costs incurred.

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

The Company's fiscal year 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. Obsolete and slow moving inventory is evaluated and reserves are established based on specific criteria determined by management.

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

Valuation Assessment of Long-Lived Assets

Management periodically evaluates long-lived assets for potential impairment and will provide for impairment whenever events or changes in circumstances indicate the carrying amount of the assets may not be fully recoverable. Assets are reviewed for utilization on a monthly basis by management in conjunction with employees that work directly with the assets.

Goodwill

Goodwill, which represents the excess of the purchase price of acquisition over the fair value of the net assets acquired and other acquisition costs, is carried at cost, net of accumulated amortization. Effective January 1, 2002, the Company adopted FAS No. 142, "Goodwill and Other Intangible Assets." Under FAS 142, goodwill is no longer subject to amortization. Instead, FAS 142 requires goodwill to be reviewed for impairment on an annual basis, or more frequently if events or circumstances indicate possible impairment.

Other Assets

Other assets consists of an equity investment in the Company's joint venture in China. The equity investment was recorded at cost and has been adjusted for investment income or loss and dividend distributions for each quarterly period since its origin.

Revenue Recognition

Sales are recognized when products are shipped and title to the products is passed to the customer. 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.

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 Sun 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 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).

Earnings Per Share Computation

Earnings per share were computed as follows:

	2002	2001	2000
Net Income	$1,778	$ 950	$3,921
Weighted-average shares outstanding — basic	6,433	6,392	6,385
Incremental shares from assumed conversions	156	162	189
Weighted-average shares outstanding — diluted	6,589	6,554	6,574
Earnings per share:			
Basic	$ 0.28	$ 0.15	$ 0.61
Diluted	0.27	0.14	0.60

Outstanding diluted shares includes basic shares outstanding as well as outstanding, unexercised stock options.

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.

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 28, 2002	December 29, 2001
Raw materials	$ 2,239	$ 2,426
Work in process	2,611	2,773
Finished goods	2,209	2,353
Provision for slow moving inventory	(213)	(314)
Total	$ 6,846	$ 7,238

5. PROPERTY, PLANT, and EQUIPMENT

	December 28, 2002	December 29, 2001
Machinery and equipment	$ 46,405	$ 42,871
Office furniture and equipment	7,515	6,904
Buildings	21,018	19,654
Leasehold and land improvements	1,498	1,149
Land	2,481	2,481
	$ 78,916	$ 73,059
Less: Accumulated depreciation	(36,175)	(32,381)
Construction in progress	1,246	2,877
Total	$ 43,987	$ 43,555

Depreciation expense for the years ended December 28, 2002, December 29, 2001, and December 30, 2000, totaled $5,100, $5,383, and $5,538, respectively.

6. GOODWILL

On December 28, 2002, the Company had $715 of goodwill, net of amortization of $157, related to its acquisition of Sun Korea.

Valuation models reflecting the expected future cash flow projections were used to value Sun Korea at December 28, 2002. The analysis indicated that there was no impairment on the carrying value of the goodwill.

The following represents pro-forma net income and related per share amounts as if the new method of accounting for goodwill was applied retroactively:

	For the year ended		
	December 28, 2002	December 29, 2001	December 30, 2000
Net income:			
As reported	$ 1,778	$ 950	$ 3,921
Pro forma	1,778	1,010	3,981
Basic earnings per common share:			
As reported	$ 0.28	$ 0.15	$ 61
Pro forma	0.28	0.16	0.62
Diluted earnings per common share:			
As reported	$ 0.27	$ 0.14	$ 0.60
Pro forma	0.27	0.15	0.61

7. OTHER ASSETS

	December 28, 2002	December 29, 2001
Goodwill, net of accumulated amortization of $157 and $157	$ 715	$ 715
Equity investment in joint venture	240	178
Other	39	45
Total	$ 994	$ 938

8. ACCRUED EXPENSES AND OTHER LIABILITIES

	December 28, 2002	December 29, 2001
Compensation and benefits	$ 754	$ 672
Insurance	219	451
Other	108	371
Total	$ 1,081	$ 1 ,494

9. LONG-TERM DEBT

	December 28, 2002	December 29, 2001
$3,872 three year note, secured by U.S. equipment, fixed interest rate of 5.3%, due December 23, 2005	$ 2,980	$ 3,872
$4,425 10-year mortgage note with 20-year amortization schedule on the U.S. Manatee County facility, fixed interest rate of 6.5%, due December 1, 2011	4,315	4,412
$2,400 12-year mortgage note on the German facility, fixed interest rate of 6.05%, due September 30, 2008	1,094	1,081
10-year notes, fixed interest rates ranging from 3.5-5.1%, secured by equipment in Germany, due between 2009 and 2011	1,115	1,058
Other	107	240
	9,611	10,663
Less amounts due within one year	(1,421)	(1,405)
Total	$ 8,190	$ 9,258

The remaining principal payments are due as follows: 2003 — $1,421; 2004 — $1,573; 2005 — $1,565; 2006 — $770; 2007 and thereafter — $4,282.

