

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

FORM 10-K

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

For the fiscal year ended January 1, 2011

Commission file number 0-21835

SUN HYDRAULICS CORPORATION

(Exact Name of Registration as Specified in its Charter)

Florida
(State or Other Jurisdiction of
Incorporation or Organization)

59-2754337
(I.R.S. Employer
Identification No.)

1500 West University Parkway
Sarasota, Florida
(Address of Principal Executive Offices)

34243
(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act

<u>Title of Each Class</u>	<u>Name of each exchange on which registered</u>
Common Stock \$.001 Par Value	NASDAQ Stock Market, LLC

Securities registered pursuant to Section 12(g) of the Act:

<u>Title of Each Class</u>	<u>Name of each exchange on which registered</u>
Common Stock \$.001 Par Value	NASDAQ Stock Market, LLC

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No

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

Indicate by check mark whether the Registrant submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or shorter period in which the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller Reporting Company

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

The aggregate market value of the shares of voting common stock held by non-affiliates of the Registrant, computed by reference to the closing sales price of such shares on the Nasdaq Stock Market, LLC, as of the last business day of the Registrant’s most recently completed second fiscal quarter was \$291,479,157.

As of February 25, 2011, there were 17,020,949 shares of common stock outstanding.

PART I
ITEM 1. BUSINESS

Overview

Sun Hydraulics (the “Company” or “We”) designs and manufactures screw-in hydraulic cartridge valves, manifolds and integrated packages for sale to international markets. These products are integral parts of hydraulic systems and are used by a variety of capital goods equipment manufacturers to control force, speed and motion.

The cartridge valves Sun Hydraulics produces are differentiated in the marketplace by their floating design. This design methodology provides benefits which include, but are not limited to, enhanced capacity, higher reliability, higher operating pressure capability, reduced size and greater installation flexibility. All of these benefits translate to the Company’s manifold and integrated package offerings.

The breadth and scope of Sun Hydraulics’ product offering is unparalleled in its industry. The Company believes this wide and diverse product offering acts as a barrier to entry for new competitors.

Sun Hydraulics’ products are used by a wide range of industries, most of which are considered capital goods producers. Product sales are broadly segmented by whether the product is used in a mobile or an industrial application. (see Products) Sun Hydraulics’ products are general purpose devices designed for use by a broad market. To a limited degree, the Company has designed specific products to a single customer’s specification.

The Company has operations in the United States, England, Germany, France, Korea, China and India (the Chinese operation is a representative office, see Note 18 to the Financial Statements for subsequent events, and the Indian operation is a Liaison office). Products are sold primarily through independent authorized distributors who often act as system integrators by supplying complete hydraulic systems to OEMs. Sun Hydraulics’ foreign operations sometimes deal directly with customers in addition to managing independent distributors in their respective geographic regions.

In 2010, 45% of consolidated sales went to customers in the Americas, 32% to customers in Europe, the Middle East and Africa, and 22% to customers in the Asia/Pacific Region. In 2010, sales to any single customer or distributor did not exceed 7%.

Sun Hydraulics attributes its success to the innovative design and diversity of its products, the consistent high quality of its products and services, its ability to reliably deliver products on time, the breadth and diversity of its end markets, its geographic presence and the brand recognition of its products. The Company has been profitable every year since 1972 and has paid a dividend every quarter since going public in January 1997.

The Company was organized as a Florida corporation in 1986 to take over the operations of the business of the Company’s predecessor, Suninco, Inc. (f/k/a Sun Hydraulics Corporation). Suninco, Inc. was founded in 1970. The Company’s executive offices are located at 1500 West University Parkway, Sarasota, Florida 34243, and its telephone number is (941) 362-1200. The Company’s website is www.sunhydraulics.com.

Industry Background

Sun Hydraulics is part of the hydraulics industry. Hydraulics is a form of fluid power that is used to achieve power transmission and motion control. Due to its mechanical advantage, hydraulics is widely employed to move and position materials, control machines, vehicles and equipment, and improve industrial efficiency and productivity. The primary products produced by this industry include; *pumps*, used to create the flow of fluids, *valves*, used to direct the flow and control pressure and the rate of flow, and *actuators*, which convert energy to work. The industry also produces other products including hose, fittings, sensors, accumulators, filters, regulators, lubricants, fluids and other items. The industry, in its present form, developed in the 1940s and 1950s.

