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

FORM 10-Q

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

For the quarterly period ended March 28, 2009 **Commission file number 0-21835**

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

FLORIDA **(State or Other Jurisdiction of Incorporation or Organization)**	**59-2754337** **(I.R.S. Employer Identification No.)**
1500 WEST UNIVERSITY PARKWAY **SARASOTA, FLORIDA** **(Address of Principal Executive Offices)**	**34243** **(Zip Code)**

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "accelerated filer," "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐	Accelerated filer ☒
Non-accelerated filer ☐	Smaller Reporting Company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The Registrant had 16,873,868 shares of common stock, par value $.001, outstanding as of April 24, 2009.

[Table of Contents](#)

Sun Hydraulics Corporation
INDEX
For the quarter ended March 28, 2009

Table of Contents

PART I: FINANCIAL INFORMATION

Item 1.
Sun Hydraulics Corporation
Consolidated Balance Sheets
(in thousands, except share data)

	March 28, 2009 (unaudited)	December 27, 2008
Assets		
Current assets:		
Cash and cash equivalents	$ 30,534	$ 35,176
Restricted cash	123	127
Accounts receivable, net of allowance for doubtful accounts of $90 and $92	11,109	12,502
Inventories	8,646	9,960
Income taxes receivable	2,251	1,353
Deferred income taxes	259	259
Marketable Securities	5,183	—
Other current assets	1,175	1,290
Total current assets	59,280	60,667
Property, plant and equipment, net	56,859	57,726
Marketable Securities	1,041	—
Other assets	3,899	3,992
Total assets	**$121,079**	**$ 122,385**
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable	$ 3,217	$ 3,258
Accrued expenses and other liabilities	6,022	5,546
Long-term debt due within one year	—	147
Dividends payable	3,000	1,499
Total current liabilities	12,239	10,450
Long-term debt due after one year	—	125
Deferred income taxes	4,863	4,871
Other noncurrent liabilities	348	383
Total liabilities	17,450	15,829
Commitments and contingencies	—	—
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, 16,665,375 and 16,658,271 shares outstanding	17	17
Capital in excess of par value	38,364	38,042
Retained earnings	67,647	70,099
Accumulated other comprehensive income	(2,399)	(1,602)
Total shareholders' equity	103,629	106,556
Total liabilities and shareholders' equity	**$121,079**	**$ 122,385**

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

Table of Contents

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

	Three months ended	
	March 28, 2009 (unaudited)	March 29, 2008 (unaudited)
Net sales	**$ 25,208**	**$ 49,008**
Cost of sales	19,629	31,914
Gross profit	**5,579**	**17,094**
Selling, engineering and administrative expenses	4,775	5,955
Operating income	**804**	**11,139**
Interest income, net	(110)	(113)
Foreign currency transaction (gain)/loss, net	(8)	36
Miscellaneous (income)/expense, net	199	(249)
Income before income taxes	**723**	**11,465**
Income tax provision	171	3,775
Net income	**$ 552**	**$ 7,690**
Basic net income per common share	**$ 0.03**	**$ 0.46**
Weighted average basic shares outstanding	16,664	16,562
Diluted net income per common share	**$ 0.03**	**$ 0.46**
Weighted average diluted shares outstanding	16,694	16,596
Dividends declared per share	**$ 0.180**	**$ 0.090**

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

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

(in thousands)

	Preferred shares	Preferred stock	Common shares	Common stock	Capital in excess of par value	Retained earnings	Accumulated other comprehensive income	Total
Balance, December 27, 2008	—	$ —	16,658	$ 17	$38,042	$70,099	$ (1,602)	$106,556
Shares issued, ESPP			6		94			94
Stock-based compensation			1		228			228
Dividends declared						(3,004)		(3,004)
Comprehensive income:								
Net income						552		552
Foreign currency translation adjustments							(795)	(795)
Unrealized loss on available-for-sale securities							(2)	(2)
Comprehensive income								(245)
Balance, March 28, 2009	—	$ —	16,665	$ 17	$38,364	$67,647	$ (2,399)	$103,629

The accompanying Notes to the Consolidated, Unaudited Financial Statements are an integral part of this financial statement.

Table of Contents

Sun Hydraulics Corporation
Consolidated Statements of Cash Flows
(in thousands)

	Three months ended	
	March 28, 2009 (unaudited)	March 29, 2008 (unaudited)
Cash flows from operating activities:		
Net income	$ 552	$ 7,690
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,760	1,720
Loss on disposal of assets	—	104
Provision for deferred income taxes	(8)	2
Allowance for doubtful accounts	(2)	(7)
Stock-based compensation expense	228	199
Stock options income tax benefit	—	(15)
(Increase) decrease in:		
Accounts receivable	1,395	(7,754)
Inventories	1,314	(584)
Income taxes receivable	(898)	—
Other current assets	115	193
Other assets	90	(84)
Increase (decrease) in:		
Accounts payable	(41)	1,407
Accrued expenses and other liabilities	476	1,725
Taxes payable	—	2,753
Other noncurrent liabilities	(35)	90
Net cash provided by operating activities	4,946	7,439
Cash flows from investing activities:		
Capital expenditures	(1,236)	(2,400)
Proceeds from dispositions of equipment	—	99
Purchase of marketable securities	(6,230)	—
Net cash used in investing activities	(7,466)	(2,301)
Cash flows from financing activities:		
Repayment of debt	(261)	(51)
Proceeds from exercise of stock options	—	66
Proceeds from stock issued	94	77
Dividends to shareholders	(1,503)	(1,485)
Stock options income tax benefit	—	15
Net cash used in financing activities	(1,670)	(1,378)
Effect of exchange rate changes on cash and cash equivalents	(456)	286
Net increase (decrease) in cash and cash equivalents	(4,646)	4,046
Cash and cash equivalents, beginning of period	**35,303**	**19,337**
Cash and cash equivalents, end of period	**$ 30,657**	**$ 23,383**
Supplemental disclosure of cash flow information:		
Cash paid:		
Interest	$ 9	$ 10
Income taxes	$ 1,077	$ 1,035
Supplemental disclosure of noncash transactions:		
Common stock issued to ESOP through accrued expenses and other liabilities	$ —	$ 1,498