The Company has two revolving bank lines of credit agreements totaling $8,783. 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., respectively. The line of credit in the U.K. expires in 2006, while the line of credit in the U.S. expires in 2004. Neither of these arrangements contain pre-payment penalties. There were no outstanding balances on these credit facilities at December 28, 2002 or December 29, 2001.

Certain of these debt instruments are subject to debt covenants including 1) consolidated net working capital of not less than $2,000 and a current ratio not less than 1.2:1.0 at all times during the term of the loan, 2) tangible net worth at a minimum of $35,000 for the fiscal year 2001, with annual tangible net worth increases of at least 50% of net income for the immediately preceding fiscal year, and 3) consolidated debt service coverage ratio throughout the term of the loan at a minimum of 1.25:1.0 on a calendar year basis. As of December 28, 2002, the Company was in compliance with all debt covenants.

10. REDEEMABLE COMMON STOCK

On June 22, 2002, the Company entered into a standby Stock Repurchase Agreement with the Koski Family Limited Partnership, which owns approximately 36% of the outstanding shares of the Company's common stock. Under the Agreement, the Company agreed to purchase up to $2,250 worth of Company common stock from the Koski Partnership on a one time basis, until June 22, 2004. The repurchase would be at a per share price of either (i) $7.00 per share, or (ii) 15% less than the average closing price per share of the common stock for the 15 full trading days immediately preceding the closing date, whichever is lower.

At December 28, 2002, the average closing price of the Company's common stock for the previous 15 full trading days was $8.16 per share. A 15% discount from this price would result in a repurchase price per share of $6.94. At this price, the Company would repurchase 325,000 shares from the Koski Partnership for $2,250 in cash, if requested to do so. On the Company's balance sheet, $2,250 has been transferred from Capital in Excess of Par into Redeemable Common Stock.

11. DISTRIBUTIONS AND DIVIDENDS TO SHAREHOLDERS

The Company declared distributions of $1,029, $1,022, and $1,021 to shareholders in 2002, 2001, and 2000, respectively.

On March 1, 2003, the Company declared a cash dividend of $0.04 per share to shareholders of record on March 31, 2003, payable on April 15, 2003. The Company declared quarterly dividends of $0.04 per share to shareholders of record on the last day of each quarter in 2002 and 2001. These dividends were paid on the 15th day of each month following the date of declaration.

12. INCOME TAXES

Pretax income is taxed under the following jurisdictions:

	For the year ended		
	December 28, 2002	December 29, 2001	December 30, 2000
United States	$ 1,337	$ (283)	$ 3,807
Foreign	1,253	1,595	2,112
Total	$ 2,590	$ 1,312	$ 5,919

The income tax provision consists of the following:

	For the year ended		
	December 28, 2002	December 29, 2001	December 30, 2000
Current tax expense:			
United States	$ 306	$ 180	$ 1,300
State and local	27	16	110
Foreign	236	424	594
Total current	569	620	2,004
Deferred tax expense (benefit):			
United States	115	(231)	—
State and local	10	(21)	—
Foreign	119	(6)	(6)
Total deferred	244	(258)	(6)
Total income tax provision	$ 813	$ 362	$ 1,998

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

	For the year ended		
	December 28, 2002	December 29, 2001	December 30, 2000
U.S. federal taxes at statutory rate	$ 881	$ 446	$ 2,012
Increase(decrease)			
Benefit of foreign sales corporation	—	—	(30)
Benefit of ETI	(85)	—	—
Foreign income taxed at lower rate	(75)	(114)	(129)
Nondeductible items	52	36	70
State and local taxes, net	40	(6)	75
Income tax provision	$ 813	$ 362	$ 1,998

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

	December 28, 2002	December 29, 2001	December 30, 2000
Deferred taxes, non-current:			
Assets			
Accrued expenses and reserves not currently deductible	$ 189	$ 354	$ 161
Compensation expense recognized for book, not yet deductible for tax	329	329	329
Deferred royalty income	139	158	177
Deferred tax asset, non-current	657	841	667
Liabilities			
Depreciation	(4,749)	(4,689)	(4,773)
Net deferred tax liability, non-current	$ (4,092)	$ (3,848)	$ (4,106)

13. 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 1,000,000 shares of the Company’s common stock by officers, employees and Directors of the Company. Under the 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 the years ended December 28, 2002, December 29, 2001, and December 30, 2000 is summarized as follows:

	Number of shares	Exercise price range			Weighted average exercise price
	(share amounts are in thousands)				
Under option, January 1, 2000	666	$ 3.00	—	16.75	$ 9.19
(453 shares exercisable)					
Granted	103	$ 6.00	—	8.00	$ 7.36
Forfeitures	(13)	$10.00	—	16.75	$ 15.19
Under option, December 30, 2000	756	$ 3.00	—	16.75	$ 7.84
(526 shares exercisable)					
Granted	25	$ 7.00			$ 7.00
Forfeitures	(105)	$16.75			$ 16.75
Under option, December 29, 2001	676	$ 3.00	—	16.75	$ 7.68
(557 shares exercisable)					
Granted	15	$ 8.27			$ 8.27
Exercised	(4)	$ 3.85			$ 3.85
Forfeitures	(17)	$ 6.75	—	10.00	$ 9.81
Under option, December 28, 2002	670	$ 3.00	—	16.75	$ 7.67
(570 shares exercisable)					

All options listed above vest over 5 years with a maximum term of 10 years.

