
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 OR 15(d) of
The Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): September 9, 2006

SUN HYDRAULICS CORPORATION

(Exact name of registrant as specified in its charter)

Florida
(State or other jurisdiction
of incorporation)

0-21835
(Commission File Number)

59-2754337
(IRS Employer
Identification No.)

1500 West University Parkway, Sarasota, Florida
(Address of principal executive offices)

34243
(Zip Code)

Registrant's telephone number, including area code 941-362-1200

(Former name or former address, if changed since last report.)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 1.01. Entry into a Material Definitive Agreement.

Increase in Directors Fees and Related Amendment of the 2004 Nonemployee Director Equity and Deferred Compensation Plan

On September 9, 2006, the board of directors of the company approved a \$1,000 increase in the fees paid to nonemployee directors for attendance at each board meeting and each meeting of each committee of the board on which he or she serves when the committee meeting is not held within one day of a meeting of the board, which increase will take effect on October 1, 2006.

Previously, each nonemployee director was paid a fee of \$4,000 for attendance at each board meeting, as well as each board committee meeting, \$1,500 of which was paid in shares of the company's common stock pursuant to the Sun Hydraulics Corporation Amended and Restated 2004 Nonemployee Director Equity and Deferred Compensation Plan (the "2004 Plan"). The board approved an increase in the total amount paid for each such meeting to \$5,000, and also amended the 2004 Plan to make \$2,500 of the \$5,000 fee payable in shares of the company's common stock. The amendment to the 2004 Plan is subject to approval by the company's stockholders at the 2007 Annual Meeting. If stockholder approval is not obtained at the 2007 Annual Meeting, the additional \$1,000 will be paid in cash instead of shares, and the amendment to the 2004 Plan will automatically terminate.

Under the 2004 Plan, directors also may elect to receive all or part of the remainder of their fees in shares of the company's common stock and to defer receipt of their fees until a subsequent year. Directors also are reimbursed for their expenses incurred in connection with their attendance at such meetings. Set forth below is a summary of the terms of the 2004 Plan, as amended, a copy of which is attached hereto as Exhibit 99.1.

Purpose. The purpose of the 2004 Plan is to secure for the company and its stockholders the benefits of the incentive inherent in increased ownership of common stock of the company by members of the board of the company who are not employees of the company or any of its subsidiaries. The 2004 Plan provides for the payment of a portion of each nonemployee director's fees, or upon his or her election all of the director fees, in shares of the common stock of the company. The 2004 Plan also permits nonemployee directors to elect to defer receipt of the director fees.

Shares Subject to 2004 Plan. Subject to adjustment as provided in the 2004 Plan, a total of 120,000 shares of common stock may be issued under the 2004 Plan. To date, 9,581.95 shares have been issued under the 2004 Plan.

Automatic Share Compensation. As compensation for attendance at each board meeting and each meeting of each committee of the board on which he or she serves when the committee meeting is not held within one day of a meeting of the board, each nonemployee director shall be paid shares of the company's company stock with a fair market value of \$2,500.00 in the aggregate. The fair market value is determined by calculating the average of the high and low selling prices of a share of common stock as reported through the Nasdaq Stock Market on the date of the meeting. The nonemployee director must hold the shares issued under the 2004 Plan for a period of six months and one day from the date of the meeting with respect to which such shares were issued. The company will pay any fees and commissions incurred in connection with the payment of share compensation to a nonemployee director.

Voluntary Share Compensation. For any calendar year, a nonemployee director may elect to have up to 100% of the cash portion of his or her director fees payable during such calendar year paid in the form of the company's common stock. Promptly following each payment date for which an election is effective, the company will issue to each nonemployee director that number of shares of common stock equal to the amount of cash he or she would have otherwise received. The number of shares will be calculated based upon the fair market value of the common stock as determined by averaging the high and low selling prices of a share of common stock as reported through the Nasdaq Stock Market on the payment date. Except with respect to the year in which a new nonemployee director is elected, such election shall become effective with respect to all director fees payable on dates occurring more than six months after the delivery of the election to the 2004 Plan administrator until subsequently modified by the nonemployee director upon not less than six months advance notice to the administrator.

Deferral of Director Fees. With respect to each calendar year, a nonemployee director may elect to defer receipt of a percentage of his or her director fees (cash and/or stock) by filing a participation agreement with the 2004 Plan administrator prior to the beginning of each calendar year. A nonemployee director may change the percentage of deferred fees (or reduce such percentage to zero) by filing a subsequent agreement with the 2004 Plan administrator. Any such change will be effective as of the first day of the following calendar year.

Nonemployee Directors' Deferred Accounts. The portion of a nonemployee director's fees that are deferred will be credited to a special account established by the company for that nonemployee director as of the date for which the director fee is payable. With respect to the stock portion of the deferral, the deferred account will be credited with common stock units representing a bookkeeping entry for the equivalent of the number of shares of common stock which are being deferred. If the company declares a cash dividend, on the record date set for the determination of stockholders entitled to receive such dividend, each deferred account will be credited with additional common stock units equal in value to the amount of such cash dividend.

Vesting of Accounts. Each nonemployee director will at all times have a nonforfeitable interest in his or her deferred account. However, the company's obligation to pay benefits under the 2004 Plan represents an unfunded, unsecured obligation of the company and no nonemployee director will have any secured interest or claim in any assets or property of the company.

Distribution of Deferred Account Balance. A nonemployee director or, in the event of death, his or her beneficiary, will be entitled to distribution of all or part of the deferred account balance as soon as practicable after the fiscal quarter following the date of termination of service as a director or an earlier date selected by a nonemployee director in accordance with the 2004 Plan. Distribution of common stock units will be made by payment in shares of the company's common stock in the proportion of one share for one stock unit.

Administration. The 2004 Plan will be administered by the board, which will have such powers as may be necessary to discharge its duties under the 2004 Plan. No member of the board will act in respect of his or her own participation in the 2004 Plan. All decisions and determinations by the board will be final and binding on all parties and will be made by majority vote.

Withholding Taxes. To the extent that the company is required to withhold federal, state or local taxes in connection with any component of a nonemployee director's compensation in cash or shares, and the amounts available to company for such withholding are insufficient, it will be a condition of receipt of any shares that the nonemployee director make arrangements satisfactory to the company for the payment of the balance of such taxes required to be withheld, including relinquishment of the shares.

Amendment and Termination. The board may alter or amend the 2004 Plan from time to time or may terminate it in its entirety, subject to any necessary consents of a nonemployee director with respect to rights in any shares issued or to be issued to him or her or amounts in a deferred account. Any amendment which must be approved by the stockholders of the company in order to comply with applicable law or the rules of any national securities exchange or securities listing service upon which the shares are traded or quoted will not be effective unless and until such approval is obtained.

Approval and Adoption of the 2006 Stock Option Plan

At its meeting on September 9, 2006, the board of directors approved and adopted the Sun Hydraulics Corporation 2006 Stock Option Plan (the "2006 Plan"), subject to approval by the company's stockholders at the 2007 Annual Meeting. The board adopted the 2006 Plan due to the expiration of the company's 1996 Stock Option Plan in 2006. No awards have been made under the 2006 Plan, and any awards made prior to the 2007 Annual Meeting will be conditioned upon stockholder approval of the 2006 Plan at such meeting. If stockholder approval is not obtained at the 2007 Annual Meeting, all awards made under the 2006 Plan, and the 2006 Plan itself, will automatically terminate. Set forth below is a summary of the terms of the 2006 Plan, a copy of which is attached hereto as Exhibit 99.2.

2006 Plan

Purpose. The 2006 Plan authorizes the company's compensation committee to grant options to purchase shares of the company's common stock to directors and employees of the company and its subsidiaries. The purposes of the 2006 Plan are to enable the company to attract and retain qualified persons to serve as directors and employees and to align the interests of such persons with the interests of stockholders by giving them a personal interest in the value of the company's common stock.