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

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

1. BASIS OF PRESENTATION AND SUMMARY OF BUSINESS

Sun Hydraulics Corporation, and its wholly-owned subsidiaries and joint ventures, 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, France, China, and India. Sun Hydraulics Corporation ("Sun Hydraulics"), with its main offices located in Sarasota, Florida, designs, manufactures, and sells its products primarily through distributors. 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, SARL ("Sun France"), a wholly-owned subsidiary of Sun Hydraulics, located in Bordeaux, France, operates a sales and engineering support 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' Taiwanese distributor, is located in Shanghai, China, and operates a manufacturing and distribution facility. WhiteOak Controls, Inc. ("WhiteOak"), a 40% equity method investment, is located in Mediapolis, Iowa, and designs and produces complementary electronic control products. High Country Tek, Inc.("HCT"), a 48% equity method investment, is located in Nevada City, California, and designs and manufacturers ruggedized electronic/hydraulic control solutions for mobile equipment markets. Sun Hydraulics also has a sales office in Bangalore, India, to develop new business opportunities in the Indian market.

The accompanying unaudited interim consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission for reporting on Form 10-Q. Accordingly, certain information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements are not included herein. The financial statements are prepared on a consistent basis (including normal recurring adjustments) and should be read in conjunction with the consolidated financial statements and related notes contained in the Annual Report on Form 10-K for the fiscal year ended December 27, 2008, filed by Sun Hydraulics Corporation (together with its subsidiaries, the "Company") with the Securities and Exchange Commission on March 11, 2009. In Management's opinion, all adjustments necessary for a fair presentation of the Company's financial statements are reflected in the interim periods presented. Operating results for the three month period ended March 28, 2009, are not necessarily indicative of the results that may be expected for the period ending January 2, 2010.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Earnings per share

The following table represents the computation of basic and diluted earnings per common share as required by Statement of Financial Accounting Standard ("FAS") No. 128, *Earnings Per Share* (in thousands, except per share data):

	Three Months Ended	
	March 28, 2009	**March 29, 2008**
Net income	**$ 552**	**$ 7,690**
Weighted average basic shares outstanding	16,664	16,562
Basic net income per common share	**$ 0.03**	**$ 0.46**
Effect of dilutive stock options	30	34
Weighted average diluted shares outstanding	16,694	16,596
Diluted net income per common share	**$ 0.03**	**$ 0.46**

3. STOCK-BASED COMPENSATION

The Company follows the provisions of FAS No. 123R, *Share-Based Payment*, ("FAS 123R") for its share-based compensation plans.

During 1996, the Company adopted the 1996 Stock Option Plan ("1996 Plan"), which provides for the grant of incentive stock options and nonqualified stock options for the purchase of up to an aggregate of 2,250,000 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 activity under the 1996 Plan for the three months ended March 28, 2009, is as follows:

	Number of shares	Weighted average exercise price	Weighted average remaining contractual term (in years)	Aggregate intrinsic value
Options outstanding as of December 27, 2008	19	$ 5.95		
Granted	—			
Exercised	—			
Forfeitures	—			
Options outstanding as of March 28, 2009	19	$ 5.95	2.42	$ 170
Options exercisable as of March 28, 2009	16	$ 4.92	2.21	$ 163

All options listed above vest over three to five years with a maximum term of seven to ten years.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model using weighted average assumptions. Stock option compensation expense for both of the three month periods ended March 28, 2009, and March 29, 2008, was $2. There were no options granted during these periods.

In September 2006, the Company adopted the 2006 Stock Option Plan ("2006 Plan"), which provides for the grant of incentive stock options and nonqualified stock options for the purchase of up to an aggregate of 750,000 shares of the Company's common stock by officers, employees and directors of the Company. The Company adopted the 2006 Plan due to the expiration of the Company's 1996 Stock Option Plan in 2006. 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. No awards have been granted under the 2006 Plan.

During 2001, the Company adopted the 2001 Restricted Stock Plan, which provides for the grant of restricted stock of up to an aggregate of 618,750 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. Compensation cost is measured at the date of the grant and is recognized in earnings over the period in which the shares vest. Restricted stock expense for the three months ended March 28, 2009, and March 29, 2008, totaled $194 and $176, respectively.