A summary of outstanding and exercisable options at December 28, 2002 is summarized as follows:

	Options Outstanding			Options Exercisable	
		Weighted-average			
Range of exercise prices	Number of shares	Remaining contractual life	Exercise price	Number of shares	Weighted average exercise price
$3.00	62,746	1.08	3.00	62,746	$ 3.00
3.43-5.05	184,452	3.75	4.43	184,452	4.43
6.00	10,000	7.00	6.00	10,000	6.00
6.75	36,000	8.00	6.75	14,400	6.75
7.00	25,000	8.83	7.00	5,000	7.00
8.00	56,000	7.67	8.00	23,400	8.00
8.27	15,000	9.42	8.27	—	8.27
9.50	194,385	3.57	9.50	194,385	9.50
10.00	31,000	5.92	10.00	31,000	10.00
16.75	55,000	5.33	16.75	45,000	16.75

During 2001, the Company adopted the 2001 Restricted Stock Plan, which provides for the grant of restricted stock of up to an aggregate of 275,000 shares of the Company’s common stock to officers, employees, consultants and directors of the Company. Under the terms of the plan, the minimum period before any shares become non-forfeitable may not be less than six months. The market value of the restricted stock at the date of grant was recorded as unearned compensation, a component of shareholders’ equity, and is being charged to expense over the respective vesting periods. The Company had 46,250 shares of restricted stock outstanding at December 28, 2002, and 13,917 of these shares were vested.

During 2001, the Company adopted the Employee Stock Purchase Plan (“ESPP”), which became effective August 1, 2001. Most employees are eligible to participate. Employees who choose to participate are granted on option to purchase common stock at 85 percent of market value on the first or last day of the quarterly purchase period, whichever is lower. The ESPP authorizes the issuance, and the purchase by employees, of up to 325,000 shares of the common stock through payroll deductions. No employee is allowed to buy more than $25,000 of common stock in any year, based on the market value of the common stock at the beginning of the purchase period. During 2002, employees purchased approximately 10,694 shares at an average price of $6.66, under the ESPP.

The Company has adopted the disclosure-only provisions of SFAS No. 123. Accordingly, no compensation cost has been recognized for the stock option plan other than for nonqualified stock options. Had compensation costs for the stock option plan been determined based on the fair value at the grant date for awards in 2001 and 2000 (there were no options granted in 2002) 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:

	For the year ended		
	December 28, 2002	December 29, 2001	December 30, 2000
Net income:			
As reported			
Pro forma	$ 1,778	$ 950	$ 3,921
	1,639	671	3,418
Basic earnings per common share:			
As reported	$ 0.28	$ 0.15	$ 0.61
Pro forma	0.25	0.10	0.54
Diluted earnings per common share:			
As reported	$ 0.27	$ 0.14	$ 0.60
Pro forma	0.25	0.10	0.52

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 2001, and 2000 (no options granted in 2002 became exercisable in 2002): cumulative volatility of 40.0% for 2001 and 2000; dividend yields of 2.09%, and 2.41%, for 2001 and 2000, respectively; risk-free interest rate of 4.96%, and 5.11%, for 2001 and 2000, respectively; and expected terms of 6.50 years for 2001 and 3.00 to 6.50 years for 2000.

14. 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 $685, $715, and $1,195 during 2002, 2001, and 2000, 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 $235, $215, and $110 during 2002, 2001, and 2000, respectively.

15. SEGMENT REPORTING

The individual subsidiaries comprising the Company operate predominantly in a single industry as manufacturers and distributors of hydraulic components. Management bases its financial decisions by the geographical location of its operations. 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:

	United States	Korea	United Kingdom	Germany	Elimination	Consolidated
2002						
Sales to unaffiliated customers	$41,937	$5,899	$10,200	$6,509	$ —	$ 64,545
Intercompany sales	10,643	—	1,569	32	(12,244)	—
Operating income (loss)	2,029	431	618	416	(75)	3,419
Identifiable assets	43,407	2,035	11,596	6,207	(955)	62,290
Depreciation and amortization	3,905	104	783	308	—	5,100
Capital expenditures	2,219	136	3,429	86	—	5,870
2001						
Sales to unaffiliated customers	$ 43,158	$ 4,244	$ 11,378	$ 6,203	$ —	$ 64,983
Intercompany sales	10,326	—	1,544	37	(11,907)	—
Operating income (loss)	667	(20)	1,257	95	61	2,060
Identifiable assets	44,463	1,764	11,257	5,861	(1,595)	61,750
Depreciation and amortization	4,219	177	725	305	—	5,426
Capital expenditures	1,939	72	1,357	654	—	4,022
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 income (loss)	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

Net foreign currency gains (losses) reflected in results of operations were $(68), $34, and ($39), for 2002, 2001, and 2000, respectively. Operating income (loss) 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 $7,246, $5,964, and $7,134, during 2002, 2001, and 2000, respectively.