Shares Subject to the 2006 Plan; Term. The company may issue up to 500,000 shares of common stock to participants in the 2006 Plan. No person may receive in any year options to purchase more than 150,000 shares of common stock. The 2006 Plan has a term of ten years.

Incentive Stock Options and Nonstatutory Options. Options granted to eligible employees under the 2006 Plan may be options that are intended to qualify as "incentive stock options" within the meaning of Section 422 of the Internal Revenue Code or options that are not intended to so qualify, referred to as "nonstatutory options". Options granted to members of the board of directors will be nonstatutory options.

Exercise Price; Exercise of the Option. If the option is designated as an incentive stock option, the purchase price of the common stock that is the subject of such option may be not less than the fair market value of the common stock on the date the option is granted. Additionally, no incentive stock option may be granted to any employee, who, at the time of such grant, owns more than 10% of the stock of the company or of any subsidiary, unless at the time such option is granted the exercise price is at least 110% of the fair market value of the common stock and the term of the option is for five years or less. If the option is a nonstatutory option, the purchase price may be equal to or less than the fair market value of the common stock on the date the option is granted, as the compensation committee shall determine.

No options may be exercised more than 10 years from the date of grant. Each employee's or director's stock option agreement may specify the period of continuous service with the company that is necessary before the option will become exercisable. Except in the case of an employee who is permanently and totally disabled, if the option is an incentive stock option, it will be exercisable only if the recipient is an employee of either the company or a subsidiary corporation at all times during the period beginning on the date of the grant of the option and ending on a date which is no later than three months before the date of such exercise, all as specified in the employee's or director's stock option agreement. Successive grants may be made to the same recipient regardless of whether options previously granted to him or her remain unexercised.

Subject to any further restrictions contained in the written stock option agreement between the participant and the company, in the event that a participant who is an employee shall cease to be employed by the company, whether voluntarily or involuntarily, or, in the event that a participant who is a director but not an employee shall cease to serve as a director, for any reason other than the participant's death or permanent or total disability, all of the participant's rights to further exercise of his or her options will expire at the time specified by the committee in his or her stock option agreement, or, for those options intended to be incentive stock options, as of a date no later than three (3) months from the date the employment of the participant is terminated; provided, however, that no option shall be exercisable after the expiration of ten (10) years from the date such option is granted.

In the event of the death of a participant while employed by (or serving as a director of) the company, his or her option may be exercised (to the extent that the participant was entitled to do so at the date of his or her death) by his or her personal representative or by any person or persons who shall have acquired the option directly from the participant by will or by the laws of descent and distribution at any time within twelve (12) months after the date of his or her death; provided, however, that no option shall be exercisable after the expiration of ten (10) years from the date such option is granted.

In the event of the disability of a participant while employed by (or serving as a director of) the company, his or her option may be exercised (to the extent that the participant was entitled to do so at the date of disability) by the participant at any time within one (1) year after the date of his or her disability; provided, however, that no option shall be exercisable after the expiration of ten (10) years from the date such option is granted.

The exercise price is payable (i) in cash at time of exercise, (ii) by the delivery at time of exercise of shares of company common stock having a fair market value (as determined by the committee) equal to the purchase price, (iii) with the approval of the committee, in cash at the time

of exercise to the extent of the par value of such shares of common stock with the balance of the purchase price paid pursuant to a promissory note on terms satisfactory to the committee delivered at time of exercise (provided that no executive officer or director of the company may deliver a note in payment of any portion of the purchase price), or (iv) in such other manner as the committee shall approve. Alternatively, the committee may permit the participant to exercise his or her option by delivery of (i) an irrevocable notice of exercise, accompanied by payment in full of the purchase price by the participant's stockbroker, and (ii) an irrevocable instruction to the company to deliver the shares of common stock issuable upon exercise of the option promptly to the participant's stockbroker for the participant's account, both signed by the participant.

Transferability. No option granted under the 2006 Plan is transferable by a participant except by will or the laws of descent and distribution. Options may not be exercised during a participant's lifetime except by the participant or, in the event of the participant's incapacity, by the participant's guardian or legal representative acting in a fiduciary capacity on behalf of the participant under state law and court supervision.

Withholding Taxes. The company has the right to require participants exercising nonstatutory options to remit to the company an amount sufficient to satisfy any federal, state and local withholding tax requirements prior to the delivery of any shares of common stock acquired under the options. If an optionee sells, transfers, assigns or otherwise disposes of shares of common stock acquired upon the exercise of an incentive stock option within two (2) years after the date on which the option was granted or within one (1) year after the receipt of the shares of common stock by the optionee, the optionee is required to promptly notify the company of such disposition and the company has the right to require the optionee to remit to the company the amount necessary to satisfy any federal, state and local tax withholding requirements imposed on the company by reason of such disposition.

Administration. The compensation committee appointed by the company's board of directors has authority to supervise, administer and interpret the Plan including, but not limited to, the authority to (i) determine the employees and directors to whom options shall be granted, (ii) determine the number of shares of common stock to be the subject of each option, (iii) determine whether each option granted to an employee shall be designated as an incentive stock option or not, (iv) determine the periods during which options may be exercised and to accelerate the exercisability of outstanding options, as it may deem appropriate; (v) determine the term of each option, (vi) determine in good faith the fair market value of the common stock in accordance with reasonable valuation methods, (vii) determine in what manner the purchase price of the common stock shall be paid; (viii) to modify, cancel, or replace any prior options and to amend the relevant stock option agreements with the consent of the affected optionees, including amending such agreements to amend vesting schedules, extend exercise periods or increase or decrease the option price for options, as it may deem to be necessary, and (ix) make, amend and rescind rules and regulations relating to the Plan. The determination of the committee shall be made in accordance with its judgment as to the best interests of the company and its stockholders and in accordance with the purposes of the Plan. The committee's determination in all cases arising under the Plan shall be final, conclusive and binding unless otherwise determined by the board of directors.

Amendment and Termination The 2006 Plan may be amended from time to time by the board of directors in such respects as it deems advisable. Further approval by the stockholders of the company will be required for any amendment that would (i) increase the aggregate number of shares of common stock that may be issued under the 2006 Plan, (ii) materially change the classes

of persons eligible to participate in the 2006 Plan, or (iii) otherwise cause Rule 16b-3 under the Exchange Act to cease to be applicable to the 2006 Plan. No amendment may change the 2006 Plan so as to cause any option intended to be an incentive stock option to fail to meet the Internal Revenue Code requirements for an incentive stock option. No amendment may change any rights an option holder may have under any outstanding option without the written consent of the holder of the option. The board may at any time terminate or discontinue the 2006 Plan.

Item 9.01. Financial Statements and Exhibits.

(c) Exhibits.