The following table summarizes restricted stock activity from December 27, 2008, through March 28, 2009:

	Number of shares	Weighted average grant-date fair value
Nonvested balance at December 27, 2008	73	21.45
Granted	—	—
Vested	—	—
Forfeitures	—	—
Nonvested balance at March 28, 2009	73	21.45

The Company has $1,116 of total unrecognized compensation cost related to restricted stock awards granted under the Plan as of March 28, 2009. That cost is expected to be recognized over a weighted average period of 1.44 years.

The Company maintains an Employee Stock Purchase Plan ("ESPP"), in which most employees are eligible to participate. Employees in the United States who choose to participate are granted an opportunity to purchase common stock at 85 percent of market value on the first or last day of the quarterly purchase period, whichever is lower. Employees in the United Kingdom are granted an opportunity to purchase common stock at market value, with the Company issuing one additional free share of common stock for each six shares purchased by the employee under the ESPP. The ESPP authorizes the issuance, and the purchase by employees, of up to 731,250 shares of common stock through payroll deductions. No U.S. employee is allowed to buy more than $25 of common stock in any year, based on the market value of the common stock at the beginning of the purchase period, and no U.K. employee is allowed to buy more than the lesser of £1.5 or 10% of their annual salary in any year. Employees purchased 5,882 shares at a weighted average price of $16.01 and 3,618 shares at a weighted average price of $21.45, under the ESPP during the three months ended March 28, 2009, and March 29, 2008, respectively. In accordance with FAS 123R, the Company recognized $17 and $14 of compensation expense during the three months ended March 28, 2009 and March 29, 2008, respectively. At March 28, 2009, 561,889 shares remained available to be issued through the ESPP.

The Company has a Nonemployee Director Equity and Deferred Compensation Plan (the "Plan"), which originally was adopted by the Board of Directors and approved by the shareholders in 2004. The Plan was amended on March 1, 2008 and was approved by the shareholders at the 2008 Annual Meeting. Under the Plan, Directors who are not officers of the Company are paid 250 shares of Company common stock and $3 in cash fees 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. Additionally, the Board of Directors has the authority to increase from time to time, as it deems desirable or appropriate, the number of shares of stock awarded to all or any one or more of the Nonemployee Directors. No more than 25,000 shares of stock, in the aggregate, may be issued under the Plan during any single calendar year. Committee Chairmen currently receive additional fees equal to 25% of normal compensation and the Chairman of the Board is paid twice the amount of normal compensation, with such additional compensation payable in Company common stock. Prior to June 2, 2008, under the Plan Nonemployee Directors were paid $5 of which half was paid in Company common stock.

Directors may elect under the Plan to receive all or part of their cash fees in Company stock and to defer receipt of their fees until a subsequent year. When so deferred, the shares of stock are converted to deferred stock units. Deferred stock units are treated as liabilities in accordance with FAS 123R. At March 28, 2009, there were 19,137 deferred stock units outstanding.

Directors were granted 2,851 and 1,098 shares for the three months ended March 28, 2009, and March 29, 2008, respectively. The Company recognized director stock compensation income of $18 and expense of $82, for the three months ended March 28, 2009, and March 29, 2008, respectively. The income for the three months ended March 28, 2009, is the result of the revaluation of deferred stock units at the Company's closing stock price on March 28, 2009. The Plan authorizes the issuance of up to 180,000 shares of common stock. At March 28, 2009, 150,801 shares remained available to be issued through the Plan.

4. RESTRICTED CASH

The restricted cash balance at March 28, 2009, consisted of $43 in reserves as a required deferment for customs in the U.K. operation. The restricted amount was calculated as an estimate of two months of customs for items coming into the Company's U.K. operations and is held with Lloyd's TSB in the U.K. The remaining amount of $80 relates to a guarantee of VAT in our France operation. The guarantee is held with Crédit Agricole Bank in France.

5. INVENTORIES

	March 28, 2009	December 27, 2008
Raw materials	$ 3,878	$ 4,428
Work in process	2,568	2,757
Finished goods	2,854	3,523
Provision for slow moving inventory	(654)	(748)
Total	$ 8,646	$ 9,960

6. GOODWILL

On March 28, 2009, the Company had $715 of goodwill, related to its acquisition of Sun Korea. Goodwill is held in other assets on the balance sheet. Valuation models reflecting the expected future cash flow projections were used to value Sun Korea at December 27, 2008. The analysis indicated that there was no impairment of the carrying value of the goodwill. As of March 28, 2009, no factors were identified that indicated impairment of the carrying value of the goodwill.

7. LONG-TERM DEBT

	March 28, 2009	December 27, 2008
$35,000 revolving line of credit, collateralized by U.S. assets, interest rate Libor + 1.5% or Bank's Base Rate at Company's discretion (2.02% at March 28, 2009), due August 1, 2011.	$ —	$ —
10-year notes, fixed interest rates ranging from 3.5-5.1%, collateralized by equipment in Germany, due between 2009 and 2011.	—	272
	—	272
Less amounts due within one year	—	(147)
Total	$ —	$ 125

The revolving line of credit is subject to debt covenants (capitalized terms are defined therein) including: 1) Debt to Tangible Net Worth ratio of not more than 1.5:1.0, 2) Funded Debt to EBITDA ratio of not more than 2.5:1.0, and 3) EBIT to Interest Expense ratio of not less than 1.1:1.0; and requires the Company to maintain its primary domestic deposit accounts with the Bank. As of March 28, 2009, the Company was in compliance with all debt covenants.

