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 June 30, 1998   Commission file number 0-21835

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

- --

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

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

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

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

The Registrant had 6,350,922 shares of common stock, par value $.001, outstanding as of August 10, 1998.

Sun Hydraulics Corporation
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For the second quarter ended June 30, 1998

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PART I: FINANCIAL INFORMATION
Item 1.
SUN HYDRAULICS CORPORATION
CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS)
<TABLE>
<CAPTION>

<S>	JUNE 30, 1998 (UNAUDITED) <C>	DECEMBER 31, 1997 <C>
ASSETS		
Current assets:		
Cash and cash equivalents	$ 3,314	$ 1,249
Accounts receivable, net of allowance for doubtful accounts of $44 and $47	5,871	4,558
Inventories	7,113	6,775
Other current assets	814	932
Total current assets	17,112	13,514
Property, plant and equipment, net	41,027	39,789
Other assets	216	86
Total assets	$ 58,355	$ 53,389
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 2,667	$ 2,847
Accrued expenses and other liabilities	2,394	2,174
Long-term debt due within one year	3,342	1,035
Notes payable to related parties due within one year	814	757
Dividends payable	254	221
Income taxes payable	932	380
Total current liabilities	10,403	7,414
Long-term debt due after one year	6,330	6,620

Notes payable to related parties due after one year	730	1,152
Deferred income taxes	3,212	3,203
	------------	-------------
Total liabilities	20,675	18,389
	------------	-------------
Commitments and contingencies		
Shareholders' equity:		
Preferred stock	-	-
Common stock (Note 3)	6	6
Capital in excess of par value	24,244	24,163
Retained earnings	13,045	10,732
Equity adjustment for foreign currency translation	385	99
	------------	-------------
Total shareholders' equity	37,680	35,000
	------------	-------------
Total liabilities and shareholders' equity	$ 58,355	$ 53,389
	============	============

</TABLE>

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

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

<TABLE>
<CAPTION>

	THREE MONTHS ENDED JUNE 30, (UNAUDITED)	
	1998	1997
	----	----
<S>	<C>	<C>
NET SALES	$ 17,584	$ 15,276
Cost of sales	12,599	10,444
	-----------	---------
GROSS PROFIT	4,985	4,832
Selling, engineering and administrative expenses	3,033	2,849
	-----------	---------
OPERATING INCOME	1,952	1,983
Interest expense	231	216
Miscellaneous expense (income)	(45)	72
	-----------	---------
INCOME BEFORE INCOME TAXES	1,766	1,695
Income tax provision	586	616
	-----------	---------
NET INCOME	$ 1,180	$ 1,079
	===========	=========

BASIC NET INCOME PER COMMON SHARE	$ 0.19	$ 0.17
WEIGHTED AVERAGE SHARES OUTSTANDING	6,339	6,300
DILUTED NET INCOME PER COMMON SHARE	$ 0.18	$ 0.17
WEIGHTED AVERAGE SHARES OUTSTANDING	6,553	6,501

</TABLE>

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

<TABLE>
<CAPTION>

	SIX MONTHS ENDED JUNE 30, (UNAUDITED)	
	1998	1997
<S>	<C>	<C>
NET SALES	$ 36,717	$ 29,874
Cost of sales	25,946	20,646
GROSS PROFIT	10,771	9,228
Selling, engineering and administrative expenses	6,047	5,566
OPERATING INCOME	4,724	3,662
Interest expense	491	368
Miscellaneous expense (income)	(2)	14
INCOME BEFORE INCOME TAXES	4,235	3,280
Income tax provision	1,415	1,184
NET INCOME	$ 2,820	$ 2,096
BASIC NET INCOME PER COMMON SHARE	$ 0.45	$ 0.33
WEIGHTED AVERAGE SHARES OUTSTANDING	6,332	6,300
DILUTED NET INCOME PER COMMON SHARE	$ 0.43	$ 0.32
WEIGHTED AVERAGE SHARES OUTSTANDING	6,524	6,504