99.1 Sun Hydraulics Corporation Amended and Restated 2004 Nonemployee Director Equity and Deferred Compensation Plan

99.2 Sun Hydraulics Corporation 2006 Stock Option Plan

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

SUN HYDRAULICS CORPORATION

By: /s/ Tricia L. Fulton

Tricia L. Fulton

Chief Financial Officer

(Principal Financial and Accounting Officer)

Dated: September 14, 2006

**SUN HYDRAULICS CORPORATION
AMENDED AND RESTATED 2004 NONEMPLOYEE DIRECTOR EQUITY
AND DEFERRED COMPENSATION PLAN**

ARTICLE I. DEFINITIONS

1.1 DEFINITIONS. Whenever the following terms are used in this Plan they shall have the meanings specified below unless the context clearly indicates to the contrary:

- (a) "Accounting Date": The last day of each fiscal year and the last day of any fiscal quarter.
- (b) "Accounting Period": The period beginning on the day immediately following an Accounting Date and ending on the next following Accounting Date.
- (c) "Administrator": The Board.
- (d) "Beneficiary": The person or persons (natural or otherwise) designated pursuant to Section 7.6.
- (e) "Board": The Board of Directors of the Company.
- (f) "Code": The Internal Revenue Code of 1986, as amended.
- (g) "Common Stock": The Company's Common Stock, par value \$.001 per share.
- (h) "Common Stock Unit": A bookkeeping entry that records the equivalent of one Share pursuant to Section 5.2.
- (i) "Company": Sun Hydraulics Corporation or any successor or successors thereto.
- (j) "Deferral Commitment": An agreement made by a Nonemployee Director in a Participation Agreement to have a specified portion of his or her Share Compensation and/or Fees deferred under the Plan for a specified period in the future.
- (k) "Deferral Period": The Plan Year for which a Director has elected to defer a portion of his or her Share Compensation and/or Fees.
- (l) "Deferred Account": The account maintained for each Nonemployee Director who elects to defer Share Compensation and/or Fees under Article V.
- (m) "Deferred Account Balance": The balance of a Nonemployee Director's Deferred Account as specified in Section 5.3.
- (n) "Fair Market Value": With respect to a share of Common Stock, the average of the high and low selling prices of a share of Common Stock as reported through the Nasdaq Stock Market (or any other exchange or over-the-counter market if sales of the Common Stock are no longer reported through the Nasdaq Stock Market) for a particular date, or if there was no sale of Common Stock so reported for such day, on the most recently preceding day on which there was such a sale.

(o) “Fees”: The portion of the compensation payable to Nonemployee Directors in cash for service as a director of the Company (including compensation for attendance at meetings of the Board and Board committees).

(p) “Nonemployee Director”: An individual duly elected or chosen as a Director of the Company who is not also an employee of the Company or its subsidiaries.

(q) “Participation Agreement”: The agreement submitted by a Nonemployee Director to the Administrator in which a Nonemployee Director may specify a Voluntary Amount, or may elect to defer receipt of a portion of his or her Share Compensation and/or Fees for a specified period in the future.

(r) “Payment Date”: The date on which Director Fees are payable as such dates are established by the Board from time to time. Initially, Director Fees shall be payable at the conclusion of each Board and Board committee meeting.

(s) “Plan”: The Plan set forth in this instrument as it may, from time time, be amended.

(t) “Plan Year”: The 12-month period beginning January 1 through December 31.

(u) “Rule 16b-3”: Rule 16b-3 promulgated under the Securities Exchange of 1934 (or any successor rule to the same effect), as in effect from to time.

(v) “Settlement Date”: The date on which a Nonemployee Director terminates his or her service as a Director of the Company. Settlement Date shall also include with respect to any Deferral Period the date prior to the date of termination as a Director selected by a Nonemployee Director in a Participation Agreement for distribution of all or a portion of the Share Compensation and/or Fees deferred during such Deferral Period as provided in Section 7.3.

(w) “Share Compensation”: Shares payable to a Nonemployee Director for attendance at a Board or committee meeting pursuant to Section 3.1.

(x) “Shares”: Fully paid, non-assessable shares of Common Stock. Shares may be shares of original issuance or treasury shares or a combination of the foregoing.

(y) “Trust”: The meaning set forth in Section 6.2.

(z) “Voluntary Amount”: The meaning set forth in Section 3.2(a).

ARTICLE II. PURPOSE

2.1 PURPOSE. The purpose of this Plan is to secure for the Company and its shareholders the benefits of the incentive inherent in increased ownership of Common Stock of the Company by members of the Board of Directors of the Company who are not employees of the Company or any of its Subsidiaries, by providing for the payment of a portion of each Nonemployee Director’s Fees in shares of Common Stock or Common Stock Units, and permitting each Nonemployee Director to receive some or all of the remainder of his or her Fees in shares of Common Stock or Common Stock Units. It is expected that such ownership will further align the interests of such Nonemployee Directors with the shareholders of the Company, thereby promoting the long-term profits and growth of the Company, and will encourage such Nonemployee Directors to remain directors of the Company and provide them an opportunity to defer the receipt of some or all of such Fees. It is also expected that the Plan will encourage qualified persons to become directors of the Company.

ARTICLE III. AUTOMATIC AND VOLUNTARY SHARE COMPENSATION AMOUNTS

3.1 AUTOMATIC AMOUNT.

(a) As compensation for the attendance of each Nonemployee Director at each meeting of the Board, and each meeting of each committee of the Board on which such Nonemployee Director serves when the committee meeting is not held within one day of a meeting of the Board, each Nonemployee Director shall be paid Shares with a Fair Market Value of Two Thousand Five Hundred Dollars (\$2,500.00).

(b) **ISSUANCE OF SHARES.** Promptly following each Board or committee meeting for which Share Compensation is payable pursuant to Section 3.1(a), the Company shall issue to each Nonemployee Director a number of whole Shares equal to Two Thousand Five Hundred Dollars (\$2,500.00) divided by the Fair Market Value on the date of the meeting. To the extent that the application of the foregoing would result in the issuance of a fractional Share, no fractional Share shall be issued, but instead, the Company shall maintain a separate noninterest bearing account for such Nonemployee Director, which account shall be credited with the Fair Market Value of such fractional Share as of such meeting date, and which amount shall be combined with similar amounts so credited to such account with respect to fractional Shares otherwise issuable with respect to the Share Compensation subsequently payable to such Nonemployee Director. When whole Shares are issued by the Company to the Nonemployee Director under this Section 3.1(b) or Section 3.2(b) below and the amount then in such account is in excess of the Fair Market Value of the Shares then being issued, the Company shall issue an additional Share to such Nonemployee Director and debit such account by such Fair Market Value. The Nonemployee Director shall hold the Shares issued by the Company under this Plan for a period of six months and one day from the date of the meeting with respect to which such Shares were issued unless the issuance of such Shares is exempt under Rule 16b-3. The Company shall pay any and all fees and commissions incurred in connection with the payment of Share Compensation to a Nonemployee Director.

3.2 VOLUNTARY AMOUNT.

(a) **ELECTION.** For any Plan Year, a Nonemployee Director may elect to have up to 100% of his or her Fees payable during such Plan Year (the amount so elected referred to as a "Voluntary Amount") paid by the Company in the form of Shares and in lieu of cash payment of such Voluntary Amount. For any Plan Year other than the Plan Year in which this Plan is adopted, and with respect to each Nonemployee Director elected to the Board thereafter, for any Plan Year other than the Plan Year in which such Nonemployee Director is elected, such election shall be made by the execution and delivery to the Administrator of a Participation Agreement, which shall become effective with respect to all Fees payable on Payment Dates occurring more than six months after the delivery of the Participation Agreement to the Administrator, including Fees payable in all subsequent Plan Years unless such Participation Agreement shall be subsequently modified by the Nonemployee Director upon not less than six months advance notice to the Administrator. Any modification shall be made through the execution and delivery of a subsequent Participation Agreement, which shall become effective six months after the delivery of the new Participation Agreement to the Administrator.

(b) **INITIAL YEAR OF PARTICIPATION.** In the event that during the Plan Year in which this Plan is first adopted, a Nonemployee Director desires to elect to have up to 100% of his or her Fees payable during such Plan Year (the amount so elected referred to as a "Voluntary Amount") paid by the Company in the form of Shares in lieu of the cash payment of such Voluntary Amount, or in the event that an individual first becomes a Nonemployee Director during a Plan Year and desires to make such an

election, a Participation Agreement must be submitted to the Administrator no later than 30 days following the date on which this Plan becomes effective, or no later than 30 days following the date on which such individual becomes a Nonemployee Director, respectively. Any such election made in such Participation Agreement shall be effective only with regard to Fees earned following the date the Participation Agreement is submitted to the Administrator. If a Nonemployee Director does not submit a Participation Agreement within such period of time, such Nonemployee Director will not be eligible to elect a Voluntary Amount except in accordance with Section 3.2(a).