Screw-in hydraulic cartridge valves provide a more desirable alternative to conventional forms of hydraulic valves. Conventional hydraulic valves are generally large, typically manufactured from iron castings, limited in their interface flexibility and usually designed to control a single task. Screw-in cartridge valves provide the same functional characteristics as conventional valves, but in a smaller size and often at a smaller cost. They are made from machined steel parts, are lighter-weight and more compact than conventional valves and provide significant advantages in interface flexibility.

These advantages help screw-in cartridge valves to displace conventional valves. Hydraulic system design engineers are able to develop complete control systems with multiple screw-in cartridge valves grouped together in a manifold to create an integrated package (i.e. a hydraulic control system functionally analogous to an electronic integrated circuit). Integrated packages optimize the control system, are proprietary to the customer, are compact and lightweight and significantly reduce assembly time and expense for OEMs.

Strategy

Sun Hydraulics will continue to design, manufacture, market and support, on a worldwide basis, differentiated high-performance and high-quality products and systems. The Company believes this focus supports its business objectives of generating sustainable revenue growth that will consistently yield above-average returns on capital while achieving a high level of customer satisfaction. Key elements of the Company's strategy include the following:

Deliver Value Through High-Quality, High-Performance Products. The Company's products are designed with operating and performance characteristics that exceed those of many functionally similar products. The Company's products provide high value because they generally operate more reliably and at higher flow rates and pressures than competitive offerings of the same size.

Achieve a High Level of Customer Satisfaction. Sun Hydraulics schedules orders to the customer's request date. The Company believes that its long-term success is dependent upon its reputation in the marketplace, which in turn is a result of its ability to service its customers. The Company tests 100% of its screw-in cartridge valves to ensure the highest level of performance on a consistent basis.

Offer a Wide Variety of Standard Products. Sun Hydraulics offers the most comprehensive ranges of screw-in cartridge valves and manifolds in the world. The Company's products contain a high degree of common content to minimize work in process and maximize manufacturing efficiency. Products are designed for use by a broad base of industries to minimize the risk of dependence on any single market segment or customer.

Expand the Product Line. New products are designed to complement existing products, having a synergistic effect. Where possible, new products use existing parts and generally fit into existing cavities. The Company will continue to develop new non-electrical and electrically actuated cartridges, including solenoid and proportional valves. The Company believes its electrically-actuated cartridge valves help to increase sales of the Company's other cartridge valves and allow it to compete more effectively for integrated package business.

Capitalize on Integrated Package Opportunities. Sun Hydraulics designs and manufactures integrated packages which incorporate the Company's screw-in cartridge valves. To support this effort, the Company is able to design and manufacture manifolds at its operations in Sarasota, Florida, and Kansas City, Kansas, USA, Coventry, England, Erkelenz, Germany, and Seoul, Korea. Some of the Company's distributors also design and manufacture integrated packages which contain the Company's screw-in cartridge valves. Sun Hydraulics encourages competitive manifold manufacturers to utilize the Company's screw-in cartridge valves in their integrated package designs. The Company believes that customer requirements in the future will be for integrated packages more so than isolated components.

Expand Global Presence. Sun Hydraulics intends to continue to expand its global presence in the areas of distribution and international operations. The Company has strong distributor representation in most

developed and developing markets, including North and South America, Western Europe, Asia, Australia, and South Africa. The Company will continue to expand its presence in key areas including, but not limited to, Eastern Europe, Russia, China and India. A strong local presence helps the Company compete for integrated package business, where proximity to the customer is beneficial.

Maintain a Horizontal Organization with Entrepreneurial Spirit. Sun Hydraulics believes that maintaining its horizontal management structure is critical to retaining key personnel and an important factor in attracting top talent. The Company believes this culture encourages communication, creativity, entrepreneurial spirit, and individual responsibility among employees, and has a large impact on operating results.

Leverage Manufacturing Capability and Know-how as Competitive Advantages. Sun Hydraulics believes its process expertise is a competitive advantage. The Company's strong process capability is critical in achieving the high performance characteristics of its screw-in cartridge valves and integrated packages. The Company's in-house heat-treatment capability, somewhat unique in the industry, is critical to the durability and differentiation of the Company's cartridge valve products.

Sell Through Distributors. Due to the variety of potential customers and the Company's desire to avoid overhead costs, the sales function in North America is performed primarily by independent distributors. International Sun locations sell to both direct customers and through independent distributors. Many of the Company's distributors sell products manufactured by other companies and act as system integrators by providing complete hydraulic systems to customers.