</TABLE>

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

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

<TABLE>
<CAPTION>

	SHARES	COMMON STOCK	CAPITAL IN EXCESS OF PAR VALUE	RETAINED EARNINGS	EQUITY ADJUSTMENT FOR FOREIGN CURRENCY TRANSLATION	TOTAL
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Balance, December 31, 1996	4,000,002	$ 2,179	$ 2,719	$ 17,450	$ 49	$ 22,397
Net proceeds from stock offering	2,300,000	2	19,250			19,252
Distributions to shareholders				(10,545)		(10,545)
Dividends declared				(883)		(883)
Net income				4,710		4,710
Merger with Sun Holdings (Note 3)		(2,175)	2,123			(52)
Exercise of stock options	22,000		71			71
Adjustment for foreign currency translation					50	50
Balance, December 31, 1997	6,322,002	6	24,163	10,732	99	35,000
Dividends declared				(507)		(507)
Net income				2,820		2,820
Exercise of stock options	23,920		81			81
Adjustment for foreign currency translation					286	286
Balance, June 30, 1998 (unaudited)	6,345,922	$ 6	$ 24,244	$ 13,045	$ 385	$ 37,680

</TABLE>

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

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

<TABLE>
<CAPTION>

	SIX MONTHS ENDED JUNE 30, (UNAUDITED) 1998	1997
<S>	<C>	<C>
Cash flows from operating activities:		
Net income	$ 2,820	$ 2,096
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	2,269	1,852
(Increase) decrease in:		
Accounts receivable	(1,313)	(2,009)
Inventories	(338)	(1,142)
Other current assets	118	289
Other assets	(130)	1,033
Increase (decrease) in:		

Accounts payable	(180)	(769)
Accrued expenses and other liabilities	220	(38)
Income taxes payable, net	561	702
Other liabilities	-	(20)
Net cash provided by operating activities	4,027	1,994
Cash flows from investing activities:		
Capital expenditures	(3,629)	(3,566)
Proceeds from dispositions of equipment	122	2
Net cash used in investing activities	(3,507)	(3,564)
Cash flows from financing activities:		
Proceeds from debt	4,261	3,722
Repayment of debt	(2,244)	(8,970)
Repayment of notes payable to related parties	(365)	(316)
Proceeds from exercise of stock options	81	-
Net proceeds from stock offering (Note 3)	-	19,252
Cash paid for Sun Holdings merger (Note 3)	-	(52)
Dividends to shareholders	(474)	-
Distributions to shareholders	-	(11,273)
Net cash provided by financing activities	1,259	2,363
Adjustment for foreign currency translation	286	(24)
Net increase in cash and cash equivalents	2,065	769
Cash and cash equivalents, beginning of period	1,249	1,038
Cash and cash equivalents, end of period	$ 3,314	$ 1,807
Supplemental disclosure of cash flow information:		
Cash paid for:		
Interest (including amounts capitalized)	$ 496	$ 616
Income taxes	$ 854	$ 482

</TABLE>

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

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

1. INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The accompanying unaudited interim consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission for reporting on Form 10-Q. Accordingly, certain information and footnotes required by generally accepted accounting principles for complete financial statements are not included herein. The financial statements are prepared on a consistent basis (including normal recurring adjustments) and should be read in conjunction with the consolidated financial statements and related notes contained in the Annual Report on Form 10-K for the fiscal year ended December 31, 1997, filed by Sun Hydraulics Corporation (the "Company") with the Securities and Exchange Commission on March 30, 1998.

2. BUSINESS

Sun Hydraulics Corporation, and its wholly-owned subsidiary, 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 and Germany. Sun Hydraulics Corporation ("Sun Hydraulics"), located in Sarasota, Florida, designs, manufactures and sells through independent distributors in the United States. Sun Hydraulik Holdings Limited ("Sun Holdings"), a wholly-owned subsidiary of the Company, was formed to provide a holding company vehicle for the European market operations, its wholly-owned subsidiaries are Sun Hydraulics Limited (a British corporation, "Sun Ltd.") and Sun Hydraulik GmbH (a German corporation, "GmbH"). Sun Ltd. operates a manufacturing and distribution facility located in Coventry, England. GmbH, located in Erkelenz, Germany, markets the Company's products in German-speaking European markets.