(c) ISSUANCE OF SHARES. Promptly following each Payment Date for which a Voluntary Amount has been elected and is effective, the Company shall issue to each Nonemployee Director a number of whole Shares equal to the Voluntary Amount divided by the Fair Market Value of a Share on the Payment Date. To the extent that the application of the foregoing would result in the issuance of a fractional Share, no fractional Share shall be issued, but instead, the Company shall maintain a separate noninterest bearing account for such Nonemployee Director (which shall be the same account, if any, as may be set up under Section 3.1(b) above), which account shall be credited with the Fair Market Value of such fractional Share as of such Payment Date, and which amount shall be combined with similar amounts so credited to such account with respect to fractional Shares otherwise issuable in the future with respect to the Nonemployee Director's Voluntary Amount. When whole Shares are issued by the Company to the Nonemployee Director under this Section 3.2(b) or Section 3.1(b) above and the amount then in such account is in excess of the Fair Market Value of the Shares then being issued, the Company shall issue an additional Share to such Nonemployee Director and debit such account by such Fair Market Value. The Nonemployee Director shall hold the Shares issued by the Company under this Plan for a period of six months and one day from the date of the meeting with respect to which such Shares were issued. The Company shall pay any and all fees and commissions incurred in connection with the payment of Voluntary Amounts to a Nonemployee Director.

ARTICLE IV. DEFERRAL OF SHARE COMPENSATION AND/OR FEES

4.1 AMOUNT OF DEFERRAL. With respect to each Plan Year, a Nonemployee Director may elect to defer a percentage of his or her Share Compensation and/or Fees by filing a Participation Agreement with the Administrator prior to the beginning of such Plan Year. A Nonemployee Director may change the percentage of his or her Share Compensation or Fees to be deferred (or reduce such percentage to zero) by filing a subsequent Participation Agreement with the Administrator. Any such change shall be effective as of the first day of the Plan Year following the Plan Year in which such Participation Agreement is filed with the Administrator. If the percentage of a Nonemployee Director's Share Compensation sought to be deferred would result in a fractional Share being deferred, the deferred Share Compensation shall be rounded up to the nearest whole number of Shares.

4.2 INITIAL YEAR OF PARTICIPATION. In the event that an individual first becomes a Nonemployee Director during a Plan Year and, if any Nonemployee Director during the Plan Year in which this Plan is first adopted, wishes to elect to defer the receipt of any Share Compensation or Fees earned and payable to the individual with respect to such Plan Year (a "Deferral Election"), a Participation Agreement must be submitted to the Administrator no later than 30 days following the date on which such individual becomes a Nonemployee Director, or no later than 30 days following the date on which this Plan becomes effective, respectively. Any Deferral Election made in such Participation Agreement shall be effective only with regard to Share Compensation and/or Fees earned following the date the Participation Agreement is submitted to the Administrator. If a Nonemployee Director does not submit a Participation Agreement within such period of time, such Nonemployee Director will not be eligible to elect to defer Share Compensation and Fees except in accordance with Section 4.1.

4.3 TERMINATION OF PARTICIPATION. Participation in the Plan shall continue as long as the Nonemployee Director is eligible to receive benefits under the Plan.

4.4 MODIFICATION OF DEFERRAL COMMITMENTS. Subject to Sections 7.3 and 7.6 below, a Deferral Commitment shall be irrevocable with respect to the Plan Year for which it is made, and for future Plan Years unless modified in accordance with Section 4.1.

4.5 WITHHOLDING TAXES. Any withholding of taxes or other amounts with respect to any deferred Share Compensation or Fees which is required by state, federal or local law shall be withheld from the Nonemployee Director's non-deferred Fees, or if none, then the Nonemployee Director's Deferral Commitment shall be reduced by the amount of such withholding.

ARTICLE V. NONEMPLOYEE DIRECTORS' DEFERRED ACCOUNTS

5.1 ESTABLISHMENT OF DEFERRED ACCOUNTS. The Company, through its accounting records, shall establish a Deferred Account for each Nonemployee Director. In addition, the Company may establish one or more subaccounts of a Nonemployee Directors' Deferred Account, if the Company determines that such subaccounts are necessary or appropriate in administering the Plan.

5.2 CREDITING OF DEFERRED SHARE COMPENSATION AND FEES. The portion of a Nonemployee Director's Share Compensation or Fees that are deferred pursuant to a Deferral Commitment shall be credited to the Nonemployee Director's Deferred Account as of the date of the Board or Board committee meeting for which the Share Compensation is payable with respect to Share Compensation and as of the Payment Date of the corresponding non-deferred portion of his or her Fees with respect to the Voluntary Amount. With respect to the deferred portion of a Nonemployee Director's Share Compensation, the Deferred Account shall be credited with a number of Common Stock Units equal to the number of whole Shares the payment of which is being deferred. With respect to the deferred portion of a Nonemployee Director's Fees, the Deferred Account shall be credited with a number of Common Stock Units determined as described in Section 5.3(b) below. Any withholding of taxes or other amounts with respect to any deferred Share Compensation or Fees which is required by state, federal or local law shall be withheld from the Nonemployee Director's non-deferred Fees, or if none, then the Nonemployee Director's Deferral Commitment shall be reduced by the amount of such withholding.

5.3 DETERMINATION OF ACCOUNTS.

(a) ACCOUNT BALANCE. A Nonemployee Director's Deferred Account Balance as of a particular date shall consist of (i) the dollar amount credited to each Nonemployee Director's Deferred Account as of such date (less any portion of Deferred Fees converted in (b) below) plus (ii) the total number of Common Stock Units as of such date.

(b) CONVERSION OF DEFERRED FEES TO COMMON STOCK UNITS. A Nonemployee Director's deferred Fees shall be converted to Common Stock Units calculated by dividing the credited amount by the Fair Market Value as of the Payment Date relating to such Fees (calculated to the nearest one-hundredth of a Common Stock Unit).

5.4 CREDITING OF DIVIDEND EQUIVALENTS. On the record date set for the determination of shareholders entitled to receive any cash dividend declared by the Board, each Deferred Account shall be credited with additional Common Stock Units equal in value to the amount of cash payable by the Company with respect to such dividend on a number of Shares equivalent to the number of Common Stock Units in such Deferred Account on such record date. The number of additional Common

Stock Units shall be calculated by dividing the dollar value of such dividend by the Fair Market Value on such record date. Until a Nonemployee Director or his or her Beneficiary receives his or her entire Deferred Account, the unpaid balance thereof credited in Common Stock Units shall be credited with dividend equivalents as provided in this Section 5.4.

5.5 ADJUSTMENTS TO ACCOUNTS.

(a) Each Nonemployee Director's Deferred Account shall be debited immediately with the amount of any distributions under the Plan to or on behalf of the Nonemployee Director or, in the event of his or her death, his or her beneficiary.

(b) Any debits shall first be applied to any credited Fees in a Nonemployee Director's Deferred Account. Thereafter, a debit shall be equal to a corresponding number of Common Stock Units calculated by dividing the amount of such distribution by the Fair Market Value as of the date of the distribution.

5.6 STATEMENT OF ACCOUNTS. As soon as practicable after the end of each Plan Year, a statement shall be furnished to each Nonemployee Director or, in the event of his or her death, to his or her Beneficiary showing the status of the Deferred Account Balance as of the end of the Plan Year, any changes in the Deferred Account Balance since the end of the immediately preceding Plan Year, and such other information as the Administrator shall determine.