16. 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.

17. NEW ACCOUNTING PRONOUNCEMENTS

On April 30, 2002, the Financial Accounting Standards Board issued FAS 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." FAS 145 eliminates the requirement that gains and losses from the extinguishment of debt be aggregated and, if material, classified as an extraordinary item, net of the related income tax effect and eliminates an inconsistency between the accounting for sale-leaseback transactions and certain lease modifications that have economic effects that are similar to sale-leaseback transactions. Generally, FAS 145 is effective for transactions occurring after May 15, 2002. The adoption of the standard will have no impact to the Company.

In June 2002, the Financial Accounting Standards Board (FASB) issued FAS 146, "Accounting for Exit or Disposal Activities". FAS 146 addresses significant issues regarding the recognition, measurement, and reporting of costs that are associated with exit and disposal activities, including restructuring activities that are currently accounted for pursuant to the guidance that the Emerging Issues Task Force (EITF) has set forth in EITF Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity including Certain Costs Incurred in a Restructuring." The scope of FAS 146 also includes (1) costs related to terminating a contract that is not a capital lease and (2) termination benefits that employees who are involuntarily terminated receive under the terms of a one-time benefit arrangement that is not an ongoing benefit arrangement or an individual deferred-compensation contract. FAS 146 will be effective for exit or disposal activities that are initiated after December 31, 2002. Management expects that there will be no impact on the Company's reported operating results, financial position, and existing financial statement disclosure from the adoption of SFAS 146.

In November 2002, the FASB issued Interpretation No. (FIN) 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of others (an interpretation of FAS No. 5, 57, and 107 and rescission of FAS Interpretation No. 34), which modifies the accounting and enhances the disclosure of certain types of guarantees. FIN 45 requires that upon issuance of certain guarantees, the guarantor must recognize a liability for the fair value of the obligation it assumes under the guarantee. FIN 45's provisions for the initial recognition and measurement are to be applied to guarantees issued or modified after December. 31, 2002. The disclosure requirements are effective for financial statements of annual periods that end after December 15, 2002. The Company guarantees a loan of its German subsidiary totaling approximately $250. The debt is recorded in the consolidation, see note 9.

In December 2002, the FASB issued FAS 148, *Accounting for Stock-Based Compensation — Transition and Disclosure,* an amendment of FASB Statement No. 123. This standard amends FAS 123, *Accounting for Stock-Based Compensation,* to provide alternative methods of transition for companies that voluntarily change to fair value based method of accounting for stock-based employee compensation. It also requires accounting policy decisions with respect to stock-based employee compensation in both annual and interim financial statements. The transition provisions and annual disclosure requirements are effective for all fiscal years ending after December 15, 2002, while the interim period disclosure requirements are effective for all interim periods beginning after December 15, 2002. The adoption of the disclosure provisions of this standard does not have a material impact.

On January 17, 2003, the FASB issued FASB Interpretation (FIN) No. 46, *Consolidation of Variable Interest Entities, an interpretation ofARB No. 51,* which imposes a new approach in determining if a reporting entity should consolidate legal entities defined as variable interest entities or VIE's. A legal entity is considered a VIE if it does not have sufficient equity at risk to finance its own activities without relying on financial support from other parties. Additional criteria must be applied to determine if this condition is met or if the equity holders, as a group, lack any one of the three stipulated characteristics of a controlling financial interest. If the legal entity is a VIE, then the reporting entity determined to be the primary beneficiary must consolidate it. Even if a reporting entity is not obligated to consolidate a VIE, then certain disclosures must be made about the VIE if the reporting entity has a significant variable interest. Certain transition disclosures are required for all financial statements issued after January 31, 2003. The on-going disclosure and consolidation requirements are effective for all interim financial periods beginning after June 15, 2003.

The Company uses the equity method of accounting to account for investments in its joint venture in China in which it does not have a majority ownership or exercise control. Based on a preliminary review, Sun Hydraulics does not believe that its investment in the China Joint Venture is VIE and within the scope of FIN 46.

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

None

PART III.

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE COMPANY

Directors and Executive Officers

The Board of Directors ("Board") of the Company currently consists of nine 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	67	Chairman of the Board of Directors (term expiring in 2004)
Allen J. Carlson	52	President, Chief Executive Officer, Director (term expiring in 2003)
Jeffrey Cooper	61	Engineering Manager
Richard J. Dobbyn	59	Chief Financial Officer
Peter G. Robson	58	General Manager, Sun Hydraulics Limited
Marc Bertoneche	56	Director (term expiring in 2004), and a member of the Audit Committee
John S. Kahler	63	Director (term expiring in 2003), and a member of the Audit and Compensation Committees
Christine L. Koski	45	Director (term expiring in 2005)
Robert E. Koski	73	Director (term expiring in 2003), and a member of the Compensation Committee
Ferdinand E. Megerlin	63	Director (term expiring in 2004) and a member of the Audit and Compensation Committees
Taco van Tijn	79	Director (term expiring in 2005) and a member of the Audit Committee
David N. Wormley	63	Director (term expiring in 2005) 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 34 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 31 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 33 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 35 years experience in the fluid power industry.

