

| | |
|---|----------------|
| OMB APPROVAL | |
| OMB Number: | 3235-0060 |
| Expires: | April 30, 2009 |
| Estimated average burden hours per response38.0 | |

**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): May 8, 2007

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))
-

Item 2.02. Results of Operations and Financial Condition.

On May 8, 2007, the Registrant issued the press release attached hereto as Exhibit 99.1 announcing its financial results for the first fiscal quarter of 2007.

Item 9.01. Financial Statements and Exhibits.

(c) Exhibits.

99.1 Press Release of the Registrant dated May 8, 2007.

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: May 8, 2007

Sun Hydraulics First Quarter Sales Increase 20%, EPS up 39%

SARASOTA, FLA, May 8, 2007 – Sun Hydraulics Corporation (NASDAQ: SNHY) reported financial results for the first quarter of 2007 as follows:

(Dollars in millions except net income per share)

| Three Months Ended | March 31, 2007 | April 1, 2006 | Increase |
|-----------------------|-------------------|------------------|----------|
| Net Sales | \$ 40.9 | \$ 34.2 | 20% |
| Net Income | \$ 5.8 | \$ 4.2 | 38% |
| Net Income per share: | | | |
| Basic | \$ 0.53 | \$ 0.38 | 39% |
| Diluted | \$ 0.53 | \$ 0.38 | 39% |

“The brisk conditions we experienced across all geographic areas in the first quarter have continued through April,” reported Allen Carlson, Sun’s President and CEO. “While all business segments grew significantly, European and Asian sales were especially strong. We are confident that our international efforts are succeeding. Last month, we introduced several new electro-hydraulic products at the Hannover Fair in Germany, which were well received,” affirmed Carlson.

“We were extremely pleased with our earnings on this level of sales especially after experiencing margin erosion over several quarters last year. Our gross profit improved this quarter and led to incremental bottom-line increases,” stated Carlson.

“As we have stated throughout this capital goods cycle, we believe that Sun continues to gain market share as we outgrow the industry. Our growth, we believe, continues to be fueled by attending to basics: having the right products for the marketplace, providing detailed product information on demand, and delivering products when and where the customer wants,” Carlson concluded.

Outlook

2007 second quarter sales are estimated to be approximately \$41 million and earnings per share are estimated to be in the range of \$0.52 to \$0.54. This would represent an increase of approximately 11% in sales and 36% in earnings per share over last year.

Webcast

Sun Hydraulics Corporation will broadcast its first quarter financial results conference call live over the Internet at 2:30 P.M. E.T. tomorrow, May 9, 2007. To listen to the webcast, go to <http://investor.sunhydraulics.com/medialist.cfm>. A copy of this earnings release is posted on the Investor Relations page of our website under "Press Releases."

Webcast Q&A

Questions may be submitted to the Company via email after reviewing the earnings release by going to the Sun Hydraulics website, www.sunhydraulics.com, and clicking on Investor Relations. Scroll down to the bottom of the page and click on contact email: investor@sunhydraulics.com. Sun management will answer these and other questions during the Company's webcast. If an individual wishes to ask questions directly during the webcast, the conference call may be accessed by dialing 1-877-407-8033.

Sun Hydraulics Corporation is a leading designer and manufacturer of high performance screw-in hydraulic cartridge valves and manifolds for worldwide industrial and mobile markets. For more information about Sun, please visit our website at www.sunhydraulics.com.

FORWARD-LOOKING INFORMATION

Certain oral statements made by management from time to time and certain statements contained herein that are not historical facts are "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934 and, because such statements involve risks and uncertainties, actual results may differ materially from those expressed or implied by such forward-looking statements. Forward-looking statements, including those in Management's Discussion and Analysis of Financial Condition and Results of Operations are statements regarding the intent, belief or current expectations, estimates or projections of the Company, its Directors or its Officers about the Company and the industry in which it operates, and assumptions made by management, and include among other items, (i) the Company's strategies regarding growth, including its intention to develop

new products; (ii) the Company's financing plans; (iii) trends affecting the Company's financial condition or results of operations; (iv) the Company's ability to continue to control costs and to meet its liquidity and other financing needs; (v) the declaration and payment of dividends; and (vi) the Company's ability to respond to changes in customer demand domestically and internationally, including as a result of standardization. Although the Company believes that its expectations are based on reasonable assumptions, it can give no assurance that the anticipated results will occur.