3. REORGANIZATION AND INITIAL PUBLIC OFFERING

The consolidated financial statements of the Company consist of the financial position and results of operations of Sun Hydraulics and Sun Holdings. In January 1997, Sun Hydraulics effected a 9.90372627 for 1 stock split. All prior year share amounts reflected in the financial statements include the effect of the stock split. Additionally, Sun Hydraulics issued 374,811 shares of common stock and made a nominal cash payment of $52 in exchange for all of the issued and outstanding stock of Sun Holdings (the "Reorganization"). The Reorganization was accounted for in a manner similar to a pooling of interests except for shares held by the minority shareholders which were accounted for at the fair market value of their proportionate share of related assets and liabilities, which approximated book value on the date of the transaction.

The Company filed a Registration Statement on Form S-1 with the Securities and Exchange Commission effective January 9, 1997, and issued 2,300,000 shares of common stock in an initial public offering ("IPO"), with an initial offering price of $9.50. The IPO net proceeds of $19,252, the exchange of shares with Sun Holdings, and the distribution of previously taxed S Corporation retained earnings are reflected in the statement of changes in shareholders' equity.

The $19,252 of net proceeds from the IPO were used as follows: an S Corporation distribution of $9,446, representing 90% of the total distribution of $10,545 was made, $7,676 was paid to extinguish debt, $1,000 was paid to reduce the mortgage on the United States construction loan, and $1,130 was retained as working capital.

The Company has 20,000,000 authorized shares of common stock, par value $0.001, with 6,345,922 shares outstanding at June 30, 1998. The Company also has 2,000,000 authorized shares of preferred stock, par value $0.001, with no shares outstanding.

4. COMPREHENSIVE INCOME

Effective in the first quarter ended March 31, 1998, the Company adopted SFAS 130, "Reporting Comprehensive Income". SFAS 130 establishes standards for reporting and display of comprehensive income and its components in the Company's consolidated financial statements. Comprehensive income is defined in SFAS 130 as the change in equity (net assets) of a business enterprise during a period resulting from transactions and other events and circumstances from non-owner sources. Total comprehensive income was $3,010 and $2,081 for the six months ended June 30, 1998 and 1997, respectively. The difference between net income as reported and total comprehensive income is the tax effected change in the cumulative foreign currency translation adjustment.

5. RECENT ACCOUNTING PRONOUNCEMENTS

Segment Reporting

In June 1997, the Financial Accounting Standards Board ("FASB") issued SFAS 131, "Disclosure about Segments of an Enterprise and Related Information." Under FAS 131 the basis for determining an enterprise's operating segments is the manner in which management operates the businesses. The statement is effective for fiscal years beginning after December 15, 1997 but does not require compliance with interim reporting requirements until the second year of implementation. The standard addresses disclosure issues and therefore will not affect the Company's financial position or results of operations.

Derivative Instruments And Hedging Activities

The FASB has issued FAS 133, "Accounting for Derivative Instruments and Hedging Activities," which is effective for the Company's fiscal year beginning December 31, 1999. This Statement requires that derivative instruments be recognized as assets or liabilities and measured at fair value. The Company does not anticipate a material effect upon adoption of this standard.

Computer Software Development Costs

In March 1998, the American Institute of Certified Public Accountants issued Statement of Position 98-1 "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" (SOP 98-1). SOP 98-1 provides guidance for capitalizing and expensing the costs of computer software developed or obtained for internal use. SOP 98-1 is effective for financial statements for fiscal years beginning after December 15, 1998. The Company does not anticipate a material impact on its results of operations as a result of the adoption of SOP 98-1.