Develop Closer Relations with Key Customers. The Company maintains close relationships with some OEMs and end users of its products. These relationships help the Company understand and predict future marketplace needs and provide a venue to test and refine new product offerings. The Company recognizes it may sometimes be required to enter into direct transactional relationships to gain business with certain large OEMs. The Company will be selective in developing these relationships to avoid unnecessary bureaucracy and cost.

Form Strategic Relationships/Acquisitions. When it is deemed to be of strategic benefit, Sun Hydraulics may enter into various relationships with other manufacturers including, but not limited to, marketing, brand labeling and other non-exclusive or exclusive agreements. In the future the Company expects to expand its internally developed products and capabilities via investments in outside firms. These investments could be full acquisitions, joint ventures, partial ownership investments or other agreements.

Develop Complete Control System Solutions. Historically, the Company's products have been purchased as components. Increasingly, the Company is engaged in developing complete integrated package system solutions that integrate more fully with OEMs' machinery and expects future customer requirements will be in this area.

Products

Screw-in Hydraulic Cartridge Valves

Sun Hydraulics' screw-in hydraulic cartridge valves are offered in five size ranges and include both electrically actuated and non-electrically actuated products. The floating construction pioneered by the Company results in a self alignment characteristic that provides performance and reliability advantages compared to most competitors' product offerings. This floating construction differentiates the Company's products from those of most of its competitors, who design and manufacture rigid screw-in cartridge valves that fit a common cavity. Some competitors manufacture certain products that fit the Company's cavity.

Standard Manifolds

A manifold is a solid block of metal, usually aluminum or ductile iron, which is machined to create threaded cavities and channels into which screw-in cartridge valves can be installed and through which the hydraulic fluid flows.

The variety of standard manifolds offered by Sun Hydraulics is unmatched by any screw-in cartridge valve or manifold competitor. These products allow customers to easily integrate the Company's screw-in

cartridge valves into their machinery and equipment. Once designed, standard manifolds require minimal, if any, maintenance engineering over the life of the product and can be manufactured at each of the Company's manufacturing operations.

Integrated Packages (using custom designed manifolds)

An integrated package consists of multiple cartridges assembled into a custom designed manifold for a specific customer to provide the specific operating characteristics of a customer's circuit.

The advantages of Sun Hydraulics screw-in cartridge valves translate to integrated packages designed by the Company and result in products that are smaller in size with enhanced operating performance. Due to the self-alignment characteristic, the Company's integrated packages do not routinely require testing once assembled, something often required when using competitive cartridge valves. Additionally, the Company has internally-developed, proprietary expert system software that it uses to manufacture custom manifolds efficiently in low volumes. Integrated packages provide many benefits to end users and equipment manufacturers, including reduced assembly time, order simplification, reduced leakage points, aesthetics, potentially fewer hose and fitting connections, and more control functions in a single location.

Engineering

Sun Hydraulics' engineers play an important role in all aspects of the business, including design, manufacturing, sales, marketing and technical support. Engineers work within a disciplined set of design parameters that encourages the repeated incorporation of existing parts in new products. Engineers work closely with manufacturing personnel to define the processes required to manufacture products reliably and consistently.

Manufacturing

The Company is a process intensive manufacturing operation that makes extensive use of automated handling and assembly technology (including robotics) where possible to perform repetitive tasks, thus promoting manufacturing efficiencies and workplace safety. The Company is somewhat vertically integrated and has the capability to manufacture many of the parts that go into its products.

At its two Sarasota, Florida, manufacturing plants, the Company has extensive testing facilities that allow it to test fully all cartridge valve products. A metallurgist and complete metallurgical laboratory support the Company's design engineers and in-house heat treatment.

The Company holds minimal finished goods inventory, typically at its overseas facilities, but relies on its distributors to purchase and maintain sufficient inventory to meet customers' demands. Most raw materials, including aluminum and steel, are delivered on a just-in-time basis. These and other raw materials are commercially available from multiple sources.

The Company controls most critical finishing processes in-house but relies on a small network of outside manufacturers to machine cartridge parts to varying degrees of completeness. Many high-volume machining operations are performed exclusively at outside suppliers. The Company is selective in establishing its supplier base and attempts to develop and maintain long-term relationships with suppliers.