Dr. Bertoneche holds a chair as Professor in Business Administration at the University of Bordeaux in France, and has been on the Faculty of INSEAD, the European Institute of Business Administration in Fontainebleau, France, for more than 20 years. He is a Visiting Professor at the Harvard Business School and also has taught at Northwestern University. Dr. Bertoneche has served as a Director of the Company since August 2001.

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. Mr. Kahler has served as a Director of the Company since May 1998.

Ms. Koski founded Koski Consulting Group, Inc. in June 2001 to work with start-up companies in the area of business strategy and marketing. In May 2001, Ms. Koski completed an Executive MBA degree from Southern Methodist University. From 1980 through 2001, Ms. Koski held various positions in sales, product management, purchasing, sales management, and international marketing management with Celanese A.G. or its former affiliates, including Celanese Ltd., Hoechst AG and Hoechst Celanese Chemical Group Ltd. Ms. Koski has served as a Director of the Company since May 2000.

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 as an executive officer in May 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 39 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 a member of the Executive Board of Linde AG and Chairman and Managing Director of the Linde Material Handling Division of 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, Germany's association for mechanical and plant engineering, Dr. Megerlin formerly was Chairman and now serves as a member of the Executive Board 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. Dr. Megerlin has served as a Director of the Company since May 1998.

Mr. van Tijn was called to the Bar at the Honourable Society of the Inner Temple as a Barrister of the High Court of Judicature of England in February 1957. He became an attorney (solicitor), and has practiced as such in London, England, since May 1977. In June 1998, he merged his law firm, Taco van Tijn-Solicitors with the London law firm Rooks Rider, which he assisted as a consultant until March 2002. 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. He was appointed the principal statutory officer of Sun Hydraulics Ltd. from its incorporation in 1985. He served as the principal statutory officer under German law of Sun Hydraulik GmbH from the company's inception through 2001.

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. 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 held four meetings in 2002. The functions of the Audit Committee are to recommend annually to the shareholders the appointment of the independent public accountants of the Company, to establish 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.

The Compensation Committee reviews, approves and recommends to the Board of Directors the terms and conditions of all employee benefit plans or changes thereto, administers the Company's stock option plans and carries out the responsibilities required by the rules of the Securities and Exchange Commission. The Committee met three times during 2002.

The Board of Directors held three meetings during 2002. Each Director attended all of the meetings of the Board and of each committee of which he or she was a member in 2002.

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 2002. However, a late Form 4 was filed by Robert C. Koski on February 10, 2003, which pertained to the sale of 1,000 shares on January 3, 2001; and Richard J. Dobbyn filed a late Form 4 on September 16, 2002, reporting the acquisition of 4,000 shares on November 9, 2001.

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 2002 under the rules of the Securities and Exchange Commission (the "Named Executive Officers").

Summary Compensation Table

			Long Term Compensation Awards		
Name and Principal Position	Year	Salary	Restricted Stock	Securities Underlying Options/SARs (#)	Other Annual Compensation (1)
Clyde G. Nixon,	2002	$191,667	—		$ 16,322(2)
Chairman of the	2001	197,500	—		15,060
Board of Directors	2000	205,200	—		19,816
Allen J. Carlson	2002	$173,250	$32,600		$ 9,491
President and	2001	177,975	—		9,305
Chief Executive Officer	2000	157,500	—		10,230
Jeffrey Cooper	2002	$138,233	$32,600		$ 10,558
Engineering	2001	141,570	—		10,325
Manager	2000	138,100	—		14,677
Richard J. Dobbyn	2002	$135,333	$ —		$ 8,212
Chief Financial	2001	138,600	29,200		7,326
Officer	2000	130,000	—		9,560
Peter G. Robson	2002	$108,122	—		$ 22,737
General Manager,	2001	108,122	—		21,521
Sun Hydraulics Limited	2000	102,866	—		18,390

(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.

There were no Option/SAR grants in 2002 to the Company's Chief Executive Officer or any of its four most highly compensated executive officers who earned more than $100,000 from the Company in 2002 under the rules of the Securities and Exchange Commission (the "Named Executive Officers").

Aggregated Option/SAR Exercises in Last Fiscal Year and Fiscal Year End Option Values

Name (a)	Shares Acquired on Exercise (#) (b)	Value Realized ($) (c)	Number of Securities Underlying Unexercised Options/SARs at Fiscal Year-End (#) Exercisable/ Unexercisable (d)	Value of Unexercised in-the-Money Options/SARs at Fiscal Year-End ($) Exercisable/ Unexercisable (1) (e)
Clyde G. Nixon	—	—	161,546/12,000	$ 837,535/97,800
Allen J. Carlson	—	—	40,400/19,600	$166,260/127,140
Jeffrey Cooper	—	—	91,589/5,200	$ 362,585/9,780
Richard J. Dobbyn	—	—	45,800/3,200	$ 6,520/9,780
Peter G. Robson	—	—	99,995/3,000	$ 471,771/24,450

(1) Based upon the December 28, 2002, closing stock price of $8.15 per share, as reported on the Nasdaq National Market.