6. LONG-TERM DEBT (in thousands)

<TABLE>
<CAPTION>

<S>	June 30, 1998 (unaudited) <C>	December 31, 1997 <C>
Lines of credit agreements	$ 3,054	$ 666
Mortgage note payable-U.S. manifold facility ("Manatee")	4,925	4,990
Mortgage note payable-German facility	1,693	1,999
	--------	-------
	9,672	7,655
Less amounts due within one year	(3,342)	(1,035)
	--------	-------
	$ 6,330	$ 6,620
	========	=======

</TABLE>

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

The United States had a $1,700 revolving credit agreement, secured by all inventory and accounts receivable, bearing interest at the lender's prime rate with a maturity date of March 1, 1997. In February 1997, the Company negotiated a one-year, unsecured revolving credit facility to replace the $1,700 revolving credit agreement. This credit facility provided for a maximum availability of $10,000, payable on demand at the lender's prime rate of interest, and contained no debt covenants. In February 1998, the Company renegotiated this unsecured credit facility for an additional one year term and an interest rate equal to the bank lender's prime rate less 1%, or LIBOR plus 1.9% for predetermined periods of time at the Company's option. At June 30, 1998, $3,000 was outstanding under this credit facility.

In England, the Company has a $1,200 line of credit, denominated in British pounds, which bears interest at a floating rate equal to 2.25% over the bank's base rate and is payable on demand. At June 30, 1998 there was no balance outstanding on this credit facility.

The German line of credit is a demand note denominated in German Marks with interest payable at the lender's prime rate. At June 30, 1998, $54 was outstanding under this credit facility.

A 10-year mortgage note of $6,187 was obtained at a fixed interest rate of

8.25% for construction of the manifold facility. Terms on the construction note were interest-only on the balance drawn down through the completion of construction and then conversion to a 10-year mortgage note with a 15-year amortization schedule. The Company applied $1,000 of the IPO proceeds toward repayment of this note. In March 1998, this mortgage note was renegotiated to an interest rate of 7.875%. Terms are monthly principal and interest payments of $43 for 8.25 years with remaining principal due July 1, 2006. At June 30, 1998, $4,925 was outstanding under this credit facility.

In May 1996, the Company obtained a mortgage loan of approximately $2,400, denominated in German marks, for the new facility in Erkelenz, Germany. The loan has a term of 12 years and bears interest at 6.47%. At June 30, 1998, $1,693 was outstanding under this credit facility.

Item 2.

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

OVERVIEW

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

Orders in the second quarter of 1998 were $17.2 million, a decrease of $0.7 million or 3.9%, from the second quarter of 1997, and a $1.7 million decrease or 9.0% from the first quarter of 1998. The decrease in orders from the first quarter of 1998 was seen across all major domestic market areas with a significant drop in demand from Asian customers. National Fluid Power Association data supports the Company's belief that the order growth rate has slowed for the United States mobile and industrial hydraulics markets.

The second quarter decrease in orders did not appreciably affect net sales, except for United States manifold operations, as the Company continued to ship against its strong backlog of cartridge orders. The backlog for manifolds was significantly reduced in the first quarter of 1998, which led to a lower level of sales for manifolds during the second quarter of 1998.

Daily production of cartridges in the first and second quarters of 1998 has continued at levels 20% higher than the same periods in 1997, largely as a result of physical capacity expansion in the United States and the implementation of cellular production for high volume cartridges. However, even with the increased production rate, 1998 cartridge sales continue to be adversely affected by capacity constraints in the United States cartridge facility ("Sarasota"). In order to continue to increase cartridge production capacity, cellular production equipment for high volume cartridges will be moved during the fourth quarter of 1998 to the Company's current manifold facility ("Manatee"). Additionally, cellular machinery and equipment will be added beginning in the fourth quarter of 1998, to further increase capacity for high volume products.

The relocation of high volume production to a separate facility will create space in the Sarasota facility that will increase production capacity for new products as well as the Company's broad range of complementary products which are produced in smaller quantities. In conjunction with the move of high volume cartridge production to the Manatee facility, plans are underway to construct a slightly smaller, new facility that will house manifold production. Construction of this new facility will be in close proximity to the current United States operations and is planned for completion by the end of 1999.

