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 April 2, 2011

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 17,089,002 shares of common stock, par value $.001, outstanding as of April 29, 2011.

Sun Hydraulics Corporation
INDEX
For the quarter ended April 2, 2011

Table of Contents

PART I: FINANCIAL INFORMATION

Item 1.

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

	April 2, 2011 (unaudited)	January 1, 2011
Assets		
Current assets:		
Cash and cash equivalents	$ 44,591	$ 33,206
Restricted cash	137	131
Accounts receivable, net of allowance for doubtful accounts of $81 and $82	20,143	16,399
Inventories	11,984	10,773
Income taxes receivable	—	1,154
Deferred income taxes	446	446
Marketable securities	12,532	11,614
Other current assets	3,222	2,556
Total current assets	93,055	76,279
Property, plant and equipment, net	52,981	53,127
Other assets	1,466	2,628
Total assets	**$ 147,502**	**$ 132,034**
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable	$ 5,613	$ 3,348
Accrued expenses and other liabilities	4,025	5,250
Income taxes payable	3,148	—
Dividends payable	1,537	1,531
Total current liabilities	14,323	10,129
Deferred income taxes	5,690	5,684
Other noncurrent liabilities	1,463	1,197
Total liabilities	21,476	17,010
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 $0.001, 17,084,446 and 17,015,045 shares outstanding	17	17
Capital in excess of par value	46,948	44,001
Retained earnings	77,494	71,141
Accumulated other comprehensive income	1,567	(135)
Total shareholders' equity	126,026	115,024
Total liabilities and shareholders' equity	**$ 147,502**	**$ 132,034**

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

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

	Three months ended April 2, 2011 (unaudited)	Three months ended April 3, 2010 (unaudited)
Net sales	**$ 50,703**	**$ 31,605**
Cost of sales	30,761	21,485
Gross profit	**19,942**	**10,120**
Selling, engineering and administrative expenses	6,031	5,156
Operating income	**13,911**	**4,964**
Interest income, net	(163)	(137)
Foreign currency transaction gain, net	(54)	(27)
Miscellaneous income, net	(289)	(20)
Income before income taxes	**14,417**	**5,148**
Income tax provision	4,647	1,837
Net income	**$ 9,770**	**$ 3,311**
Basic net income per common share	**$ 0.57**	**$ 0.20**
Weighted average basic shares outstanding	17,032	16,942
Diluted net income per common share	**$ 0.57**	**$ 0.20**
Weighted average diluted shares outstanding	17,068	16,977
Dividends declared per share	**$ 0.200**	**$ 0.090**

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

Table of Contents

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, January 1, 2011	—	$ —	17,015	$ 17	$44,001	$71,141	$ (135)	$115,024
Shares issued, other comp			2					—
Shares issued, ESPP			5		133			133
Stock-based compensation					402			402
Shares issued, shared distribution			62		2,412			2,412
Dividends declared						(3,417)		(3,417)
Comprehensive income:								
Net income						9,770		9,770
Foreign currency translation adjustments							1,690	1,690
Unrealized loss on available-for-sale securities							12	12
Comprehensive income								11,472
Balance, April 2, 2011	—	$ —	17,084	$ 17	$46,948	$77,494	$ 1,567	$126,026