Compensation Committee Interlocks and Insider Participation

The members of the Committee in 2002 were John Kahler, Robert E. Koski, Ferdinand E. Megerlin, and David N. Wormley. Mr. Koski is an employee of the Company and formerly was an officer. See "Item 10. Directors and Executive Officers of the Company."

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 AND RELATED STOCKHOLDER MATTERS

The following table sets forth as of March 1, 2003, 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)	2,588,920	40.1%
Beverly Koski (3)(4)(5)	2,588,920	40.1%
Christine L. Koski (3) 3525 Turtle Creek Boulevard #19B Dallas, Texas 75219	2,377,838	36.9%
Robert C. Koski (3)(5) 315 Sycamore Street Decatur, Georgia 30030	2,374,543	36.8%
Koski Family Limited Partnership 3525 Turtle Creek Boulevard #19B Dallas, Texas 75219	2,313,543	35.9%
Thomas L. Koski (3) Six New Street East Norwalk, Connecticut 06855	2,313,543	35.9%
Royce & Associates, Inc. (6) Royce Management Company Charles M. Royce 1414 Avenue of the Americas New York, NY 10019	660,000	10.2%
Bradley S. Ferrell (7) 5924 Cranbrook Way, #101 Naples, Florida 34112	472,142	7.3%
Rutabaga Capital Management (8) 64 Broad Street Boston, MA 02109	349,400	5.4%
Robert S. and Ann R. Ferrell (9) 5924 Cranbrook Way, #101 Naples, Florida 34112	323,537	5.0%
Clyde G. Nixon (10)	233,295	3.6%
Peter G. Robson (11)	99,995	1.6%
Jeffrey Cooper (12)	95,589	1.5%
Richard J. Dobbyn (13)	53,109	(*)
Allen J. Carlson (14)	49,501	(*)
Taco van Tijn (15)	23,920	(*)
David N. Wormley (16)	3,940	(*)
John S. Kahler (17)	3,345	(*)
Ferdinand E. Megerlin	0	—
Marc Bertoneche	0	—
All Directors and Executive Officers as a Group (12 persons)	**3,215,909**	**49.9%**

* 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 2,313,543 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 107,162 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 the Schedule 13G, filed February 5, 2003, by Royce & Associates, Inc. ("Royce"), Royce has sole voting and investment power with respect to the 660,000 shares.

(7) Includes 38,205 shares owned by Mr. Ferrell, over which Mr. Ferrell has sole voting and investment power, and 433,937 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) According the Schedule 13G, filed February 20, 2003, by Rutabaga Capital Management ("Rutabaga), Rutabaga has sole voting and investment power with respect to the 349,400 shares.

(9) Includes 197,625 shares owned by Bradley S. Ferrell, Trustee of Robert S. Ferrell Flint Trust, dated 06/16/98, 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.

(10) Includes 161,546 shares subject to currently exercisable options and 29,522 shares in the Joan Nixon Trust.

(11) Represents shares subject to currently exercisable options.

(12) Represents shares subject to currently exercisable options and 4,000 shares of unvested restricted stock.

(13) Includes 45,800 shares subject to currently exercisable options and 2,667 shares of unvested restricted stock.

(14) Includes 40,400 shares subject to currently exercisable options and 4,000 shares of unvested restricted stock.

(15) 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.

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

(17) Includes 500 shares owned by Mr. Kahler's spouse and 2,345 shares owned in trust, of which Mrs. Kahler is the trustee and beneficiary.

Equity Compensation Plan Information

The following table summarizes the Company's equity compensation plan information as of December 28, 2002. Information is included for both equity compensation plans approved by the Company's shareholders and equity compensation plans not approved by the shareholders.

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants, and rights (a)	Weighted-average exercise price of outstanding options, warrants, and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by shareholders	669,583	$ 7.67	887,903
Equity compensation plans not approved by shareholders	—	$ —	300
Total	669,583	$ 7.67	888,203

Equity compensation plans approved by shareholders include the 1996 Stock Option Plan, the 2001 Restricted Stock Plan and the Employee Stock Purchase Plan. All shares to be issued upon exercise in column (a) and the weighted average exercise price in column (b) represent shares issued under the 1996 Stock Option Plan. The number of securities available for future issuance in column (c) were: 330,417 shares under the 1996 Stock Option Plan, 324,986 shares under the Employee Stock Purchase Plan, and 232,500 shares under the 2001 Restricted Stock Plan.