Important factors that could cause the actual results to differ materially from those in the forward-looking statements include, among other items, (i) the economic cyclicality of the capital goods industry in general and the hydraulic valve and manifold industry in particular, which directly affect customer orders, lead times and sales volume; (ii) conditions in the capital markets, including the interest rate environment and the availability of capital; (iii) changes in the competitive marketplace that could affect the Company's revenue and/or cost bases, such as increased competition, lack of qualified engineering, marketing, management or other personnel, and increased labor and raw materials costs; (iv) changes in technology or customer requirements, such as standardization of the cavity into which screw-in cartridge valves must fit, which could render the Company's products or technologies noncompetitive or obsolete; (v) new product introductions, product sales mix and the geographic mix of sales nationally and internationally; and (vi) changes relating to the Company's international sales, including changes in regulatory requirements or tariffs, trade or currency restrictions, fluctuations in exchange rates, and tax and collection issues. Further information relating to factors that could cause actual results to differ from those anticipated is included but not limited to information under the headings Item 1. "Business," Item 1A. "Risk Factors" and Item 7. "Management's Discussion and Analysis of Financial Conditions and Results of Operations" in the Company's Form 10-K for the year ended December 30, 2006. 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.

SUN HYDRAULICS CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands except per share data)

| | Three months ended | |
|--|-------------------------------|------------------------------|
| | March 31, 2007 (unaudited) | April 1, 2006 (unaudited) |
| Net sales | \$ 40,854 | \$ 34,185 |
| Cost of sales | 26,971 | 23,204 |
| Gross profit | 13,883 | 10,981 |
| Selling, engineering and administrative expenses | 5,216 | 4,671 |
| Operating income | 8,667 | 6,310 |
| Interest expense | 1 | 70 |
| Foreign currency transaction gain | (26) | (41) |
| Miscellaneous (income)/expense, net | (157) | 28 |
| Income before income taxes | 8,849 | 6,253 |
| Income tax provision | 3,043 | 2,073 |
| Net income | \$ 5,806 | \$ 4,180 |
| Basic net income per common share | \$ 0.53 | \$ 0.38 |
| Weighted average basic shares outstanding | 10,918 | 10,932 |
| Diluted net income per common share | \$ 0.53 | \$ 0.38 |
| Weighted average diluted shares outstanding | 10,974 | 11,001 |
| Dividends declared per share | \$ 0.100 | \$ 0.100 |

SUN HYDRAULICS CORPORATION
CONSOLIDATED BALANCE SHEETS
(in thousands)

| | <u>March 31, 2007</u> (unaudited) | <u>December 30, 2006</u> |
|--|--------------------------------------|--------------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 12,562 | \$ 9,379 |
| Restricted cash | 59 | 118 |
| Accounts receivable, net of allowance for doubtful accounts of \$110 and \$140 | 17,182 | 13,917 |
| Inventories | 11,768 | 10,386 |
| Deferred income taxes | 219 | 219 |
| Other current assets | 1,350 | 986 |
| Total current assets | 43,140 | 35,005 |
| Property, plant and equipment, net | 51,995 | 50,355 |
| Other assets | 1,880 | 1,825 |
| Total assets | \$ 97,015 | \$ 87,185 |
| Liabilities and Shareholders' Equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 6,245 | \$ 4,812 |
| Accrued expenses and other liabilities | 3,286 | 4,059 |
| Long-term debt due within one year | 430 | 426 |
| Dividends payable | 1,093 | 1,085 |
| Income taxes payable | 3,324 | 608 |
| Total current liabilities | 14,378 | 10,990 |
| Long-term debt due after one year | 489 | 646 |
| Deferred income taxes | 4,527 | 4,451 |
| Other noncurrent liabilities | 335 | 298 |
| Total liabilities | 19,729 | 16,385 |
| Shareholders' equity: | | |
| Common stock | 11 | 11 |
| Capital in excess of par value | 32,642 | 30,962 |
| Retained earnings | 39,995 | 35,284 |
| Accumulated other comprehensive income | 4,638 | 4,543 |
| Total shareholders' equity | 77,286 | 70,800 |
| Total liabilities and shareholders' equity | \$ 97,015 | \$ 87,185 |