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

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

	Three months ended April 2, 2011 (unaudited)	Three months ended April 3, 2010 (unaudited)
Cash flows from operating activities:		
Net income	$ 9,770	$ 3,311
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,689	1,732
(Gain) loss on disposal of assets	(139)	1
Provision for deferred income taxes	6	(16)
Allowance for doubtful accounts	(1)	(9)
Stock-based compensation expense	402	286
Stock options income tax benefit	—	(23)
(Increase) decrease in:		
Accounts receivable	(3,743)	(4,409)
Inventories	(1,211)	(1,079)
Income taxes receivable	1,154	1,485
Other current assets	(667)	(601)
Other assets	(296)	485
Increase (decrease) in:		
Accounts payable	2,265	823
Accrued expenses and other liabilities	1,187	—
Income taxes payable	3,148	60
Other noncurrent liabilities	266	25
Net cash provided by operating activities	13,830	2,071
Cash flows from investing activities:		
Proceeds from sale of joint venture	1,451	—
Capital expenditures	(1,111)	(668)
Proceeds from dispositions	140	—
Purchases of marketable securities	(1,989)	(6,260)
Proceeds from sale of marketable securities	1,059	3,199
Net cash used in investing activities	(450)	(3,729)
Cash flows from financing activities:		
Proceeds from exercise of stock options	—	28
Proceeds from stock issued	133	98
Dividends to shareholders	(3,411)	(1,527)
Stock options income tax benefit	—	23
Net cash used in financing activities	(3,278)	(1,378)
Effect of exchange rate changes on cash and cash equivalents	1,289	(641)
Net increase (decrease) in cash and cash equivalents	11,391	(3,677)
Cash and cash equivalents, beginning of period	**33,337**	**30,446**
Cash and cash equivalents, end of period	**$ 44,728**	**$ 26,769**
Supplemental disclosure of cash flow information:		
Cash paid:		
Income taxes	$ 339	$ 331
Supplemental disclosure of noncash transactions:		
Common stock issued for shared distribution through accrued expenses and other liabilities	$ 2,412	$ —

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. 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 representative office in Shanghai, China and a sales office in Bangalore, India, to develop new business opportunities in the Chinese and Indian markets.

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 January 1, 2011 filed by Sun Hydraulics Corporation (together with its subsidiaries, the "Company") with the Securities and Exchange Commission on March 11, 2011. 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 April 2, 2011, are not necessarily indicative of the results that may be expected for the period ending December 31, 2011.

Table of Contents

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Earnings per share

The following table represents the computation of basic and diluted earnings per common share (in thousands, except per share data):

	Three Months Ended April 2, 2011	Three Months Ended April 3, 2010
Net income	**$ 9,770**	**$ 3,311**
Weighted average basic shares outstanding	17,032	16,942
Basic net income per common share	**$ 0.57**	**$ 0.20**
Effect of dilutive stock options	36	35
Weighted average diluted shares outstanding	17,068	16,977
Diluted net income per common share	**$ 0.57**	**$ 0.20**

3. STOCK-BASED COMPENSATION

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 April 2, 2011, is as follows:

	Number of shares	Weighted average exercise price	Weighted average remaining contractual term (in years)	Aggregate intrinsic value
Options outstanding as of January 1, 2011	6	$ 10.01		
Granted	—			
Exercised	—	$ —		
Forfeitures	—			
Options outstanding as of April 2, 2011	6	$ 10.01	1.28	$ 213
Options exercisable as of April 2, 2011	6	$ 10.01	1.28	$ 213

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 the three month periods ended April 2, 2011, and April 3, 2010, was zero and $2 respectively. 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 April 2, 2011, and April 3, 2010, totaled $259 and $204 respectively.

The following table summarizes restricted stock activity from January 1, 2011, through April 2, 2011:

	Number of shares	Weighted average grant-date fair value
Nonvested balance at January 1, 2011	86	26.11
Granted	—	—
Vested	—	—
Forfeitures	—	—
Nonvested balance at April 2, 2011	86	26.11

The Company has $1,640 of total unrecognized compensation cost related to restricted stock awards granted under the Plan as of April 2, 2011. That cost is expected to be recognized over a weighted average period of 1.46 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, on the first or last day of the quarterly purchase period, whichever is lower, 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 5,346 shares at a weighted average price of $24.88, and 5,505 shares at a weighted average price of $17.35, under the ESPP during the three months ended April 2, 2011, and April 3, 2010, respectively. The Company recognized $66 and $44 of compensation expense during the three months ended April 2, 2011, and April 3, 2010, respectively. At April 2, 2011, 513,056 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.

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. At April 2, 2011, there were 32,335 deferred stock units outstanding.

Directors were granted 2,510 and 2,614 shares for the three months ended April 2, 2011, and April 3, 2010, respectively. The Company recognized director stock compensation expense of $329 and $55 for the three months ended April 2, 2011, and April 3, 2010, respectively. The Plan authorizes the issuance of up to 180,000 shares of common stock. At April 2, 2011, 129,647 shares remained available to be issued through the Plan.

4. RESTRICTED CASH

The restricted cash balance at April 2, 2011, consisted of $48 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 $89 relates to a guarantee of VAT in our France operation. The guarantee is held with Crédit Agricole Bank in France.