8. INCOME TAXES

In July 2006, the FASB issued FIN 48, *Accounting for Uncertainty in Income Taxes, and Related Implementation Issues* ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in a Company's financial statements in accordance with FASB No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a recognition threshold and measurement attribute for a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The Company adopted FIN 48 effective January 1, 2007. The adoption of FIN 48 did not have a material effect on the Company's Consolidated Financial Statements.

At March 28, 2009, the Company had an unrecognized tax benefit of $36 including accrued interest. If recognized, the unrecognized tax benefit would have a favorable effect on the effective tax rate in future periods. The Company recognizes interest and penalties related to income tax matters in income tax expense. Interest related to the unrecognized tax benefit has been recognized and included in income tax expense. Interest accrued as of March 28, 2009, is not considered material to the Company's Consolidated Financial Statements.

The Company files U.S. federal income tax returns as well as income tax returns in various states and foreign jurisdictions. The Company is no longer subject to income tax examinations by tax authorities for years before 2004 for the majority of tax jurisdictions.

The Company's federal returns are currently under examination in the United States for the periods 2004 through 2007. To date, there have been no material assessments related to this audit.

Table of Contents

9. SEGMENT REPORTING

The individual subsidiaries comprising the Company operate predominantly in a single industry as manufacturers and distributors of hydraulic components. The Company is multinational with operations in the United States, and subsidiaries in the United Kingdom, Germany, Korea, and France. Amounts for France, due to their immateriality, are included with the U.S. In computing operating profit for the foreign subsidiaries, no allocations of general corporate expenses have been made. Management bases its financial decisions by the geographical location of its operations.

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	Germany	United Kingdom	Elimination	Consolidated
Three Months Ended March 28, 2009						
Sales to unaffiliated customers	$15,621	$1,960	$ 4,167	$ 3,460	$ —	$ 25,208
Intercompany sales	4,156	—	29	465	(4,650)	—
Operating income	(550)	86	713	454	101	804
Depreciation	1,370	26	124	233	—	1,753
Capital expenditures	1,131	22	4	79	—	1,236
Three Months Ended March 29, 2008						
Sales to unaffiliated customers	$28,320	$6,354	$ 7,962	$ 6,372	$ —	$ 49,008
Intercompany sales	9,126	—	78	590	(9,794)	—
Operating income	7,184	650	2,413	1,030	(138)	11,139
Depreciation	1,192	46	145	330	—	1,713
Capital expenditures	2,232	15	33	120	—	2,400

Sales to unaffiliated customers represent sales from each of the individual subsidiaries. For information on sales to geographic locations, see the Comparisons of the Three Month Period Ended March 28, 2009, and March 29, 2008, in Management’s Discussion and Analysis of Financial Condition and Results. Operating income is total sales and other operating income less operating expenses. Segment operating income does not include interest income/expense and net miscellaneous income/expense.

10. FAIR VALUE OF FINANCIAL INSTRUMENTS

SFAS No. 157, *Fair Value Measurements* (“SFAS 157”), defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 establishes a three-tier fair value hierarchy which prioritizes the inputs used in measuring fair value as follows:

Level 1. Observable inputs such as quoted prices in active markets;

Level 2. Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and

Level 3. Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

At March 28, 2009, the Company held available-for-sale securities with an aggregate fair value of $500. The Company, on a recurring basis, measures available-for-sale securities at fair value using quoted prices in active markets. The net unrealized holding loss amounted to $2 at March 28, 2009. The

Company did not have any assets or liabilities measured at fair value on a recurring basis at March 29, 2008. The Company did not have any fair value adjustments for assets and liabilities measured at fair value on a nonrecurring basis during the three months ended March 28, 2009 and March 29, 2008.

Assets measured at fair value on a recurring basis include the following as of March 28, 2009:

		Fair Value Measurements at Reporting Date Using		
Description	March 28, 2009	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available-for-sale securities	$ 500	$ 500	$ —	$ —

The carrying amounts of cash and cash equivalents, restricted cash, accounts receivable, other current assets, accounts payable, accrued expenses and other liabilities approximate fair value based on their short-term status. Marketable securities not included in the above table are held to maturity and as such are recorded at amortized cost.

11. NEW ACCOUNTING PRONOUNCEMENTS

In April 2009, the FASB issued FSP FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments (“FSP FAS 107-1”). FSP FAS 107-1 amends SFAS No. 107 to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies in addition to the annual financial statements. FSP FAS 107-1 also amends APB No. 28 to require those disclosures in summarized financial information at interim reporting periods. FSP FAS 107-1 is effective for interim periods ending after June 15, 2009. Prior period presentation is not required for comparative purposes at initial adoption. The adoption of FSP FAS 107-1 is not expected to have a material impact on the Company’s Consolidated Financial Statements.

In April 2009, the FASB issued FSP Financial Accounting Standard 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments (“FSP FAS 115-2 and FAS 124-2”). FSP FAS 115-2 and FAS 124-2 amends the other-than-temporary impairment guidance in U.S. GAAP for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. FSP FAS 115-2 and FAS 124-2 is effective for fiscal years and interim periods beginning after June 15, 2009. The adoption of FSP FAS 115-2 and FAS 124-2 is not expected to have a material impact on the Company’s Consolidated Financial Statements.