5.7 VESTING OF ACCOUNTS. Subject to Section 6.1 below, each Nonemployee Director shall at all times have a nonforfeitable interest in his or her Deferred Account Balance.

ARTICLE VI. FINANCING OF BENEFITS

6.1 FINANCING OF BENEFITS. Benefits payable under the Plan to a Nonemployee Director or, in the event of his or her death, to his or her Beneficiary, shall be paid by the Company from its general assets. The obligation to make payment of benefits under the Plan represents an unfunded, unsecured obligation of the Company. No person entitled to payment under the Plan shall have any claim, right, security interest or other interest in any fund, trust, account, insurance contract, or asset of the Company which may be responsible for such payment.

6.2 SECURITY FOR BENEFITS. Notwithstanding the provisions of Section 6.1, nothing in this Plan shall preclude the Company from setting aside amounts in trust (the "Trust") pursuant to one or more trust agreements between a trustee and the Company. However, no Nonemployee Director or Beneficiary shall have any secured interest or claim in any assets or property of the Company or the Trust and all funds contained in the Trust shall remain subject to the claims of the Company's general creditors.

ARTICLE VII. DISTRIBUTION OF DEFERRED SHARE COMPENSATION AND FEES

7.1 SETTLEMENT DATE. A Nonemployee Director or, in the event of his or her death, his or her Beneficiary shall be entitled to distribution of all or part of his or her Deferred Account Balance, as provided in this Article VII, following his or her Settlement Date or Dates.

7.2 AMOUNT TO BE DISTRIBUTED. The amount to which a Nonemployee Director or, in the event of his or her death, his or her Beneficiary is entitled in accordance with the following provisions of this Article shall be based on the Nonemployee Director's adjusted Deferred Account Balance determined as of the Accounting Date coincident with or next following his or her Settlement Date or Dates.

7.3 IN-SERVICE DISTRIBUTION. A Nonemployee Director may irrevocably elect to receive an in-service distribution of his or her deferred Share Compensation and Fees for a Plan Year by filing an election prior to the beginning of such Plan Year, calling for distribution of such deferred amounts to be made or to commence not earlier than the beginning of the third Plan Year following the Plan Year in which such Share Compensation and Fees otherwise would have been payable. A Nonemployee Director's election of an in-service distribution shall be made in the Participation Agreement as provided in Section 4.1 above. The Nonemployee Director shall elect irrevocably to receive such Share Compensation and Fees as an in-service distribution. Any benefits paid to the Nonemployee Director as an in-service distribution shall reduce the Nonemployee Director's Deferred Account Balance as specified in Section 5.4 above.

7.4 DISTRIBUTION DATE. As soon as practicable after the end of the Accounting Period in which a Nonemployee Director's Settlement Date occurs, but in no event later than thirty days following the end of such Accounting Period, the Company shall distribute or cause to be distributed to the Nonemployee Director the Nonemployee Director's Deferred Account Balance. Notwithstanding the foregoing, if elected by the Nonemployee Director at least one year prior to the Settlement Date, the distribution of all or a portion of the Nonemployee Director's Deferred Account may be made or commence at the beginning of the fifth Plan Year following his or her Settlement Date. In the event of a Nonemployee Director's death, the balance of his or her Deferred Account shall be distributed to his or her Beneficiary in a lump sum.

7.5 FORM OF DISTRIBUTION.

(a) Distribution of Common Stock Units with respect to any Deferral shall be made: (i) by payment in Shares in the proportion of one Share for one Stock Unit (any fractions shall be converted to and paid in cash); (ii) by payment in annual installments of Shares not to exceed ten installments in the proportion of one Share for one Common Stock Unit; or (iii) a combination of (i) and (ii) above, at the option of the Nonemployee Director.

(b) The Nonemployee Director's election of the time and method of distribution shall be made by written notice filed with the Administrator at least one year prior to the Nonemployee Director's voluntary retirement as a Director. Any such election may be changed by the Nonemployee Director at any time and from time to time without the consent of any other person by filing a later signed written election with Administrator; provided that any election made less than one year prior to the Nonemployee Director's voluntary termination as a Director shall not be valid, and in such case payment shall be made in accordance with the Nonemployee Director's prior election; and further provided that, effective on and after January 1, 2005, any such subsequent or modified election changing the time of distribution must specify a deferred distribution date at least five (5) years after the date on which the distribution would otherwise have been made.

(c) The amount of any installment in (a) above shall be equal to the quotient obtained by dividing the Nonemployee Director's Deferred Account Balance as of the date such installment payment by the number of installment payments remaining to be made to or in respect of such Nonemployee Director at the time of calculation.

(d) If a Nonemployee Director fails to make an election in a timely manner as provided in this Section 7.5, distribution shall be made in Shares, with any fraction in cash, in a lump sum.

7.6 BENEFICIARY DESIGNATION. As used in the Plan the term “Beneficiary” means:

(a) The person last designated as Beneficiary by the Nonemployee Director in on a form prescribed by the Administrator;

(b) If there is no designated Beneficiary or if the person so designated shall not survive the Nonemployee Director, such Nonemployee Director’s spouse; or

(c) If no such designated Beneficiary and no such spouse is living upon the death of a Nonemployee Director, or if all such persons die prior to the distribution of the entire balance of the Nonemployee Director’s Deferred Account, then the legal representative of the last survivor of the Nonemployee Director and such persons, or, if the Administrator shall not receive notice of the appointment of any such legal representative within one year after such death, the heirs-at-law of such survivor shall be the Beneficiaries to whom the remaining balance in the Nonemployee Director’s Deferred Account shall be distributed (in the proportions in which they would inherit his or her intestate personal property).

Any Beneficiary designation may be changed from time to time by the filing of a new form with the Administrator. No notice given under this Section 7.6 shall be effective unless and until the Administrator actually receives such notice.

7.7 FACILITY OF PAYMENT. Whenever and as often as any Nonemployee Director or his or her Beneficiary entitled to payments hereunder shall be under a legal disability or, in the sole judgment of the Administrator, shall otherwise be unable to apply such payments to his or her own best interests and advantage, the Administrator in the exercise of its discretion may direct all or any portion of such payments to be made in any one or more of the following ways: (i) directly to him or her; (ii) to his or her legal guardian or conservator; or (iii) to his or her spouse or to any other person, to be expended for his or her benefit; and the decision of the Administrator shall in each case be final and binding upon all persons in interest.

ARTICLE VIII. ADMINISTRATION, AMENDMENT AND TERMINATION

8.1 ADMINISTRATION. The Plan shall be administered by the Administrator. The Administrator shall have such powers as may be necessary to discharge its duties hereunder. The Administrator may, from time to time, employ agents and delegate to them such administrative duties as it sees fit, and may from time to time consult with legal counsel who may be counsel to the Company. Except as provided in Section 8.2 below, the Administrator shall have no power to add to, subtract from or modify any of the terms of the Plan, or to change or add to any benefits provided under the Plan, or to waive or fail to apply any requirements of eligibility for a benefit under the Plan. No member of the Administrator shall act on behalf of the Administrator in respect of his or her own Voluntary Amount or his or her own Deferred Account. All decisions and determinations by the Administrator shall be final and binding on all parties. All decisions of the Administrator shall be made by the vote of the majority, including actions taken without a meeting. All elections, notices and directions under the Plan by a Nonemployee Director shall be made on such forms as the Administrator shall prescribe.