5. INVENTORIES

	April 2, 2011	January 1, 2011
Raw materials	$ 5,125	$ 4,315
Work in process	3,717	3,628
Finished goods	3,547	3,379
Provision for slow moving inventory	(405)	(549)
Total	$ 11,984	$ 10,773

6. GOODWILL

On April 2, 2011, 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 January 1, 2011. The analysis indicated that there was no impairment of the carrying value of the goodwill. As of April 2, 2011, no factors were identified that indicated impairment of the carrying value of the goodwill.

7. INVESTMENTS

On January 5, 2011, Sun Hydraulics completed the sale of its Chinese joint venture company, Sun Hydraulics Systems (Shanghai) Co, Ltd., to the joint venture partner, Links Lin, for the amount of $1,451, and recognized a gain on the sale of $366. The former joint venture company has become Sun's first authorized distributor in China. Concurrently, Sun established Sun Hydraulics China Co. Ltd, a representative office in Shanghai which now is the Company's primary operation in the country.

8. LONG-TERM DEBT

The Company has a $35,000 revolving line of credit with a commercial bank, collateralized by U.S. assets, with an interest rate of Libor plus 1.5% (1.76% at April 2, 2011), that comes due August 1, 2011. The Company did not have any debt outstanding for the periods ending April 2, 2011 and January 1, 2011.

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 April 2, 2011, the Company was in compliance with all debt covenants.

9. INCOME TAXES

At April 2, 2011, the Company had an unrecognized tax benefit of $169 including accrued interest for uncertain tax positions related to previous years. 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 accrued as of April 2, 2011, 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 prior to 2004 for the majority of tax jurisdictions.

The Company's federal returns are currently under examination by the Internal Revenue Service (IRS) in the United States for the periods 2004 through 2007. The IRS proposed a significant adjustment to the Company's research and development tax credit position. Management has disagreed with the proposed adjustment and believes sufficient evidence is available to defend the position. To date, there have not been any other significant proposed adjustments that have not been accounted for in the Company's financial statements.

Audit outcomes and the timing of audit settlements are subject to significant uncertainty. It is reasonably possible that within the next twelve months the Company will resolve some or all of the matters presently under consideration for 2004 through 2007 with the IRS, and that there could be significant increases or decreases to unrecognized tax benefits.

10. 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.

Table of Contents

Segment information is as follows:

	United States	Korea	Germany	United Kingdom	Elimination	Consolidated
Three Months Ended April 2, 2011						
Sales to unaffiliated customers	$30,467	$6,023	$ 7,188	$ 7,025	$ —	$ 50,703
Intercompany sales	9,489	—	52	376	(9,917)	—
Operating income	9,976	941	1,740	1,206	48	13,911
Depreciation	1,292	25	99	241	—	1,657
Capital expenditures	896	122	45	48	—	1,111
Three Months Ended April 3, 2010						
Sales to unaffiliated customers	$18,970	$4,192	$ 4,699	$ 3,744	$ —	$ 31,605
Intercompany sales	5,097	—	53	338	(5,488)	—
Operating income (loss)	2,870	626	1,117	336	15	4,964
Depreciation	1,328	22	111	251	—	1,712
Capital expenditures	566	64	5	33	—	668

Sales to unaffiliated customers represent sales from each of the individual subsidiaries. For information on sales to geographic locations, see the Comparison of the Three Month Periods Ended April 2, 2011, and April 3, 2010, in Management's Discussion and Analysis of Financial Condition and Results of Operations. Operating income is total sales and other operating income less operating expenses. Segment operating income does not include interest income/expense, foreign currency transaction gain/loss, and net miscellaneous income/expense.

11. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company uses the 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.

The Company held available-for-sale securities with an aggregate fair value of $12,532 and $10,827 at April 2, 2011, and April 3, 2010, respectively. The Company, on a recurring basis, measures available-for-sale securities at fair value using quoted prices in active markets. The net unrealized holding gain amounted to $69 and $51 at April 2, 2011 and April 3, 2010, respectively. In addition, the Company reports deferred director stock units and phantom stock units as a liability. These liabilities, on a recurring basis, are measured at fair value using quoted prices in the active market. The Company's liability was $1,463 and $723, at April 2, 2011, and April 3, 2010, respectively. The Company recognized expense related to those liabilities of $325 and $43, for the quarters ended April 2, 2011 and April 3, 2010, respectively.