In April 2009, the FASB issued FSP FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That are Not Orderly (“FSP FAS 157-4”). FSP FAS 157-4 provides additional guidance for estimating fair value in accordance with SFAS No. 157 when the volume and level of activity for both financial and nonfinancial assets or liabilities have significantly decreased. FSP FAS 157-4 is effective for fiscal years and interim periods beginning after July 1, 2009 and shall be applied prospectively. Early adoption for periods ending before March 15, 2009, is not permitted. The adoption of FSP FAS 157-4 on July 15, 2009 is not expected to have a material impact on the Company’s Consolidated Financial Statements.

12. 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.

13. SUBSEQUENT EVENT

On April 23, 2009, the Company provided HCT with a $500 loan to provide operating cash. In consideration for the loan, certain changes have been made to the original option agreements to purchase the remaining outstanding shares of HCT. Management is currently evaluating the impact of such loan under FASB Interpretation No. 46 (revised December 2003) *Consolidation of Variable Interest Entities* , but does not expect a material impact to the Company's Consolidated Financial Statements.

Table of Contents

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

Sun Hydraulics Corporation is a leading designer and manufacturer of high-performance screw-in hydraulic cartridge valves and manifolds, which control force, speed and motion as integral components in fluid power systems. The Company sells its products globally through wholly owned subsidiaries and independent distributors. Sales outside the United States for the year ended December 27, 2008, were approximately 58% of total net sales.

Approximately two-thirds of product sales are used by the mobile market, which is 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. Some examples of the mobile market include equipment used in off-road construction, agriculture, fire and rescue, utilities, oil fields, and mining.

The remaining one-third of sales are used by industrial markets, which are characterized by equipment that is fixed in place, typically in a controlled environment, and which operates at higher pressures and duty cycles. Power units, automation machinery, metal cutting machine tools and plastics machinery are some examples of industrial equipment. 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), the United States index of shipments of hydraulic products increased 8% and 1% in 2008 and 2007, respectively. The index of shipments of hydraulic products decreased 31% for the three month period ending March 2009, compared to the same period of the prior year.

The Company's order trend has historically tracked closely to the United States Purchasing Managers Index (PMI). The index decreased to 36.3 in March 2009 compared to 49.0 in March 2008. In April 2009, the index increased to 40.1. When PMI is over 50, it indicates economic expansion; when it is below 50, it indicates contraction in the economy. PMI reached a low point in December 2008, at 32.9. It has since increased in four consecutive months, up nearly 22% in April 2009 compared to December 2008.

Results for the first quarter
(Dollars in millions except net income per share)

	March 28, 2009	March 29, 2008	Decrease
Three Months Ended			
Net Sales	$ 25.2	$ 49.0	-49%
Net Income	$ 0.6	$ 7.7	-92%
Net Income per share:			
Basic	$ 0.03	$ 0.46	-93%
Diluted	$ 0.03	$ 0.46	-93%

First quarter sales were in line with what management expected, however earnings were a little better than anticipated. Cash flow remains positive, allowing the Company to continue taking actions that will improve its place in the market when demand rallies.

This spring, the Company released new automated design software that has been in development for four years. The software enhances the ease by which the Company's distribution partners can configure and specify integrated packages. This new service automates the design effort and with no human intervention designs the package and prepares all necessary documentation. Management believes this web-based software will stimulate increased cartridge sales around the world.

Management believes that we are getting close to, and may have, reached the bottom of this difficult economic cycle. There are some positive signals out there, most notably the Purchasing Manager's Index, which has now reported four consecutive months of upward movement. While the magnitude is small, upward is the right direction and this index has proven to be a reliable directional indicator of the Company's business. The Company's strong financial foundation enables it to maintain its readiness, continue paying its dividend and prepare for the next expansion. This is a result of being diligent in managing its business throughout the business cycle.

Outlook

The Company's 2009 second quarter sales are expected to be approximately $21 million, a 60% decrease in revenue compared to last year, and earnings are expected to be slightly below breakeven.

The Company has taken steps to mitigate the effects of declining demand including curtailing non-essential spending. The Company's priority remains to invest in capability, capacity, quality, productivity, product development and expanding the Sun brand globally. Any actions to balance production with demand will not compromise the Company's long-term objectives at the expense of quarterly results. Based on previous business cycles, the Company's market share grows and earnings benefit by maintaining a steady course at the bottom of the cycle.

COMPARISON OF THE THREE MONTHS ENDED MARCH 28, 2009 AND MARCH 29, 2008

Net Sales

Net sales were $25.2 million, a decrease of $23.8 million, or 48.6%, compared to $49.0 million in 2008. Net sales decreased 42.6% excluding the effect of exchange rates. The decrease in net sales was primarily driven by decreased demand in our end markets, which primarily include capital goods equipment. Price increases in October 2008 accounted for approximately 2% of sales. New product sales (defined as products introduced within the last five years) generally make up 15% of total sales.

North American sales decreased 43.0% or $9.1 million, to $12.0 million, Asian sales decreased 64.6% or $6.4 million, to $3.5 million, and European sales decreased 46.2% or $7.8 million, to $9.1 million.