SUN HYDRAULICS CORPORATION
CONSOLIDATED STATEMENT OF CASH FLOWS
(in thousands)

| | Three months ended | |
|---|----------------------------------|---------------------------------|
| | March 31, 2007 (unaudited) | April 1, 2006 (unaudited) |
| Cash flows from operating activities: | | |
| Net income | \$ 5,806 | \$ 4,180 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 1,500 | 1,437 |
| (Gain)/Loss on disposal of assets | (20) | 26 |
| Provision for deferred income taxes | 76 | (1) |
| Allowance for doubtful accounts | (30) | (12) |
| Stock-based compensation expense | 150 | 152 |
| Stock options income tax benefit | (31) | (31) |
| (Increase) decrease in: | | |
| Accounts receivable | (3,235) | (2,642) |
| Inventories | (1,382) | (722) |
| Income taxes receivable | — | 236 |
| Other current assets | (364) | (201) |
| Other assets | (62) | (16) |
| Increase (decrease) in: | | |
| Accounts payable | 1,433 | (1,185) |
| Accrued expenses and other liabilities | 613 | 760 |
| Income taxes payable | 2,747 | 1,393 |
| Other noncurrent liabilities | 37 | (4) |
| Net cash provided by operating activities | 7,238 | 3,370 |
| Cash flows from investing activities: | | |
| Capital expenditures | (3,203) | (1,965) |
| Proceeds from dispositions of equipment | 31 | 2 |
| Net cash used in investing activities | (3,172) | (1,963) |
| Cash flows from financing activities: | | |
| Proceeds from debt | — | 1,500 |
| Repayment of debt | (153) | (145) |
| Proceeds from exercise of stock options | 54 | 49 |
| Proceeds from stock issued | 59 | 50 |
| Payments for purchase of treasury stock | — | (244) |
| Dividends to shareholders | (1,087) | (1,089) |
| Stock options income tax benefit | 31 | 31 |
| Net cash (used in) provided by financing activities | (1,096) | 152 |
| Effect of exchange rate changes on cash and cash equivalents | 154 | 4 |
| Net increase in cash and cash equivalents | 3,124 | 1,563 |
| Cash and cash equivalents, beginning of period | 9,497 | 5,830 |
| Cash and cash equivalents, end of period | \$ 12,621 | \$ 7,393 |
| Supplemental disclosure of cash flow information: | | |
| Cash paid: | | |
| Interest | \$ 1 | \$ 70 |
| Income taxes | \$ 470 | \$ 476 |
| Supplemental disclosure of noncash transactions: | | |
| Common stock issued to ESOP through accrued expenses and other liabilities | \$ 1,386 | \$ 1,180 |

| | <u>United States</u> | <u>Korea</u> | <u>Germany</u> | <u>United Kingdom</u> | <u>Elimination</u> | <u>Consolidated</u> |
|---------------------------------|----------------------|--------------|----------------|-----------------------|--------------------|---------------------|
| Three Months | | | | | | |
| Ended March 31, 2007 | | | | | | |
| Sales to unaffiliated customers | \$23,769 | \$4,957 | \$ 6,591 | \$ 5,537 | \$ — | \$ 40,854 |
| Intercompany sales | 8,169 | — | 30 | 883 | (9,082) | — |
| Operating income | 5,743 | 510 | 1,644 | 835 | (65) | 8,667 |
| Depreciation | 1,061 | 40 | 136 | 256 | — | 1,493 |
| Capital expenditures | 2,742 | 57 | 26 | 378 | — | 3,203 |

| | <u>United States</u> | <u>Korea</u> | <u>Germany</u> | <u>United Kingdom</u> | <u>Elimination</u> | <u>Consolidated</u> |
|---------------------------------|----------------------|--------------|----------------|-----------------------|--------------------|---------------------|
| Three Months | | | | | | |
| Ended April 1, 2006 | | | | | | |
| Sales to unaffiliated customers | \$20,861 | \$4,090 | \$ 4,577 | \$ 4,657 | \$ — | \$ 34,185 |
| Intercompany sales | 6,677 | — | 36 | 786 | (7,499) | — |
| Operating income | 4,058 | 607 | 940 | 739 | (34) | 6,310 |
| Depreciation | 1,031 | 37 | 119 | 243 | — | 1,430 |
| Capital expenditures | 1,873 | 3 | 13 | 76 | — | 1,965 |

Contact:
Richard K. Arter Investor Relations 941-362-1200
Tricia L. Fulton Chief Financial Officer 941-362-1200