The Company continually reviews all of its suppliers to improve the quality of incoming parts and to assess opportunities for better control of both price and quality. The Company's quality systems at the U.S. facilities are in compliance with ISO 9001:2008 for design and manufacture of steel cartridge valves, aluminum and ferrous manifolds for hydraulic systems. Those in the U.K. are certified to ISO 9001:2008 for the design and manufacture of aluminum and ferrous manifold bodies, hydraulic control valves and cartridge valves. Those in Germany are certified to ISO 9001:2008 for the design, distribution and manufacturing of hydraulic components for mobile and industrial applications. Those in Korea are certified to ISO 9001:2000 and 14001:2004 for the design, development, production servicing of hydraulic valves.

Sales and Marketing

Sun Hydraulics products are sold globally, primarily through independent fluid power distributors. Technical support is provided by each of the Company's operations (Florida, Kansas, England, Germany, France, Korea, India and China).

The Company currently has 87 distributors, 66 of which are located outside the United States and a majority of which have strong technical backgrounds or capabilities, which enable them to develop practical, efficient, and cost-effective fluid power systems for their customers. In 2010, sales to the Company's largest distributor represented less than 7% of net sales.

In addition to distributors, the Company sells directly to other companies within the hydraulic industry, including competitors, who incorporate the Company's products into their hydraulic products or systems. The Company believes making it easy for other manufacturers to buy its products often offers them better alternatives than developing similar products themselves.

The Company, to a limited degree, sells product directly to OEMs. Although the Company does not have any employee whose primary responsibility is direct sales, it may consider this in the future. The Company recognizes that to gain access to certain large OEM accounts it may have to deal directly with customers in the areas of sales and support.

The Company provides end users with technical information via its website and catalogues. This includes all information necessary to specify and obtain the Company's products. The Company believes this approach helps stimulate demand for the Company's products. The Company's website is complete and easy to use with product information available 24 hours a day, seven days a week around the world.

Customers

Customers are broadly classified by being mobile or industrial.

Mobile applications involve equipment that generally is not fixed in place and is often operated in an uncontrolled environment, such as construction, agricultural, mining, and fire and rescue and other utility equipment. Mobile customers historically account for approximately two thirds of the Company's net sales.

Industrial applications involve equipment that generally is fixed in place in a controlled environment. Examples include automation machinery, presses, plastics machinery such as injection molding equipment, and machine tools. Industrial applications historically account for approximately one third of the Company's net sales.

In recent years, new applications have emerged that do not fit conveniently into the mobile or industrial categories, often blending requirements of each. Some of these applications include animatronics, wind power, wave power, solar power and amusement park rides. The Company expects its products to continue to be applied in areas outside of traditional mobile or industrial markets.

The Company does not warrant its products for use in any of the following applications, (i) any product that comes under the Federal Highway Safety Act, such as steering or braking systems for passenger-carrying vehicles or on-highway trucks, (ii) aircraft or space vehicles, (iii) ordnance equipment, (iv) life support equipment, and (v) any product that, when sold, would be subject to the rules and regulations of the United States Nuclear Regulatory Commission. These "application limitations" have alleviated the need for the Company to maintain the internal bureaucracy necessary to conduct business in these market segments.

Competition

The Company's competitors include full-line producers and niche suppliers similar to the Company. Most competitors market globally. Full-line producers have the ability to provide total hydraulic systems to customers, including components functionally similar to those manufactured by Sun Hydraulics. The industry has experienced significant consolidation in recent years. Notably, large, full-line producers have acquired most of the independent screw-in hydraulic cartridge valve companies.

Most of the Company's competitors produce screw-in cartridge valves that fit an industry common cavity that sometimes allows their products to be interchangeable. The industry common cavity is not currently supported by any national or global standards organizations, although there is an ongoing effort to standardize a modified version of this cavity in the United States. The International Standards Organization (ISO) has a standard screw-in cartridge cavity that is different from the industry common cavity, but the Company is not aware of any major competitor that currently produces a full line of standard products conforming to the ISO standard. The Company does not manufacture a product that fits either the industry common or the ISO standard cavity. Some competitors manufacture selected screw-in cartridge valves that fit the Company's cavity. (see Risk Factors: The marketplace could adopt an industry standard cavity.)

A new class of competitors is emerging in low cost production areas (Asia, Eastern Europe). These competitors will typically copy both the Company's products and like products designed by competitors to fit industry common cavities. One of the barriers to these offshore competitors gaining a foothold in established markets are suitable channels or route to market. The Company recognizes this new class of competitor exists and will continue to monitor their growth and impact.