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 April 2, 2011 and April 3, 2010.

Assets measured at fair value on a recurring basis include the following as of April 2, 2011:

Description	April 2, 2011	Fair Value Measurements at Reporting Date Using Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available-for-sale securities	$ 12,532	$ 12,532	$ —	$ —

Description	April 2, 2011	Fair Value Measurements at Reporting Date Using Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Deferred director stock units	$ 1,463	$ 1,463	$ —	$ —
Phantom stock units	52	52	—	—
Total	$ 1,515	$ 1,515	$ —	$ —

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.

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.

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 January 1, 2011, were approximately 61% 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 twelve-month shipments of hydraulic products increased 42% in 2010, after a decrease of 40% in 2009. The index of shipments of hydraulic products increased 40% for the three-month period ending March 31, 2011, 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). When PMI is over 50, it indicates economic expansion in the manufacturing sector; when it is below 50, it indicates contraction in the economy. The index increased to 61.2 in March 2011 compared to 60.4 in March 2010. In April 2011, the index was 60.4, which represents twenty-one consecutive months of expansion in the manufacturing sector. New orders and production continue to drive the PMI. Additionally, the employment index readings for the first four months of 2011 are the highest readings in the last 38 years. The PMI index, solidly above 50, indicates the continuing strength of the recovery.

Table of Contents

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

Three Months Ended	April 2, 2011	April 3, 2010	Increase
Net Sales	$50.7	$31.6	60%
Net Income	$ 9.8	$ 3.3	197%
Net Income per share:			
Basic	$0.57	$0.20	185%
Diluted	$0.57	$0.20	185%

The capital goods environment has rebounded and is in a strong growth phase, as evidenced by PMI. Sun is experiencing solid top line growth, which is translating into improved operational results. Gross margins in the quarter were 39% with operating margins at 27%. More importantly, though difficult to quantify, management believes the Company continues to gain market share across all segments. The rapid upturn in this business cycle has gained momentum in 2011 and the Company continues to be able to meet the higher level of demand.

Sun participated in two tradeshows in March and April – the IFPE/CONEXPO show in Las Vegas and the Hanover Power Transmission Fair in Hanover, Germany. Sun introduced its new Series 4 Plus cartridges, which expand the flow capacity and are cost-effective alternatives for expensive, legacy industrial valves. The mood at both shows was upbeat, with a high energy level amongst both exhibitors and attendees.

Outlook

Second quarter 2011 revenues are expected to be approximately $53 million, up approximately 35% compared to the same period last year. Earnings per share are estimated to be $0.57 to $0.60 compared to $0.36 last year.

COMPARISON OF THE THREE MONTHS ENDED APRIL 2, 2011 AND APRIL 3, 2010

Net Sales

Net sales were $50.7 million, an increase of $19.1 million, or 60.4%, compared to $31.6 million in 2010. The increase in net sales was primarily driven by increased demand in our end markets, which primarily include capital goods equipment. A price increase, effective July 1, 2010, contributed approximately 3% to sales. The change in exchange rates had a positive impact on sales of approximately $0.1 million. New product sales (defined as products introduced within the last five years) continue to make up 10 - 15% of total sales.

North American sales increased 58.1% or $8.0 million, to $21.7 million, Asian sales increased 59.3% or $4.0 million, to $10.8 million, and European sales increased 66.6% or $6.7 million, to $16.8 million.

The U.S. reporting segment had sales of $30.5 million in the first quarter of 2011, up $11.5 million or 60.6%, compared to sales of $19.0 million during the first quarter last year. The increase was driven by demand in our end markets and the general upturn in the global economy. International sales out of the U.S. were $11.7 million during the first quarter of 2011, up 70.8% or $4.9 million, compared to $6.8 million during the first quarter last year. Significant increases in sales were noted in almost all geographic regions.

The Korean reporting segment had sales of $6.0 million during the first quarter of 2011, up $1.8 million or 43.7%, compared to sales of $4.2 million during the first quarter last year. The increase was related to demand in almost all market segments. Currency effect increased 2011 first quarter sales by approximately $0.1 million.