The U.S. reporting segment had sales of $15.6 million in the first quarter of 2009, down $12.7 million or 44.8%, compared to sales of $28.3 million during the first quarter last year. The decrease was driven by demand in our end markets and the general downturn in the global economy. International sales out of the U.S. were $4.7 million during the first quarter of 2009, down 50.5% or $4.8 million, compared to $9.5 million during the first quarter last year. Significant decreases in sales were noted in all geographic regions.

The Korean reporting segment had sales of $2.0 million during the first quarter of 2009, down $4.4 million or 69.1%, compared to sales of $6.4 million during the first quarter last year. Currency effect reduced 2009 first quarter sales by approximately $0.9 million. The remaining decrease was related to a slowdown in sales to four major Korean customers that are in the construction equipment industry.

The German reporting segment had sales of $4.2 million during the first quarter of 2009, down $3.8 million or 47.7%, compared to sales of $8.0 million during the first quarter last year. Currency effect reduced 2009 first quarter sales by approximately $0.7 million. The remaining decrease is primarily related to demand within Germany however, sales were down in all geographic markets.

The U.K. reporting segment had sales of $3.5 million during the first quarter of 2009, down $2.9 million or 45.7%, compared to sales of $6.4 million during the first quarter last year. Currency effect reduced 2009 first quarter sales by approximately $0.7 million. The largest reduction of sales was to customers within the U.K. however, sales were down in all geographic markets.

Gross Profit

Gross profit decreased $11.5 million or 67.4% to $ 5.6 million in the first quarter of 2009, compared to $17.1 million in the first quarter last year. Gross profit as a percentage of net sales decreased to 22.1% in the first quarter of 2009, compared to 34.9% in the first quarter last year. The Company experienced a sharp decline in sales during the fourth quarter of 2008, which resulted in gross profit margins of 24.9%. Sales continued to decline in the first quarter of 2009, resulting in further reductions in the gross profit margin.

The 2009 gross profit decreases were primarily related to lower sales volume, which contributed $8.3 million of the decrease. The remaining decreases in gross profit were attributed to productivity declines of approximately $1.1 million, and increases in overhead expenses as a percentage of sales of approximately $2.6 million, both of which occurred primarily in the U.S. The decrease in gross profit was partially offset by lower material costs of approximately $0.5 million, primarily in the U.S. and U.K.

The Company believes in maintaining its workforce and continuing to invest in people and processes throughout its business cycle. The Company's history has proven that this approach allows it to reap the benefits of a trained and agile workforce when the market turns up. The Company has and continues to make efforts to reduce its fixed overhead expenses. Significant reductions in overhead expenses resulted from reduced retirement benefits of $1.1 million, primarily from the shared distribution that was included in the prior year results, and reduced overtime premiums of $0.4 million. However, in periods of sharp declining sales, the Company cannot reduce costs at the same pace.

Selling, Engineering and Administrative Expenses

Selling, engineering and administrative expenses decreased 19.8%, or $1.2 million, to $4.8 million compared to the same quarter last year. The change is primarily a result of decreases in compensation of $0.3 million, fringe benefit costs of $0.3 million, and travel of $0.1 million. The decrease in fringe benefits is primarily related to retirement benefits associated with the shared distribution that was included in the prior year results.

Operating Income

Operating income decreased $10.3 million or 92.8% to $0.8 million in the first quarter of 2009, compared to $11.1 million in the first quarter last year, with operating margins of 3.2% and 22.7% for the first quarters of 2009 and 2008, respectively. The sharp decline in sales is the primary cause for the reduction in operating income margins. While all reporting segments were able to reduce fixed costs, as sales fall sharply, the Company cannot decrease costs at the same pace.

The U.S. reporting segment experienced an operating loss of $0.6 million in the first quarter of 2009, compared to operating income of $7.2 million during the first quarter of 2008, a decrease of $7.8 million. A sharp decline in sales volume reduced operating income $3.2 million. Decreases in operating income occurred from productivity declines as a result of keeping its workforce intact, and increased variable and fixed overhead costs as a percent of sales. Increases in operating income were partially offset by decreases in material costs. The Company continues to monitor and reduce fixed costs where it is deemed appropriate.

The Korean reporting segment contributed $0.1 million to our consolidated operating income during the first quarter of 2009 compared to $0.7 million during the first quarter last year, a decrease of $0.6 million. The reduction in sales volume was responsible for $0.5 million of the decrease in operating income.

The German reporting segment contributed $0.7 million to our consolidated operating income during the first quarter of 2009 compared to $2.4 million during the first quarter last year, a decrease of $1.7 million. Reduction in sales volume resulted in a decrease of $1.2 million to operating income. The remaining decrease was primarily related to material costs due to the strength of the U.S. Dollar against the Euro for material purchases made in U.S. Dollars.

The U.K. reporting segment contributed $0.5 million to our consolidated operating income during the first quarter of 2009 compared to $1.0 million during the first quarter last year, a decrease of $0.6 million. The reduction in sales volume was responsible for $0.5 million of the decrease in operating income.

Interest Income, Net

Net interest income was $0.1 million for the quarters ended March 28, 2009, and March 29, 2008. Total average debt for the quarter ended March 28, 2009, was $0.1 million compared to $0.7 million for the quarter ended March 29, 2008. Total average cash for the quarter ended March 28, 2009, was $33.0 million compared to $21.4 million for the quarter ended March 29, 2008. Although average cash increased, interest income remained relatively flat due to lower interest rates compared to the prior year. The Company did not have any outstanding variable debt during the period ended March 28, 2009.