The only equity compensation plan not approved by shareholders was the 1999 Stock Award Plan. Three thousand shares were authorized for grant under the 1999 Stock Award Plan, which was approved by the Board of Directors on May 21, 1999. As of December 28, 2002, there were 300 shares remaining for future grants, and there were no outstanding options, warrants, or rights associated with this plan.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

On June 22, 2002, the Company entered into a standby Stock Repurchase Agreement with the Koski Family Limited Partnership, which owns approximately 36% of the outstanding shares of the Company's common stock. Robert E. Koski and Christine Koski are Directors of the Company. Under the Agreement, the Company agreed to purchase up to $2,250,000 worth of Company common stock from the Koski Partnership on a one time basis, until June 22, 2004. The repurchase would be at a per share price of either (i) $7.00 per share, or (ii) 15% less than the average closing price per share of the common stock for the 15 full trading days immediately preceding the closing date, whichever is lower.

At December 28, 2002, the average closing price of Sun's common stock for the previous 15 full trading days was $8.16 per share. A 15% discount from this price would result in a repurchase price per share of $6.94. At this price, the Company would repurchase 325,000 shares from the Koski Partnership for $2,250,000 in cash, if requested to do so. On the Company's balance sheet, $2,250,000 has been transferred from Capital in Excess of Par into Redeemable Common Stock.

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:

All other schedules are omitted as the required information is inapplicable or the information is presented in the consolidated financial statements and notes thereto in Item 8 above.

2 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 S-1 filed on December 19, 1996 (File No. 333-14183) and incorporated herein by reference).
3.2	Amended and Restated Bylaws of the Company (previously filed as Exhibit 3.2 in the Company’s Quarterly report on Form 10-Q for the quarter ended October 2, 1999 and incorporated by reference herein).
4.1	Mortgage, dated June 14, 1996, between Sun Hydraulics Corporation, Suninco Inc., and Northern Trust Bank of Florida, N.A. (previously filed as Exhibit 4.14 in the Company’s Registration Statement on Form S-1 filed on October 15, 1996 (File No. 333-14183) and incorporated herein by reference).
4.2	Revolving Loan Facility letter agreement, dated July 30, 1996, in the amount of £800,000, between Sun Hydraulics Ltd. and Lloyds Bank Plc. (previously filed as Exhibit 4.17 in the Company’s Registration Statement on Form S-1 filed on October 15, 1996 (File No. 333-14183) and incorporated herein by reference).

Exhibit Number	Exhibit Description
4.3	Overdraft and Other Facilities letter agreement, dated June 7, 1996, in an amount not to exceed £250,000, between Sun Hydraulics Ltd. and Lloyds Bank Plc. (previously filed as Exhibit 4.18 in the Company's Registration Statement on Form S-1 filed on October 15, 1996 (File No. 333-14183) and incorporated herein by reference).
4.4	Mortgage, dated April 11, 1996, between Sun Hydraulik GmbH and Dresdner Bank (previously filed as Exhibit 4.19 in the Company's Registration Statement on Form S-1 filed on October 15, 1996 (File No. 333-14183) and incorporated herein by reference).
4.5	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).
4.6	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).
4.7	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).
4.8	Master Note, dated July 23, 2000, in the amount of $7,500,000.00, made by Sun Hydraulics Corporation in favor of Northern Trust Bank of Florida, N.A. (previously filed as Exhibit 4.32 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2000 and incorporated herein by reference).
4.9	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 (previously filed as Exhibit 4.33 to the Company's Annual Report on Form 10-K for the quarter ended December 30, 2000 and incorporated herein by reference.)
4.10	Second Amended and Restated Loan Agreement (Line of Credit) 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 January 2002 (previously filed as Exhibit 4.30 to the Company's Annual Report on Form 10-K for the quarter ended December 29, 2001 and incorporated herein by reference.)
4.11	Modification Note (Line of Credit), dated December 1, 2001, in the amount of $7,500,000.00, made by Sun Hydraulics Corporation in favor of Northern Trust Bank of Florida, N.A. (previously filed as Exhibit 4.31 to the Company's Annual Report on Form 10-K for the quarter ended December 29, 2001 and incorporated herein by reference.)
4.12	Amended and Restated Loan Agreement (Mortgage Loan) by and among Northern Trust Bank of Florida, N.A., Sun Hydraulics Corporation dated January 2002 (previously filed as Exhibit 4.32 to the Company's Annual Report on Form 10-K for the quarter ended December 29, 2001 and incorporated herein by reference.)