8.2 AMENDMENT AND TERMINATION. The Board may alter or amend this Plan from time to time or may terminate it in its entirety; provided, however, that no such action shall, without the consent of a Nonemployee Director, affect the rights in any Shares issued or to be issued to such Nonemployee Director or in any amount in a Nonemployee Director’s Deferred Account; and further provided, that, any amendment which must be approved by the shareholders of the Company in order to comply with applicable law or the rules of any national securities exchange or securities listing service upon which the Shares are traded or quoted shall not be effective unless and until such approval is obtained. Presentation of the Plan or any amendment thereof for shareholder approval shall not be construed to limit the Company’s authority to offer similar or dissimilar benefits in plans that do not require shareholder approval.

8.3 ADJUSTMENTS. In the event of any change in the outstanding Common Stock by reason of (a) any stock dividend, stock split, combination of shares, recapitalization or any other change in the capital structure of the Company, (b) any merger, consolidation, spin-off, split-off, spin-out, split-up, reorganization, partial or complete liquidation or other distribution of assets, issuance of rights or warrants to purchase securities, or (c) any other corporate transaction or event having an effect similar to any of the foregoing, the number or kind of Shares that may be issued under the Plan and the number of Common Stock Units in a Nonemployee Director's Deferred Account automatically shall be adjusted so that the proportionate interest of the Nonemployee Directors shall be maintained as before the occurrence of such event. Such adjustment shall be conclusive and binding for all purposes with respect to the Plan.

8.4 SUCCESSORS. The Company shall require any successor (whether direct or indirect, by purchase, merger, consolidation, reorganization or otherwise) to all or substantially all of the business and/or assets of the Company expressly to assume and to agree to perform this Plan in the same manner and to the same extent the Company would be required to perform if no such succession had taken place. This Plan shall be binding upon and inure to the benefit of the Company and any successor of or to the Company, including without limitation any persons acquiring directly or indirectly all or substantially all of the business and/or assets of the Company whether by sale, merger, consolidation, reorganization or otherwise (and such successor shall thereafter be deemed the "Company" for the purpose of this Plan), and the heirs, beneficiaries, executors and administrators of each Nonemployee Director.

ARTICLE IX. SHARES SUBJECT TO PLAN

9.1 SHARES SUBJECT TO PLAN. Subject to adjustment as provided in this Plan, the total number of Shares of Common Stock which may be issued under this Plan shall be One Hundred Twenty Thousand (120,000).

ARTICLE X. EFFECTIVE DATE; APPROVAL BY SHAREHOLDERS

10.1 APPROVAL OF THE PLAN. The Plan shall be effective as of May 1, 2004, and shall be submitted for approval by the shareholders of the Company at the 2004 Annual Meeting. If such approval is not obtained at such meeting, this Plan shall be nullified and all Deferral Commitments shall be rescinded, and each Nonemployee Director shall receive in cash the full amount of such Nonemployee Director's Deferred Account balance, if any, without interest.

ARTICLE XI. GENERAL PROVISIONS

11.1 NO CONTINUING RIGHT TO SERVE AS A DIRECTOR. Neither the adoption or of this Plan, nor any document describing or referring to this Plan, or any part thereof, shall confer upon any Nonemployee Director any right to continue as a director of the Company or any subsidiary of the Company.

11.2 RESTRICTIONS ON SHARES AND RIGHTS TO SHARES. Except for any restrictions required by law, a Nonemployee Director shall have all rights of a shareholder with respect to his or her Shares. No rights to Shares shall be assigned, pledged, hypothecated or otherwise transferred by a Nonemployee Director or other person, voluntarily or involuntarily, other than by will or the laws of descent and distribution. No person shall have any right to commute, encumber, pledge or dispose of any other interest herein or right to receive payments hereunder, nor shall such interests or payments be subject to seizure, attachment or garnishment for the payments of any debts, judgments, alimony or

separate maintenance obligations or be transferable by operation of law in the event of bankruptcy, insolvency or otherwise, all payments and rights hereunder being expressly declared to be nonassignable and nontransferable.

11.3 GOVERNING LAW. The provisions of this Plan shall be governed by construed in accordance with the laws of the State of Florida.

11.4 WITHHOLDING TAXES. To the extent that the Company is required to withhold Federal, state or local taxes in connection with any component of a Nonemployee Director's compensation in cash or Shares, and the amounts available to Company for such withholding are insufficient, it shall be a condition the receipt of any Shares that the Nonemployee Director make arrangements satisfactory to the Company for the payment of the balance of such taxes required to be withheld, which arrangement may include relinquishment of the Shares. The Company and a Nonemployee Director may also make similar arrangements with respect to payment of any other taxes derived from or related to the payment of Shares with respect to which withholding is not required.

11.5 MISCELLANEOUS. Headings are given to the sections of this Plan as a convenience to facilitate reference. Such headings, numbering and paragraphing shall not in any case be deemed in any way material or relevant to the construction of this Plan or any provisions thereof. The use of the singular shall also include within its meaning the plural, and vice versa.

SUN HYDRAULICS CORPORATION

By: /s/ Allen J. Carlson
Allen J. Carlson, President

SUN HYDRAULICS CORPORATION
2006 STOCK OPTION PLAN

SUN HYDRAULICS CORPORATION, a Florida corporation (the “Company”), hereby adopts the Sun Hydraulics Corporation 2006 Stock Option Plan (the “Plan”). The terms and conditions of the Plan are as follows:

Section 1. Purpose of the Plan. The purposes of the Plan are to encourage ownership of shares of the Common Stock, \$.001 par value, of the Company (the “Common Stock”) by Employees (as defined in Section 3 of this Plan) and to encourage each of them to remain in the employ of the Company, and to more fully align the interest of Employees and members of the Board of Directors of the Company with the interests of stockholders of the Company by giving such Employees and Directors a personal interest in the value of the Common Stock. It is intended that options granted to Employees pursuant to the terms of this Plan (individually, an “Option,” collectively, the “Options”) may be either “Incentive Stock Options” (“ISOs”) within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended (the “Code”) or “Nonstatutory Options” which do not qualify as Incentive Stock Options under Section 422 of the Code.

Section 2. Administration of the Plan. Subject to the provisions of this Plan, the Compensation Committee (the “Committee”) appointed by the Company’s Board of Directors shall have authority to supervise, administer and interpret this Plan including, but not limited to, the authority to (i) determine the Employees and Directors to whom Options shall be granted, (ii) determine the number of shares of Common Stock to be the subject of each Option, (iii) determine whether each Option granted to an Employee shall be designated as an Incentive Stock Option or not, (iv) determine the periods during which Options may be exercised and to accelerate the exercisability of outstanding Options, as it may deem appropriate; (v) determine the term of each Option, (vi) determine in good faith the fair market value of the Common Stock in accordance with reasonable valuation methods, (vii) determine in what manner the purchase price of the Common Stock shall be paid pursuant to Section 11 of this Plan; (viii) to modify, cancel, or replace any prior Options and to amend the relevant Stock Option Agreements with the consent of the affected Optionees, including amending such agreements to amend vesting schedules, extend exercise periods or increase or decrease the Option Price for Options, as it may deem to be necessary, and (ix) make, amend and rescind rules and regulations relating to the Plan. The determination of the Committee shall be made in accordance with its judgment as to the best interests of the Company and its stockholders and in accordance with the purposes of the Plan. The Committee’s determination in all cases arising under the Plan shall be final, conclusive and binding unless otherwise determined by the Board.

Section 3. Employee Defined. For purposes of this Plan, the term “Employee” shall be defined to mean an individual who is an employee of either the Company, or a “subsidiary corporation” (as defined in Section 424(f) of the Code) of the Company (a “Subsidiary Corporation”).

Section 4. Common Stock Subject to the Plan. Subject to adjustment as provided in Section 16 of this Plan, the aggregate number of shares of Common Stock that shall be reserved and that may be issued from time to time upon the exercise of Options to be granted under this Plan is

500,000 shares of Common Stock. Such shares of Common Stock may consist of (i) treasury shares, (ii) authorized but unissued shares or (iii) both. In the event that an Option expires or terminates without having been exercised as to the full number of shares of Common Stock subject thereto, the shares of Common Stock as to which such Option was not exercised shall be available for Options that may thereafter be granted under this Plan.