The German reporting segment had sales of $7.2 million during the first quarter of 2011, up $2.5 million or 53.0%, compared to sales of $4.7 million during the first quarter last year. Currency effect decreased 2011 first quarter sales by approximately $0.1 million. The increase in sales was primarily related to demand within Germany and from Austria and Italy.

The U.K. reporting segment had sales of $7.0 million during the first quarter of 2011, up $3.3 million or 87.6%, compared to sales of $3.7 million during the first quarter last year. Currency effect increased 2011 first quarter sales by approximately $0.1 million. The increase in sales was primarily related to demand within the U.K. and from Sweden, Norway, and France.

Gross Profit

Gross profit increased $9.8 million or 97.1% to $19.9 million in the first quarter of 2011, compared to $10.1 million in the first quarter last year. Gross profit as a percentage of net sales increased to 39.3% in the first quarter of 2010, compared to 32.0% in the first quarter last year. As sales increased across all segments, the Company is able to leverage its overhead costs to generate higher gross profit and is experiencing productivity improvements.

Higher sales volume in the first quarter of 2011 contributed $5.6 million of the increase. Decreases in overhead expenses as a percentage of sales added approximately $2.5 million to gross profit, which occurred primarily in the U.S. The remaining increase in gross profit was attributed to a price increase in July 2010, of approximately $1.7 million and productivity improvements of approximately $0.4 million. The increase in gross profit was partially offset by additional retirement benefit costs of approximately $0.9 million.

Selling, Engineering and Administrative Expenses

Selling, engineering and administrative expenses increased 17.0%, or $0.9 million, to $6.0 million in 2011, compared to $5.2 million last year. The change is related to additional retirement benefits primarily in the U.S. and compensation, including variable stock compensation. During the prior year, payroll reductions were still in effect for the first quarter.

Operating Income

Operating income increased $8.9 million or 180.2% to $13.9 million in the first quarter of 2011, compared to $5.0 million in the first quarter last year, with operating margins of 27.4% and 15.7% for the first quarters of 2011 and 2010, respectively. Based on the Company's structure, the increase in sales during the first quarter of 2011 has improved operating margins across all segments. During this upturn, the Company has been able to respond to the increasing demand. As sales increase across all segments, the Company is experiencing productivity improvements and is able to leverage its overhead costs to generate higher operating income.

The U.S. reporting segment contributed $10.0 million to our consolidated operating income during the first quarter of 2011, compared to $2.9 million during the first quarter of 2010. This increase of $7.1 million in the U.S. operating segment was primarily related to leverage of its overhead costs. Decreases, as a percent of sales, in variable and fixed overhead costs added $2.9 million and absorption of selling, engineering, and administrative expenses added $1.8 million to operating income. The increase in sales volume resulted in $1.7 million of additional operating income. The remaining increases in operating income were from productivity improvements of $0.6 million.

The Korean reporting segment contributed $0.9 million to our consolidated operating income during the first quarter of 2011 compared to $0.6 million during the first quarter last year, an increase of $0.3 million. The increase in operating income was primarily related to the increase in sales volume.

The German reporting segment contributed $1.7 million to our consolidated operating income during the first quarter of 2011 compared to $1.1 million during the first quarter last year, an increase of $0.6 million. The increase in operating income was primarily related to the increase in sales volume. Additionally material cost increases of approximately $0.3 million were offset by the absorption of fixed costs.

The U.K. reporting segment contributed $1.2 million to our consolidated operating income during the first quarter of 2011 compared to $0.3 million during the first quarter last year, an increase of $0.9 million. The increase was primarily related to absorption of fixed costs adding $0.7 million to operating income, and productivity improvements of $0.2 million. These amounts were partially offset by increased material costs of $0.4 million. The increased sales volume contributed approximately $0.3 million to operating income.

Interest Income, Net

Net interest income was $0.2 million and $0.1 million for the quarters ended April 2, 2011, and April 3, 2010, respectively. The Company currently has no outstanding debt. Total average cash and investments for the quarter ended April 2, 2011, was $51.1 million compared to $37.9 million for the quarter ended April 3, 2010.