The Company believes that it competes based upon the quality, reliability, price, value, speed of delivery and technological characteristics of its products and services.

Employees

As of January 1, 2011, Sun Hydraulics had 618 full-time employees in the United States, 66 in England, 33 in Germany, 3 in France, 32 in Korea, 2 in India and 1 in China. Over 90% of its employees are engaged in manufacturing, distribution, and engineering functions. No employees are represented by a union in any of the Company's operating units, and management believes that relations with its employees are good. Employees are paid either hourly or with an annual salary at rates that are competitive with other companies in the industry and geographic areas in which they operate. Management believes that Sun Hydraulics' culture, competitive salaries and wages, above average health and retirement plans, and a safe and pleasant working environment discourages employee turnover and encourages efficient, high-quality production. Nevertheless, due to the nature of the Company's manufacturing business, it is sometimes difficult to attract skilled personnel. (see Risk Factors: We are dependent upon key employees and skilled personnel.)

Patents and Trademarks

The Company believes that the growth of its business is dependent upon the quality and functional performance of its products and its relationship with the marketplace, rather than the extent of its patents and trademarks. The Company's principal trademark is registered internationally in the following countries: Argentina, Australia, Brazil, Canada, Chile, China, France, Germany, India, Italy, Japan, Korea, Mexico, Peru, Spain, Sweden, Switzerland, the United Kingdom and the United States. While the Company believes that its patents have significant value, the loss of any single patent would not have a material adverse effect on the Company.

Available Information

The Company's annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports, as well as its proxy statements and other materials which are filed with or furnished to the Securities and Exchange Commission ("SEC") are made available, free of charge, on or through the Sun Hydraulics website under the heading "Investor Relations - Reports - SEC Filings," as soon as reasonably practicable after they are filed with, or furnished to, the SEC.

ITEM 1A. - RISK FACTORS

FACTORS INFLUENCING FUTURE RESULTS - FORWARD-LOOKING STATEMENTS

This Annual Report contains "forward-looking statements" (within the meaning of the Private Securities Litigation Reform Act of 1995) that are based on current expectations, estimates, forecasts, and projections about us, our beliefs, and assumptions made by us, including (i) our strategies regarding growth, including our intention to develop new products; (ii) our financing plans; (iii) trends affecting our

financial condition or results of operations; (iv) our ability to continue to control costs and to meet our liquidity and other financing needs; (v) the declaration and payment of dividends; and (vi) our ability to respond to changes in customer demand domestically and internationally, including as a result of standardization. In addition, we may make other written or oral statements, which constitute forward-looking statements, from time to time. Words such as “may,” “expects,” “projects,” “anticipates,” “intends,” “plans,” “believes,” “seeks,” “estimates,” variations of such words, and similar expressions are intended to identify such forward-looking statements. Similarly, statements that describe our future plans, objectives or goals also are forward-looking statements. These statements are not guarantees of future performance and are subject to a number of risks and uncertainties, including those discussed below and elsewhere in this report. Our actual results may differ materially from what is expressed or forecasted in such forward-looking statements, and undue reliance should not be placed on such statements. All forward-looking statements are made as of the date hereof, and we undertake no obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise.

Factors that could cause actual results to differ materially from what is expressed or forecasted in such forward-looking statements include, but are not limited to: (i) conditions in the capital markets, including the interest rate environment and the availability of capital; (ii) changes in the competitive marketplace that could affect our 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; (iii) new product introductions, product sales mix and the geographic mix of sales nationally and internationally; and the following risk factors:

Sales in our industry are subject to economic cycles. The capital goods industry in general, and the hydraulic industry in particular, are subject to economic cycles, which directly affect customer orders, lead times and sales volume. Economic downturns generally have a material adverse effect on our business and results of operations, as they did in 2009. Economic up cycles, similar to that of 2010, provide a context where demand for capital goods is stimulated, creating increased demand for the products we produce. In the future, continued weakening or improvement in the economy will directly affect orders and influence results of operations.

We are subject to intense competition. The hydraulic valve industry is intensely competitive, and competition comes from a large number of competitors, some of which are full-line producers and others that are niche suppliers like us. Full-line producers have the ability to provide total hydraulic systems to customers, including components functionally similar to those manufactured by us. We believe that we compete based upon quality, reliability, price, value, speed of delivery and technological characteristics. Many screw-in cartridge valve competitors are owned by corporations that are significantly larger and have greater financial resources than we have. We cannot assure that we will continue to be able to compete effectively with these companies.