Foreign Currency Transaction Gain, Net

There was minimal impact to net income from foreign currency in the quarters ended March 28, 2009, and March 29, 2008.

Miscellaneous (Income)/Expense, Net

There was net miscellaneous expense of $0.2 for the quarter ended March 28, 2009, compared to net miscellaneous income of $0.2 for the quarter ended March 29, 2008. Net miscellaneous (income)/expense is primarily made up of earnings from joint ventures. The prior year income includes proceeds from an insurance claim.

Income Taxes

The provision for income taxes for the quarter ended March 28, 2009, was 23.7% of pretax income compared to 32.9% for the quarter ended March 29, 2008. The change was primarily due to the relative levels of income and different tax rates in effect among the countries in which the Company sells its products, particularly from the tax benefit recognized in the U.S.

LIQUIDITY AND CAPITAL RESOURCES

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

Cash from operations for the three months ended March 28, 2009, was $4.9 million, compared to $7.4 million for the three months ended March 29, 2008. The $2.5 million decrease in the Company's net cash flow from operations during the period was due primarily to the decrease in net income of $7.1 million, change in taxes payable/receivable of $3.7 million, and lower cash inflow from accumulation of accounts payable and accrued expenses compared to the prior year. Decreases in accounts receivable and inventory totaling $2.7 million compared to increases in the prior year totaling $8.3 million partially offset the reduction in operating cash flows. Cash on hand decreased $4.6 million from $35.3 million in 2008 to $30.7 million in 2009. However, this decrease was largely the result of purchases of marketable securities totaling $6.2 million. Days sales outstanding (DSO) were 40 and 46 at March 28, 2009, and March 29, 2008, respectively. Customer payments have not been an issue thus far and the Company does not anticipate collectability issues even in this difficult economic environment. Inventory turns decreased to 9.1 as of March 28, 2009, compared to 10.6 as of March 29, 2008.

Capital expenditures, consisting primarily of purchases of machinery and equipment, were $1.2 million for the three months ended March 28, 2009, compared to $2.4 million for the three months ended March 29, 2008. Capital expenditures for the year are projected to be approximately $7.0 million, and includes $1.7 million for real estate that will close in the second quarter. This parcel of land is sandwiched between one of our existing facilities and vacant land that the Company already owns. It provides the Company with excellent options if it determines that additional bricks and mortar are needed.

The Company declared a special dividend of $0.09 per share to shareholders of record as of March 15, 2009, payable on March 31, 2009. The Company also declared its normal quarterly dividend of $0.09 per share to shareholders of record as of March 31, 2009, payable on April 15, 2009. 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 Line 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 several 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.

Off Balance Sheet Arrangements

The Company uses the equity method of accounting to account for its investments in Sun China, WhiteOak and High Country Tek. The Company does not have a majority ownership in or exercise control over any of these entities. The Company does not believe that its investments in Sun China, WhiteOak, or High Country Tek qualify as Variable Interest Entities, within the scope of FASB Interpretation (FIN) No. 46(R), *Consolidation of Variable Interest Entities (revised December 2003), an interpretation of ARB No. 51,* nor are they material to the financial statements of the Company at March 28, 2009.

Seasonality

The Company generally has experienced increased sales during the second quarter of the year, largely as a result of the order patterns of our customers. As a result, the Company's second quarter net sales, income from operations and net income historically are the highest of any quarter during the year. However, due to the current economic conditions, the Company does not expect this pattern to continue for 2009.

Inflation

The impact of inflation on the Company's operating results has been moderate in recent years. 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.

Critical Accounting Policies and Estimates

The Company currently applies judgment and estimates which may have a material effect on the eventual outcome of assets, liabilities, revenues and expenses for impairment of long-lived assets, accounts receivable, inventory, goodwill and accruals. The following explains the basis and the procedure for each account where judgment and estimates are applied.

Revenue Recognition

The Company reports revenues, net of sales incentives, when title passes and risk of loss transfers to the customer. The effect of material non-recurring events is provided for when they become known.

Impairment of Long-Lived Assets

In accordance with Statement of Financial Accounting Standards ("FAS") No. 144, *Accounting for Impairment or Disposal of Long-lived Assets* ("FAS 144"), long-lived assets, such as property and equipment, and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the asset is measured by comparison of its carrying amount to future net cash flows the asset is expected to generate. If such assets are considered to be impaired, the impairment to be recognized is measured as the amount by which the carrying amount of the asset exceeds its fair market value.

The Company assesses the recoverability of goodwill and intangible assets not subject to amortization under FAS No. 142, *Goodwill and Other Intangible Assets* ("FAS 142"). See Goodwill below.

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 can be 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 5 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 27, 2008. 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, health care benefits and annual contributions to an employee stock ownership plan, established in 2004 as part of the Company's retirement plan. Estimates for miscellaneous accruals are based on management's assessment of estimated liabilities for costs incurred.

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 Item 1. "Business," and Item 1A. "Risk Factors" in the Company's Form 10-K for the year ended December 27, 2008, and "Management's Discussion and Analysis of Financial Conditions and Results of Operations" in this Form 10-Q for the quarter ended March 28, 2009. 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 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to market risk from changes in interest rates on borrowed funds, which could affect its results of operations and financial condition. The Company's interest rate on its debt financing remains variable based upon the Company's leverage ratio. The Company had no variable-rate debt outstanding at March 28, 2009.