Exhibit Number	Exhibit Description
4.13	Modification Note (Mortgage Loan), dated December 1, 2001, in the amount of $4,425,219.37, made by Sun Hydraulics Corporation in favor of Northern Trust Bank of Florida, N.A. (previously filed as Exhibit 4.33 to the Company’s Annual Report on Form 10-K for the quarter ended December 29, 2001 and incorporated herein by reference.)
4.14	Amended and Restated Loan Agreement (Equipment Loan) by and among Northern Trust Bank of Florida, N.A., Sun Hydraulics Corporation dated January 2002 (previously filed as Exhibit 4.34 to the Company’s Annual Report on Form 10-K for the quarter ended December 29, 2001 and incorporated herein by reference.)
4.15	Modification Note (Equipment Loan), dated December 1, 2001, in the amount of $3,871,754.35, made by Sun Hydraulics Corporation in favor of Northern Trust Bank of Florida, N.A. (previously filed as Exhibit 4.35 to the Company’s Annual Report on Form 10-K for the quarter ended December 29, 2001 and incorporated herein by reference.)
4.16	Stock Repurchase Agreement, dated June 22, 2002, between Sun Hydraulics Corporation and the Koski Family Limited Partnership (previously filed as Exhibit 99.2 to the Company’s Form 8-K dated July 2, 2002 and incorporated herein by reference.)
10.1	Form of Distributor Agreement (Domestic) (previously filed as Exhibit 10.1 in the Company’s Registration Statement on Form S-1 filed on October 15, 1996 (File No. 333-14183) and incorporated herein by reference).
10.2	Form of Distributor Agreement (International) (previously filed as Exhibit 10.2 in the Company’s Registration Statement on Form S-1 filed on October 15, 1996 (File No. 333-14183) and incorporated herein by reference).
10.3+	1996 Sun Hydraulics Corporation Stock Option Plan (previously filed as Exhibit 10.3 in the Pre-Effective Amendment No. 4 to the Company’s Registration Statement on Form S-1 filed on December 19, 1996 (File No. 333-14183) and incorporated herein by reference).
10.4+	Amendment No. 1 to 1996 Stock Option Plan (previously filed as Exhibit 10.4 to the Company’s Quarterly Report on Form 10-Q for the quarter ended June 30, 1997 and incorporated herein by reference).
10.5+	Form of Indemnification Agreement (previously filed as Exhibit 10.4 in the Pre-Effective Amendment No. 4 to the Company’s Registration Statement on Form S-1 filed on December 19, 1996 (File No. 333-14183) and incorporated herein by reference).
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).
10.7+	2001 Sun Hydraulics Corporation Restricted Stock Plan (previously filed as Exhibit 4 to the Company’s registration statement on Form S-8 filed on June 12, 2001 (file No. 333-62816), and incorporated herein by reference.)
10.8+	Sun Hydraulics Corporation Employee Stock Purchase Plan (previously filed as Exhibit 4 to the Company’s registration statement on Form S-8 filed on July 27, 2001 (file No. 333-66008), and incorporated herein by reference.)
23.1	Consent of Independent Certified Public Accountants.

Exhibit Number	Exhibit Description
99.1	CEO Certification pursuant to 18 U.S.C. § 1350, dated March 20, 2003.
99.2	CFO Certification pursuant to 18 U.S.C. § 1350, dated March 20, 2003.

+ Executive management contract or compensatory plan or arrangement.

(b) Reports on Form 8-K

1. Report on Form 8-K (dated September 30, 2002) filed September 30, 2002, announcing the Company's third quarter dividend.

2. Report on Form 8-K (dated October 17, 2002) filed October 18, 2002, announcing the Company's preliminary third quarter financial results and revised forecast for the year.

3. Report on Form 8-K (dated November 6, 2002) filed November 12, 2002, announcing the Company's third quarter financial results.

4. Report on Form 8-K (dated December 18, 2002) filed December 18, 2002, announcing the Company's fourth quarter dividend.

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 20, 2003.

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 20, 2003.

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

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE
SARBANES-OXLEY ACT OF 2002**

I, Allen Carlson, certify that:

1. I have reviewed this annual report on Form 10-K of Sun Hydraulics Corporation;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

   c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Dated: March 6, 2003

By: /s/ Allen Carlson

Allen Carlson
Chief Executive Officer

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE
SARBANES-OXLEY ACT OF 2002

I, Richard J. Dobbyn, certify that:

1. I have reviewed this annual report on Form 10-K of Sun Hydraulics Corporation;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

   c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Dated: March 6, 2003

By: /s/ Richard J. Dobbyn

Richard J. Dobbyn
Chief Financial Officer

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, 333-83269, 333-62816, and 333-66008) of Sun Hydraulics Corporation of our report dated February 28, 2003 relating to the financial statements, which appears in this Form 10-K.

PricewaterhouseCoopers LLP
Tampa, Florida
February 28, 2003

EXHIBIT 99.1

CERTIFICATION PURSUANT TO 18 U.S.C. SS. 1350

I, Allen Carlson, the Chief Executive Officer of Sun Hydraulics Corporation (the "Company"), certify that (i) the Annual Report on Form 10-K for the Company for the year ended December 28, 2002 (the "Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Allen Carlson

Chief Executive Officer
March 20, 2003

EXHIBIT 99.2

CERTIFICATION PURSUANT TO 18 U.S.C. SS. 1350

I, Richard J. Dobbyn, the Chief Financial Officer of Sun Hydraulics Corporation (the "Company"), certify that (i) the Annual Report on Form 10-K for the Company for the year ended December 28, 2002 (the "Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Richard J. Dobbyn

Chief Financial Officer
March 20, 2003