The production of manifolds for prototype and quick delivery requirements, together with some assembly and conversion of cartridges, is scheduled to begin in the German plant during the fourth quarter of 1998. Local production in the German market is expected to provide significantly improved support for timely product deliveries.

Expansion plans for the production facility in Coventry, England are in process and construction will commence in the first quarter of 1999. An additional 12,300 square feet will be added to the Coventry facility on property currently owned by the Company. The additional space at this facility will be used to further increase manufacturing and assembly capacity for the Company's products sold in the European market.

Sales of the newest addition to the cartridge product line, the Series "0" products, are limited as a result of the restrictions on production capacity. The Company plans to intensify marketing and sales activities for these products as the production capacity for cartridges increases.

COMPARISON OF THREE MONTHS ENDED JUNE 30, 1998 AND 1997

Net sales increased 15.1%, or $2.3 million to $17.6 million in the three-month period ended June 30, 1998, compared to $15.3 million in the three-month period ended June 30, 1997. This increase reflects the Company's increased production capacity versus a year ago and the strong backlog of orders for cartridge products. Domestic net sales increased 21.6% or $2.1 million to $11.7 million in the three-month period ended June 30, 1998. International net sales increased 3.8% or $0.2 million to $5.8 million despite significant slowing in Asian sales. European net sales increased 18.4% and Asian net sales decreased 48.8%. Net sales decreased 8.1% from the first quarter of 1998, primarily due to the decrease in United States manifold sales and a decrease in net sales of cartridges resulting from the allocation of a greater proportion of shipments to the Company's European subsidiaries, which were not immediately converted into third party sales.

Gross profit increased 3.2% or $0.2 million to $5.0 million in the three-month period ended June 30, 1998, compared to $4.8 million in the three-month period ended June 30, 1997. This increase was primarily due to the increase in net sales. Gross profit as a percentage of net sales was 28.3% in the three-month period ended June 30, 1998, compared to 31.6% in the three-month period ended June 30, 1997. The decrease in gross profit as a percentage of net sales was primarily a result of increased material costs of cartridges. The material cost increase was due, in part, to greater shipments of cartridges produced by the high volume cell operation, which have a higher material content. Additional material cost increases resulted from product design improvements and the outsourcing of parts to help improve product delivery times.

Selling, engineering and administrative expenses increased 6.5% or $0.2 million to $3.0 million in the three-month period ended June 30, 1998, compared to $2.8 million in the three-month period ended June 30, 1997. This increase was due to trade show and travel expenses in the United States and new system implementation costs in the United Kingdom. Selling, engineering and administrative expenses as a percentage of net sales decreased to 17.2% from 18.7% for the same quarter last year.

Interest expense was $0.2 million for the three-month period ended June 30, 1998, approximately the same as the three-month period ended June 30, 1997. Miscellaneous income for the three-month period ended June 30, 1998, consisted primarily of interest income.

The provision for income taxes in the three-month period ended June 30, 1998, was 33.2% of pretax income compared to 36.3% of pretax income in the three-month period ended June 30,

1997. This decrease in rate was due primarily to the change in mix of pretax income among the Company's three operating units in Germany, the United Kingdom and the United States. Additionally, tax savings were realized from the Sun Hydraulics Foreign Sales Corporation in the United States.

Net income for the three-month period ended June 30, 1998, increased to $1.2 million representing 6.7% of net sales compared to $1.1 million, representing 7.1% for the three-month period ended June 30, 1997.

COMPARISON OF SIX MONTHS ENDED JUNE 30, 1998 AND 1997

Net sales increased 22.9%, or $6.8 million to $36.7 million in the six-month period ended June 30, 1998, compared to $29.9 million in the six-month period ended June 30, 1997. Domestic net sales increased 30.5% or $5.8 million to $24.8 million in the six-month period ended June 30, 1998. This increase reflected strength in both the mobile and industrial equipment sectors of the fluid power industry and the Company's increased production capacity versus the same period in 1997. International net sales increased 9.7%, or $1.1 million to $11.9 million in the six-month period ended June 30, 1998. European net sales increased 22.5% and sales to Asia decreased 32.9%.