Foreign Currency Transaction Loss (Gain), Net

Foreign currency gain was $0.1 for the quarter ended April 2, 2011, compared to a minimal gain for the quarter ended April 3, 2010. The Euro, British Pound and Korean Won all made gains against the U.S. Dollar during the current period.

Miscellaneous (Income) Expense, Net

There was net miscellaneous income of $0.3 million for the quarter ended April 2, 2011, compared to a minimal impact to net miscellaneous income for the quarter ended April 3, 2010. The income is primarily related to the gain on the sale of the Chinese joint venture company.

Income Taxes

The provision for income taxes for the quarter ended April 2, 2011, was 32.2% of pretax income compared to 35.7% for the quarter ended April 3, 2010. 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. The prior period provision was affected by discrete items related to a reserve for uncertain tax positions from previous years. Excluding these discrete items, the effective rate would have been approximately 31%.

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 April 2, 2011, was $13.8 million, compared to $2.1 million for the three months ended April 3, 2010. The $11.8 million increase in the Company's net cash flow from operations during the period was due primarily to the increase in net income of $6.5 million and from increases in accruals and taxes receivable/payable totaling $7.8 million, compared to an increase of $2.4 million during 2010. Cash on hand increased $11.4 million from $33.3 million in 2010 to $44.7 million in 2011. Days sales outstanding (DSO) were 36 and 41 at April 2, 2011, and April 3, 2010, respectively. Inventory turns increased to 10.3 as of April 2, 2011, compared to 9.7 as of April 3, 2010.

Capital expenditures, consisting primarily of purchases of machinery and equipment, were $1.1 million for the three months ended April 2, 2011, compared to $0.6 million for the three months ended April 3, 2010. Capital expenditures for the year are projected to be approximately $10.0 million.

The Company continues to be watchful of both its capability and capacity. The current capacity is sufficient for the business levels expected throughout 2011. The Company recognizes that additional capacity may be required as the expansion of this business cycle and its market share gains continue.

The Company declared a quarterly dividend of $0.09 per share to shareholders of record as of March 31, 2011, payable on April 15, 2011. 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.

In March 2011, the Board of Directors once again declared a shared distribution for employees and shareholders based on the Company's 2010 results. The shared distribution consisted of a 9% contribution of salaries to all eligible employees, most of which will be paid into retirement plans, and an $0.11 per share dividend to shareholders, totaling approximately $4.6 million. The shared distribution concept was introduced in 2008 as a way to reward both shareholders and employees when Sun has a successful year.

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 does not engage in any off balance sheet financing arrangements. In particular, the Company does not have any material interest in variable interest entities, which include special purpose entities and structured finance entities.

The Company uses the equity method of accounting to account for its investments in WhiteOak and High Country Tek. The Company does not have a majority ownership in or exercise control over either of the entities. These investments were not material to the financial statements of the Company at April 2, 2011.

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. 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 economic conditions of the past year, this pattern was not evident in 2010.

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

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.

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 consolidated 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 January 1, 2011. 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 costs, 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 January 1, 2011, and "Management's Discussion and Analysis of Financial Conditions and Results of Operations" in this Form 10-Q for the quarter ended April 2, 2011. 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 April 2, 2011.

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 April 2, 2011, 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 April 2, 2011, 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 April 2, 2011, 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 January 1, 2011.

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

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Reserved.

Item 5. Other Information.

None.

Item 6. Exhibits.

Exhibits:

Exhibit Number	Exhibit Description
10.1	Steven Hancox Employment Agreement dated January 1, 1994.
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.

Table of Contents

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 10, 2011.

SUN HYDRAULICS CORPORATION

By: /s/ Tricia L. Fulton
Tricia L. Fulton
Chief Financial Officer (Principal Financial and Accounting Officer)

Exhibit 10.1

STATEMENT OF TERMS AND CONDITIONS OF EMPLOYMENT

(Issued in compliance with the Employment Protection
(Consolidation) Act 1978 as amended)

This statement is dated 1st January 1994 and sets out particulars of the terms and conditions on which Sun Hydraulics Limited of Wheler Road, Coventry CV3 4LA employs:

Steven Hancox as an Administration Employee.