Section 5. Eligibility. The Compensation Committee may grant Options under this Plan to any Employee. The Compensation Committee may also grant Options to any director of the Corporation, subject to the restrictions in Section 6. In granting such awards and determining which Employees shall be granted Options and the terms and amount of Common Stock covered by each such Option, the Compensation Committee may give consideration to the functions and responsibilities of the individual, his or her potential contributions to profitability and sound growth of the Company and such other factors as the Committee may, in its discretion, deem relevant.

Notwithstanding the preceding sentence or any other provisions of this Plan, any Employee who is a Named Executive Officer of the Company (as defined herein) shall not be granted Options unless the grant is approved by a Committee of the Board (which may be the Compensation Committee) consisting solely of members of the Board of Directors who are not Employees, former officers or paid consultants of the Company. For this purpose, the term "Named Executive Officer" shall mean the Company's Chief Executive Officer and the four highest compensated officers (other than the Chief Executive Officer), as determined pursuant to the executive compensation disclosure rules under the Securities Exchange Act of 1934.

The maximum number of shares of Common Stock with respect to which Options may be granted to any Participant during any one calendar year is 150,000 shares.

Section 6. Options for Directors. The Committee may, in its sole discretion, from time to time grant Options to one or more members of the Board of Directors who are not Employees, provided that these Options must be Nonstatutory Options.

Section 7. Term of Options. The term of each Option shall be for a period not to exceed ten (10) years from the date the Option is granted.

Section 8. Exercise of Option. Except as otherwise provided in this Plan, an Option shall be exercisable only by the individual to whom it is granted during his or her lifetime (or, in the event of the participant's incapacity, by the participant's guardian or legal representative, acting in a fiduciary capacity on behalf of the participant). An Option shall be deemed exercised only if written notice of its exercise, together with full payment of the purchase price as provided in Section 11, is delivered to the Secretary of the Company, in all events prior to the expiration of the term of the Option.

Section 9. Designation of Options as Incentive Stock Options. The Committee shall, in its sole discretion, determine whether the Option granted to an Employee shall be an Incentive Stock Option under Code Section 422 or an option that will not qualify under Code Section 422. If the Committee decides to grant the Employee an Option that is an Incentive Stock Option, his or her stock option agreement referred to in Section 26 shall expressly state that such Option is intended to

qualify as an Incentive Stock Option. Each provision of the Plan and of the stock option agreement relating to an Option designated as an Incentive Stock Option shall be construed so that such Option continues to qualify as an Incentive Stock Option, and any provision that cannot be so construed shall be disregarded.

If the Option is intended to be an Incentive Stock Option it shall be exercisable only if such individual is an Employee of either the Company or a Subsidiary Corporation at all times during the period beginning on the date of the grant of the Option and ending on the date which is three (3) months before the date of such exercise (including the date of such exercise); provided, however, in the case of an employee who is permanently and totally disabled (within the meaning of Section 22(e)(3) of the Code), the ending date of the period of continuous employment may be one (1) year before the date of such exercise.

Notwithstanding anything contained in this Plan to the contrary, if at the time an Incentive Stock Option is granted to an Employee, the Employee "owns" (as contemplated in Sections 422 and 424(d) of the Code) stock possessing more than 10 percent of the total combined voting power of all classes of stock of the Company or a Subsidiary Corporation, the option price must be at least 110 percent of the fair market value of the Common Stock subject to the Option and such Option by its terms must not be exercisable after the expiration of five (5) years from the date such Option is granted.

If the Option is not intended to be an Incentive Stock Option, it shall not be subject to the limits set forth in the preceding paragraphs and in Section 10.

Section 10. Annual Limit on Incentive Stock Options. Notwithstanding anything contained in this Plan to the contrary, if the Option granted to an Employee is intended to be an Incentive Stock Option, the aggregate fair market value (determined as of the time the Option is granted) of the shares of Common Stock with respect to which the Incentive Stock Options granted to the Employee (under all plans of the Company and any Subsidiary Corporation) first become exercisable during any calendar year shall not exceed \$100,000, determined in accordance with the provisions of Section 422(d) of the Code.

To the extent this limitation would otherwise be exceeded, the Option shall be deemed to consist of an Incentive Stock Option for the maximum number of shares which may be covered by Incentive Stock Options pursuant to the preceding sentence, and a Nonstatutory Option for the remaining shares subject to the Option.

Section 11. Option Price. The purchase price of the Common Stock that shall be the subject of an Option shall be (i) if the Option is designated as an Incentive Stock Option, not less than the fair market value of the Common Stock on the date such Option is granted, and (ii) if the Option is a Nonstatutory Option, such price, which may be equal to or less than the fair market value of the Common Stock on the date such Option is granted, as the Committee shall determine.

Payment of the purchase price for the shares of the Common Stock to be purchased upon exercise of an Option (the "Purchase Price") shall be due and payable to the Company, at the election of the individual to whom an Option is granted under this Plan (an "Optionee"),
(i) in cash

at time of exercise, (ii) by the delivery at time of exercise of shares of the Common Stock having a fair market value (as determined by the Committee) equal to the Purchase Price, (iii) with the approval of the Committee, in cash at the time of exercise to the extent of the par value of such shares of Common Stock with the balance of the Purchase Price paid pursuant to a promissory note on terms satisfactory to the Committee delivered at time of exercise (provided that no executive officer or director of the Company may deliver a note in payment of any portion of the purchase price), or (iv) in such other manner as the Committee shall approve. Unless otherwise provided for by the Board, \$.001 of the consideration to be received by the Company upon exercise of an Option shall be allocated to capital and the balance shall be allocated to surplus.

Alternatively, the Committee may permit the Optionee to exercise his or her Option by delivery of (i) an irrevocable notice of exercise, accompanied by payment in full of the Purchase Price by the Optionee's stockbroker, and (ii) an irrevocable instruction to the Company to deliver the shares of Common Stock issuable upon exercise of the Option promptly to the Optionee's stockbroker for the Optionee's account, both signed by the Optionee.

Section 12. Tax Withholding. The Company shall have the right to require participating Employees exercising Nonstatutory Options to remit to the Company (or to the Subsidiary Corporation which employs them) an amount sufficient to satisfy any federal, state and local withholding tax requirements prior to the delivery of any shares of Common Stock acquired under the Options. If an Optionee sells, transfers, assigns or otherwise disposes of shares of Common Stock acquired upon the exercise of an ISO within two (2) years after the date on which the ISO was granted or within one (1) year after the receipt of the shares of Common Stock by the Optionee, the Optionee shall promptly notify the Company of such disposition and the Company shall have the right to require the Optionee to remit to the Company the amount necessary to satisfy any federal, state and local tax withholding requirements imposed on the Company by reason of such disposition.

Amounts to which the Company is entitled pursuant to the preceding paragraph may, at the election of the Optionee and with the approval of the Committee, either (i) be paid in cash, (ii) be withheld from the Optionee's salary or other compensation payable by the Company, or (iii) be withheld in the form of some of the shares of Common Stock otherwise issuable to the Optionee upon exercise of the Options that have a fair market value not less than the minimum amount of tax the Company is required to withhold.

Section 13. Nontransferability of Options. An Option shall not be transferable by the individual to whom it is granted except (i) by will, or (ii) pursuant to the laws of descent and distribution.