Gross profit increased 16.7% or $1.5 million to $10.8 million in the six-month period ended June 30, 1998, compared to $9.2 million in the six-month period ended June 30, 1997. Gross profit as a percentage of net sales was 29.3% in the six-month period ended June 30, 1998, compared to 30.9% in the six-month period ended June 30, 1997. The gross profit percentage decrease was primarily due to the increased material costs resulting from product mix, product design improvements and outsourcing.

Selling, engineering and administrative expenses increased 8.6% or $0.5 million to $6.0 million in the six-month period ended June 30, 1998, compared to $5.6 million in the six-month period ended June 30, 1997. This increase was due to additional personnel and expenses required in the manifold plant in the United States, travel and trade show costs in the United States, and new system implementation costs in the United Kingdom. Selling, engineering and administrative expenses as a percentage of net sales decreased to 16.5% for the six-months ended June 30, 1998, from 18.6% for the six-months ended June 30, 1997.

Interest expense was $0.5 million for the six-month period ended June 30, 1998, an increase of $0.1 million compared to the six-month period ended June 30, 1997. This increase was due to increased debt related to the completion of the new plants in Germany and the United States subsequent to the first quarter of 1997, and working capital financing required during the second quarter of 1998. Miscellaneous income for the period ended June 30, 1998, consisted primarily of interest income in the United States and the United Kingdom, partially offset by exchange losses in the United Kingdom. Interest income for the second quarter of 1998 was lower than the second quarter of 1997 due to the temporary investment of IPO proceeds in 1997.

The provision for income taxes in the six-month period ended June 30, 1998, was 33.4% of pretax income compared to 36.1% of pretax income in the six-month period ended June 30, 1997. This decrease in rate was due primarily to the change in mix of pretax income among the Company's three operating units in Germany, the United Kingdom and the United States. Additionally, tax savings were realized from the Sun Hydraulics Foreign Sales Corporation in the United States.

Net income for the six-month period ended June 30, 1998, increased to $2.8 million representing 7.7% of net sales compared to $2.1 million, representing 7.0% for the six-month period ended June 30, 1997.

LIQUIDITY AND CAPITAL RESOURCES

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

At June 30, 1998, the Company had working capital of $6.7 million. Cash flow from operations for the six months ended June 30, 1998, was $4.0 million compared to $2.0 million for the six months ended June 30, 1997. Approximately, $0.8 million of the $2.0 million increase in cash flow from operations was related to the increase in net income, $0.4 million was due to depreciation and approximately $0.8 was due to improved utilization of working capital.

Capital expenditures for the six months ended June 30, 1998, were $3.6 million, approximately the same as the six months ended June 30, 1997. These expenditures were primarily for machinery and equipment.

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

In February 1998, the Company renegotiated its one-year, unsecured revolving credit facility in the United States. The credit facility provides for a maximum availability of $10.0 million, payable on demand and does not contain any debt covenants. The interest rate is equal to the bank lender's prime rate less 1% or LIBOR plus 1.9% for predetermined periods of time, at the Company's option. At June 30, 1998, there was $3.0 million outstanding under this credit facility.

A 10-year mortgage note of $6.1 million was obtained by the Company in May 1996, which bears interest at a fixed rate of 8.25% for construction of the new manifold facility in Sarasota, Florida. Terms on the new mortgage note were interest-only on the balance drawn down through the completion of construction and then conversion to a 10-year note with a 15-year amortization schedule. In March 1998, this mortgage note was renegotiated to an interest rate of 7.875%. Terms are monthly principal and interest payments for 8.25 years with remaining principal due July 1, 2006. At June 30, 1998, $4.9 million was outstanding on this facility.