Your employment began on 04 September 1989. No previous employment counts as part of your continuous period of employment.

PLACE OF WORK:

You will normally be required to work at Wheler Road, Coventry.

REMUNERATION:

Your wage/salary is currently £25,000.00 per annum, payable monthly by credit transfer, as detailed on your pay statement.

HOURS OF WORK:

Your normal hours of work are 37.5 hours per week, i.e.,
8.30 am to 5.00 pm Monday, Tuesday, Wednesday, Thursday and Friday
Your refreshment break entitlement is one hour at lunch time, normally between 12 pm and 2 pm, but continuous telephone cover to be maintained.

You are required to work a reasonable amount of overtime when requested and as necessitated by the needs of the business, the specific hours worked are to be mutually agreed.

ANNUAL HOLIDAYS:

Our holiday year begins on 1st January and ends on 31st December each year.
You will receive a paid holiday entitlement of 24 working days (at your basic daily rate) during a complete holiday year.

If you either commence or terminate your employment during the course of the year your entitlement will be calculated as l/12th of the annual entitlement for each completed calendar month of service during that year. Fridays are classed as complete days when taken as holiday.

Your total holiday entitlement is:
8 Public Days + 24 Annual Leave Days = 32 days in total.

In order to give maximum flexibility, 2 of the Public holidays (May Day and August, Bank Holidays) do not have to be taken on these days, they can be used as holidays at other times of the year as Annual leave i.e.,
6 Public Days + 26 Annual leave Days = 32 days in total

PUBLIC HOLIDAYS:

In addition to the Annual holiday entitlement, you are allowed the following Public holidays each year with pay, or alternative days as decided by Management:-

Non-moveable	**Moveable**
New years Day	The first Monday in May
Either Good Friday or Easter Tuesday	The last Monday in August
Easter Monday	
Spring Bank Holiday Monday	
Christmas Day	
Boxing Day	

WORKING ON A PUBLIC HOLIDAY:

If you work on one of the above non-moveable days, you will have the choice of either, being paid double time or single time and 1 day off in lieu.

If Good Friday and Easter Tuesday are worked only one is treated as a non-moveable day.

SICKNESS / INJURY TERMS AND PAY:

Your entitlement to sickness/injury pay, (inc. Statutory Sick Pay), is shown in the Employee Handbook.

DISCIPLINARY RULES AND PROCEDURES:

The Disciplinary Rules and General Notices which apply to your employment are shown in the Employee handbook, to which you should refer.

DISCIPLINARY APPEAL PROCEDURE:

The Disciplinary Rules and Procedures which form part of the Contract of Employment incorporate the right to lodge an appeal in respect of any disciplinary action taken against you. If you wish to exercise this right, you should apply to the originator of the action within five working days of the decision against which you are complaining. Further information can be found in the Employee Handbook.

GREIVANCE PROCEDURE: It is important that if you feel dissatisfied with any matter relating to your work you should have an immediate means by which such a grievance can be aired and resolved. If you feel aggrieved at any such matter during the course of your employment you should raise the grievance with your Head of Section. Further information can be found in the Employee Handbook.

NOTICE OF TERMINATION TO BE GIVEN BY EMPLOYER:

Under 1 month’s service - nil.
1 month but less than 2 year’s service - 1 week.
2 year’s service or more - 1 week for each completed year of service to a maximum of 12 weeks after 12 years.

NOTICE OF TERMINATION TO BE GIVEN BY EMPLOYEE:

Under 1 month’s service - nil.
1 month’s service or more - 1 week.

PENSION SCHEME:

The Company operates a voluntary contributory Private Pension Plan which you will be able to join. We do not hold a contracting out certificate. Further information can be found in the Employee Handbook.

Any amendments to this statement will be notified to you within one month.

I have read the Employee Handbook, issue dated 7 January, 1994 and understand and accept its contents as forming part of my Contract of Employment. I will keep myself informed of the contents of the master copy.

For and on behalf of the Employer

/s/ R. Glasspole

I acknowledge receipt of this statement.

/s/ Steven Hancox (Employee)

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 April 2, 2011, 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 10, 2011

/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 April 2, 2011, 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 10, 2011

/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 April 2, 2011 (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 10, 2011

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 April 2, 2011 (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 10, 2011