Section 14. Termination of Employment or Directorship. Subject to any further restrictions contained in the written stock option agreement between the Optionee and the Company, in the event that an Optionee who is an Employee shall cease to be employed by the Company or a Subsidiary Corporation, whether voluntarily or involuntarily, or, in the event that an Optionee who is a Director but not an Employee shall cease to serve as a Director, for any reason other than the Optionee's death or permanent or total disability within the meaning of Section 22(e)(3) of the Code (the "Disability") and shall no longer be employed by any of them, all of the

Optionee's rights to further exercise of his or her Options shall expire at the time specified by the Committee in his or her stock option agreement, or, for those Options intended to be Incentive Stock Options, as of a date no later than three (3) months from the date the employment of Optionee is terminated; provided, however, that no Option shall be exercisable after the expiration of ten (10) years from the date such Option is granted.

Nothing in this Plan shall confer upon any Optionee the right to continue in the employment of the Company or a Subsidiary Corporation, or interfere in any way with the right of the Company or a Subsidiary Corporation to terminate the employment of an Optionee, whether for cause or otherwise. For purposes of this Plan, an Optionee's employment with the Company shall not be considered terminated for purposes of determining the exercisability of Incentive Stock Options if the Optionee is on military leave, sick leave or other bona fide leave of absence if the period of such leave does not exceed ninety (90) days, or, if longer, so long as the individual's right to reemployment with the Company or any Subsidiary Corporation is guaranteed either by statute or by contract.

Section 15. Death or Disability of Optionee. In the event of the death of an Optionee while employed by (or serving as a director of) the Company or a Subsidiary Corporation, his or her Option may be exercised (to the extent that the Optionee was entitled to do so at the date of his or her death) by his or her personal representative or by any person or persons who shall have acquired the Option directly from the Optionee by will or by the laws of descent and distribution at any time within twelve (12) months after the date of his or her death; provided, however, that no Option shall be exercisable after the expiration of ten (10) years from the date such Option is granted.

In the event of the disability of an Optionee while employed by (or serving as a director of) the Company or a Subsidiary Corporation, his or her Option may be exercised (to the extent that the Optionee was entitled to do so at the date of disability) by the Optionee at any time within one (1) year after the date of his or her disability; provided, however, that no Option shall be exercisable after the expiration of ten (10) years from the date such Option is granted.

For purposes of this Plan, the determination as to whether an Optionee's employment is terminated because of "disability" shall be vested solely in the Committee and its determination shall be final and conclusive on all parties.

Section 16. Adjustments in Company Common Stock. In the event of any changes in the issued and outstanding shares of the Common Stock by reason of a share dividend, split-up, reclassification, recapitalization, subdivision, combination, exchange of shares, merger, consolidation or liquidation by or of the Company, the aggregate number and class of shares available under this Plan, as well as the number of shares issuable under each then outstanding Option and the option price payable for such shares shall be correspondingly adjusted by the Committee; provided, however, that neither the Stock Option Plan nor the Options outstanding under the plan will be adjusted in a manner that causes any Option intended to be a Incentive Stock Option not to qualify as an incentive stock option within the meaning of Section 422 of the Code.

The Committee may, in its discretion, substitute new option rights for, or cause the Company to assume the duties of any Subsidiary Corporation with respect to, stock options granted

to Employees outstanding under any other stock option plan sponsored by a Subsidiary Corporation, by another corporation or by a parent or subsidiary (within the meaning of Section 425 of the Code) of such other corporation, in connection with any merger, consolidation, acquisition, separation, reorganization, liquidation or like occurrence in which the Company is involved.

Section 17. Time of Granting Options. The granting of an Option shall take effect as of the time specified by the Committee in its resolutions granting the Option.

Section 18. Rights as a Stockholder. Except as otherwise provided by the laws of the State of Florida, an Optionee shall have no rights as a stockholder of the Company with respect to any shares covered by his or her Option until the date of the exercise of the Option. Except as otherwise provided in Section 15 of this Plan and by the laws of the State of Florida, no adjustment shall be made for any dividends (ordinary or extraordinary, whether in cash, securities or other property) or distributions or other rights on the Common Stock for which the record date is prior to the date a stock certificate for the shares subject to the Option is issued.

Section 19. Amendment of Plan. To the extent permitted by law, the Board may at any time and from time to time modify or amend the Plan in such respects as it shall deem advisable; provided, however, that such modification or amendment shall not change any rights under any outstanding Option without the written consent of the Optionee; provided further, however, that such modification or amendment shall not, without the approval of the stockholders of the Company, change the Plan so as to cause any Option intended to be an Incentive Stock Option to fail to meet the requirements of an incentive stock option under Section 422 of the Code.

Section 20. Term of Plan. No Options shall be granted under this Plan at any time after the tenth (10) anniversary of the date this Plan is first adopted by the Board.

Section 21. Termination of Plan. Notwithstanding anything contained in this Plan to the contrary, the Board may at any time terminate or discontinue this Plan or any Option granted hereunder provided that such action shall not, without the written consent of the Optionee affected, impair the rights of such Optionee under any Option previously granted under the Plan.

Section 22. Governmental Regulations. This Plan and the granting and exercise of any Option and the obligations of the Company to sell and deliver shares of Common Stock under any such Option shall be subject to all applicable laws, rules and regulations, and to such approvals by any governmental agencies as may be required.

Section 23. Compliance with Securities Laws. Options granted and shares of the Common Stock issued by Company upon the exercise of Options shall be granted and issued only in full compliance with all applicable securities laws including, but not limited to, the Securities Act of 1933, as amended, and the general rules and regulations promulgated thereunder by the Securities and Exchange Commission and applicable state blue sky laws. In connection with such compliance, the Committee may impose such conditions on transfer of the shares of the Common Stock subject to an Option and other restrictions, conditions and limitations as it may deem necessary and appropriate.

Section 24. Proceeds from Sale of Common Stock. The proceeds to be received by the Company upon the exercise of any Option, if other than in shares of the Common Stock, shall be used for general corporate purposes.

Section 25. Obligations of Optionee. The granting of an Option shall impose no obligation upon the Optionee to exercise such Option.

Section 26. Stock Option Agreements. Options granted under this Plan shall be evidenced by written agreements in such form as the Committee shall from time to time approve, which agreements (i) shall comply with and be subject to the terms and conditions of this Plan, (ii) may contain such other provisions not inconsistent with this Plan as the Committee shall deem advisable, including, without limitation, restrictions upon exercise of an Option, (iii) if the Option is intended to be an Incentive Stock Option, shall contain such other limitations and restrictions upon the exercise of the Option as shall be necessary in order that such Option will satisfy the requirements for incentive stock options imposed by Section 422 of the Code, and (iv) shall contain such restrictions as the Committee may determine to be necessary in order that the granting of such Option shall be in compliance with Federal and state securities laws.

Section 27. Effective Date of Plan. The Plan shall become effective on the date it is approved by the Board of Directors of the Company. Notwithstanding the preceding sentence, if the Plan is not approved by vote of the Company's stockholders by the first anniversary of this effective date, it shall terminate and all Options granted hereunder shall be void. No Option granted under this Plan may be exercised until the Plan has been approved by the Company's stockholders.

Section 28. Priority. To the extent that any of the provisions of Sections 421 and 422 of the Code are inconsistent with the provisions of this Plan and such inconsistency would cause this Plan not to be treated for Federal income tax purposes as an incentive stock option plan, or any Option expressly intended to be an Incentive Stock Option not to so qualify, the provisions of this Plan and of the Incentive Stock Options granted hereunder shall be deemed to be amended in a manner to comply with the provisions of Section 421 or 422 of the Code, as the case may be.

IN WITNESS WHEREOF, the undersigned, being the duly elected and authorized Secretary of the Company, hereby certifies that this Plan was legally and validly approved by the Board of Directors of the Company as of the 9th day of September, 2006.

SUN HYDRAULICS CORPORATION

By: /s/ Gregory C. Yadley

Gregory C. Yadley, Secretary