In addition, the Company has notes payable to former shareholders, which bear interest at a weighted rate of 15%, and which have terms ranging from three to five years. These notes were issued by the Company in 1989 and 1990, in connection with the repurchase of shares of common stock from the former shareholders, and do not allow for prepayment by the Company. At June 30, 1998, $1.5 million was outstanding under these notes.

In 1996, the Company was awarded a grant of $0.4 million by the German government, which helped to offset the cost of the German facility. This grant requires that the German operation have employed 26 people by June 30, 1998. The Company anticipates that this headcount requirement will be met in the first half of 1999, and the Company believes that an

extension may be available from the German authorities. If the Company fails to obtain an extension of time to meet the terms of the grant, then the $0.4 million will have to be repaid. This amount has been recorded as a deferred grant. Therefore, the repayment of the $0.4 million would only affect cash and would have no effect on net income.

The Company has submitted a business interruption insurance claim of $2.3 million to its insurance carrier. The claim is related to a fire in the manifold plant in the United States which occurred while the plant was under construction. The Company believes that this fire delayed the opening of the new plant which, in turn, delayed the rearrangement of the cartridge operation and the creation of the cellular production for high volume models. The validity and amount of the claim continue to be evaluated by the Company's insurance carrier. No amounts have been recorded related to this claim in the Company's financial statements.

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

The Company declared a quarterly dividend of $0.04 per share to shareholders of record on March 31, and June 30, 1998, which were paid on April 15, and July 15, 1998, respectively.

YEAR 2000

Management continues to evaluate the issues associated with the Year 2000. In general, these issues arise from the fact that many existing computer programs only use the last two digits to refer to a year. Accordingly, many of these computer programs will not properly recognize a year that begins with "20" instead of the familiar "19." If not corrected, these computer applications could fail or create erroneous results.

The Company currently is assessing the extent of its Year 2000 problem by (i) conducting an inventory of its systems, including hardware, software and embedded systems (such as the Company's CNC equipment), (ii) identifying critical applications, (iii) gathering internal source codes, and (iv) surveying the Company's material suppliers, distributors, and customers to determine their respective Year 2000 exposure. The Company expects to significantly complete this assessment phase by the end of the fourth quarter of 1998. There can, however, be no assurance that this deadline will be met, particularly with regard to item (iv) above.

The Company expects that the assessment phase will be followed by (i) a testing phase, during which all critical applications will be tested for Year 2000 readiness, (ii) a renovation phase, during which faulty systems will be corrected, replaced or retired, and (iii) a validation phase, during which upgraded systems will be re-tested. While the assessment and testing phases are not yet completed, the Company believes that the computer systems in two of its four locations (the United States cartridge operation and the United Kingdom operation) currently are incapable of correctly processing data related to the year 2000.

The Company expects all phases of its Year 2000 readiness plan to be completed, with regard to its U.S. and German operations, by the end of the fourth quarter of 1998, and with regard to its United Kingdom operation, by the end of the first quarter of 1999. There can, however, be no assurance that these deadlines will be met or precisely when the Company will be Year 2000 ready. The Company defines "Year 2000 ready" to mean that neither the performance nor functionality of any of its critical systems, including both

information technology and non-information technology systems, will be materially affected by dates prior to, during and after the year 2000.

While management believes the Company could operate in a manual environment for a short period of time, the Company cannot currently estimate with any certainty the impact a failure to be Year 2000 ready would have on the Company's business and results of operations, nor has the Company developed a complete contingency plan to deal with this possibility, although it does anticipate establishing such a plan in the future. The Company does not expect the costs of the Company's readiness plan, including the cost of renovating any non-compliant systems, to significantly impact its results of operations. As with any new system implementation, however, there can be no assurance that the conversion will not significantly impact operations. Also, there can be no assurance that the systems of other companies on which the Company relies will be timely converted or that any such failure to convert by another company will not have an adverse effect on the Company's operations.

SEASONALITY AND INFLATION

The Company does not believe that inflation had a material effect on its operations for the six months ended June 30, 1998 and June 30, 1997. There can be no assurance, however, that the Company's business will not be affected by inflation in the future.