The Company's exposure to foreign currency exchange fluctuations relates primarily to the direct investment in its facilities in the United Kingdom, Germany and Korea. The Company does not use financial instruments to hedge foreign currency exchange rate changes.

Item 4. CONTROLS AND PROCEDURES

As of March 28, 2009, the Company's management, under the direction of its Chief Executive Officer and the Chief Financial Officer, carried out an evaluation of the effectiveness of the design and operation of the disclosure controls and procedures pursuant to Exchange Act Rule 13a-15. Our disclosure controls and procedures are designed to provide reasonable assurance that the information required to be disclosed in our SEC reports is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms, and is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Based upon that evaluation, the Company's Chief Executive Officer and the Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective at the reasonable assurance level as of March 28, 2009, in timely alerting them to material information required to be included in the Company's periodic SEC filings.

There were no changes in the Company's internal controls over financial reporting during the period ended March 28, 2009, that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II
OTHER INFORMATION

Item 1. Legal Proceedings.

None.

Item 1A. Risk Factors.

For information regarding risk factors, please refer to Part I, Item 1A in the Company's Annual Report on Form 10-K for the year ended December 27, 2008.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

Item 3. Defaults Upon Senior Securities.

None.

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

None.

Item 5. Other Information.

None.

Item 6. Exhibits.

Exhibits:

Exhibit Number	Exhibit Description
10.1+	Peter Robson Employment Agreement dated April 22, 1981
31.1	CEO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	CFO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	CEO Certification pursuant to 18 U.S.C. § 1350.
32.2	CFO Certification pursuant to 18 U.S.C. § 1350.

+ Executive management contract or compensatory plan or arrangement.

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 May 6, 2009.

SUN HYDRAULICS CORPORATION

By: /s/ Tricia L. Fulton

Tricia L. Fulton
Chief Financial Officer (Principal
Financial and Accounting Officer)

Exhibit 10.1

SUN hydraulics corporation
1500 COUNTY LINE ROAD · P.O. BOX 3377
SARASOTA, FL 33578
TELEPHONE: 813/355-2983

April 22, 1981

Mr. Peter Robson
15 Rose Croft
Kenilworth, Warwickshire
England

Dear Peter:

This letter is a confirmation of an employment agreement between Sun Hydraulics Corporation ("Sun") and Peter Robson ("Robson") reached in our phone conversation of April 21, 1981, as follows:

I. General Conditions:

a. Robson will give notice to his present employer effective May 1, 1981. Sun recognizes that Robson has a six-month termination clause and may not be released from his existing contract for six months.

b. Employment will begin with a wholly owned subsidiary of Sun as soon as Robson is released from his present contract.

c. Sun will review Robson's salary on November 1, 1981, without regard to the actual date employment begins.

d. This contract may be terminated by either party upon giving six months' notice in writing to the other party.

II. Remuneration:

a. Sun will pay Robson a beginning salary of £ 10,000 per year.

b. Sun will pay for medical insurance supplement equal to Bupacare's family coverage – National Scale.

c. Sun will pay a retirement supplement equal to ten per cent (10%) of Robson's base salary. Robson will choose a private plan approved by the Inland Revenue for tax deferral.

III. Transportation and Expenses:

a. Sun will purchase a Ford Cortina GL or equivalent car for Robson's use.

b. Sun will pay Robson's travel expenses (including car maintenance).

c. Sun will provide £500 expense advance to Robson. This fund will be replenished from time to time upon presentation by Robson of paid expense vouchers

IV. Office Costs:

a. Sun will provide suitable office space.

b. Sun will provide necessary secretarial service.

c. Sun will provide telephone and Telex service.

If you concur with the summary of our agreement, please sign the enclosed copy and return it to me.

All of us at Sun Hydraulics are please that you are joining us and look forward to your visit to Sarasota.

Sun Hydraulics Corporation

/s/ William F. Clendenin
William F. Clendenin
Secretary and Treasurer

/s/ Robert E. Koski
Robert E. Koski
President

Accepted:

/s/ Peter Robson
Peter Robson

Exhibit 31.1

CERTIFICATION

I, Allen J. Carlson, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended March 28, 2009, of Sun Hydraulics Corporation;

2. Based on my knowledge, this 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 6, 2009

/s/ Allen J. Carlson

Allen J. Carlson
President, Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Tricia L. Fulton, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended March 28, 2009, of Sun Hydraulics Corporation;

2. Based on my knowledge, this 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 6, 2009

/s/ Tricia L. Fulton

Tricia L. Fulton
Chief Financial Officer

Exhibit 32.1

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

I, Allen J. Carlson, the Chief Executive Officer of Sun Hydraulics Corporation (the "Company"), certify that (i) the Quarterly Report on Form 10-Q for the Company for the quarter ended March 28, 2009 (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 J. Carlson
Chief Executive Officer
May 6, 2009

Exhibit 32.2

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

I, Tricia L. Fulton, the Chief Financial Officer of Sun Hydraulics Corporation (the "Company"), certify that (i) the Quarterly Report on Form 10-Q for the Company for the quarter ended March 28, 2009 (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/ Tricia L. Fulton
Chief Financial Officer
May 6, 2009