FORWARD-LOOKING INFORMATION

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

Important factors that could cause the actual results to differ materially from those in the forward-looking statements include, among other items, (i) the economic cyclicality of the capital goods industry in general and the hydraulic valve and manifold industry in particular, which directly affect customer orders, lead times and sales volume; (ii) conditions in the capital markets, including the interest rate environment and the availability of capital; (iii) changes in the competitive marketplace that could affect the Company's revenue and/or cost bases, such as increased competition, lack of qualified engineering, marketing, management or other personnel, and increased labor and raw materials costs; (iv) changes in technology or customer requirements, such as standardization of the cavity into which screw-in cartridge valves must fit,

which could render the Company's products or technologies noncompetitive or obsolete; (v) new product introductions, product sales mix and the geographic mix of sales nationally and internationally; (vi) the Company's ability timely to become Year 2000 ready, including the Company's ability to identify all critical systems that will be impacted by the Year 2000, the Company's ability, in a cost-efficient manner, to correct, upgrade or replace such systems, and the Year 2000 readiness of third parties with which the Company has material relationships; and (vii) changes relating to the Company's international sales, including changes in regulatory requirements or tariffs, trade or currency restrictions, fluctuations in exchange rates, and tax and collection issues. Further information relating to factors that could cause actual results to differ from those anticipated is included but not limited to information under the headings "Risk Factors" in the Form S-1 Registration Statement and Prospectus for the Company's initial public offering, and "Business" in the Company's Form 10-K for the year ended December 31, 1997. The Company disclaims any intention or obligation to update or revise forward-looking statements, whether as a result of new information, future events or otherwise.

PART II
OTHER INFORMATION

Item 1. Legal Proceedings.

None.

Item 2. Changes in Securities.

None.

Item 3. Defaults upon Senior Securities.
None.

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

The Annual Meeting of Shareholders of the Company was held on May 23, 1998. At the meeting, the following actions were taken by the shareholders:

1. Clyde G. Nixon was reelected as a Director to serve until the Annual Meeting in 2001, and John S. Kahler was elected to the board to serve until the Annual Meeting in 2000, and Ferdinand E. Megerlin was elected to the board to serve until the Annual Meeting in 2001, and until their successors are elected and qualified or until their earlier resignation, removal from office or death. The votes cast for and against each were as follows:

<TABLE>
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<S>	For <C>	Withheld <C>
Clyde G. Nixon	5,524,639	1,720
John S. Kahler	5,524,639	2,020
Ferdinand E. Megerlin	5,524,639	2,020

</TABLE>

2. The appointment of Price Waterhouse, LLP, as the Company's independent certified public accountants for the year 1998 was ratified and approved. The voting on the proposal was as follows:

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FOR	5,460,535
AGAINST	1,000
ABSTAIN	64,824

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Item 5. Other Information.
None.

Item 6. Exhibits and Reports on Form 8-K
(a) Exhibits:

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4.21 Master Note, dated February 3, 1997, in the amount of $10,000,000.00, made by the Company to evidence a line of credit granted to the Company by Northern Trust Bank of Florida, N.A. (previously filed as Exhibit 4.21 to the Company's Annual Report on Form 10-K for the year ended December 31, 1996 and incorporated herein by reference).

4.22 Renewal Master Note, dated February 3, 1998, in the amount of $10,000,000.00, made by the Company to evidence a line of credit granted to the Company by Northern Trust Bank of Florida, N.A. (previously filed as Exhibit 4.22 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1998 and incorporated herein by reference).

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27.1 Financial Data Schedule for quarter ended June 30, 1998 (for SEC purposes only)
</TABLE>

\+ Executive management contract or compensatory plan or arrangement.

(b) Reports on Form 8-K.

Report on Form 8-K dated May 28, 1998, announcing a $0.04 per share dividend on the Registrant's common stock, payable on July 15, 1998, to shareholders of record on June 30, 1998.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Sarasota, State of Florida on August 11, 1998.

SUN HYDRAULICS CORPORATION

By: /s/ Richard J. Dobbyn

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

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