Most competitors either manufacture manifolds or have sources that they use on a regular basis. In addition, there are many independent manifold suppliers that produce manifolds incorporating various manufacturers’ screw-in cartridge valves, including those made by us. Finally, there are many small, independent machine shops that produce manifolds at very competitive prices. We believe that competition in the manifold and integrated package business is based upon quality, price, performance, proximity to the customer and speed of delivery. Many competitors have very low overhead structures and we cannot assure that we will be able to continue to compete effectively with these companies.

In addition, we compete in the sale of hydraulic valves, manifolds and integrated packages with certain of our customers, who also may be competitors. Generally, these customers purchase cartridge valves from us to meet a specific need in a system that cannot be filled by any valve they make themselves. To the extent that we introduce new products in the future that increase competition with such customers, it may have an adverse effect on our relationships with them.

The marketplace could adopt an industry standard cavity that would not accommodate our products. Our screw-in cartridge valves fit into a unique cavity for which, to date, few other manufacturers have designed products. Accordingly, our screw-in cartridge valves are not interchangeable with those of other manufacturers. Most competitive manufacturers produce screw-in cartridge valves that fit into an industry common cavity. There is an ongoing effort in the United States to produce a standard for screw-in hydraulic cartridge valve cavities based on the industry common cavity.

Additionally, the International Standards Organization (“ISO”) has an existing industry standard for screw-in hydraulic cartridge valve cavities, which is different from our cavity and the industry common cavity. In our view, the industry common cavity, as well as the suggested standardized form of this cavity, and the ISO standard cavity, fail to address critical functional requirements, which could result in performance and safety problems of significant magnitude for end users. To our knowledge, no major competitor has converted its standard product line to fit the ISO standard cavity. Any move by a substantial number of screw-in cartridge valve and manifold manufacturers toward the adoption of ISO standard or another standard, based on the existing industry common cavity, could have a material adverse effect on our business, financial condition and results of operation. See “Item 1. - Business — Competition.”

We are subject to risks relating to international sales. In 2010, approximately 61% of our net sales were outside of the United States. International sales have continued to represent a greater proportion of our consolidated sales. We will continue to expand the scope of operations outside the United States, both through direct investment and distribution, and expect that international sales will continue to account for a substantial portion of net sales in future periods. International sales are subject to various risks, including unexpected changes in regulatory requirements and tariffs, longer payment cycles, difficulties in receivable collections, potentially adverse tax consequences, trade or currency restrictions, and, particularly in emerging economies, potential political and economic instability and regional conflicts. Furthermore, our international operations generate sales in a number of foreign currencies, particularly British pounds, the Euro, and the Korean Won. Therefore, our financial condition and results of operations can be affected by fluctuations in exchange rates between the United States dollar and these currencies. Any or all of these factors could have a material adverse effect on our business, financial condition and results of operations.

We are subject to various risks relating to our growth strategy. In pursuing our growth strategy, we intend to expand our presence in existing markets and enter new markets. In addition, we may pursue acquisitions and joint ventures to complement our business. Many of the expenses arising from expansion efforts may have a negative effect on operating results until such time, if at all, that these expenses are offset by increased revenues. We cannot assure that we will be able to improve our market share or profitability, recover our expenditures, or successfully implement our growth strategy. See “Item 1. - Business — Strategy.”

The expansion strategy also may require substantial capital investment for the construction of new facilities and their effective operation. We may finance the acquisition of additional assets using cash from operations, bank or institutional borrowings, or through the issuance of debt or equity securities. We cannot assure that we will be able to obtain financing from bank or institutional sources or through the equity or debt markets or that, if available, such financing will be on acceptable terms.

We are dependent upon key employees and skilled personnel. Our success depends, to some extent, upon a number of key individuals. The loss of the services of one or more of these individuals could have a material adverse effect on our business. Future operating results depend to a significant degree upon the continued contribution of key technical personnel and the skilled labor force. Competition for management and engineering personnel is intense and other employers may have greater financial and other resources to attract and retain these employees. We conduct a substantial part of our operations in Sarasota, Florida. Continued success is dependent on the Company’s ability to attract and retain a skilled labor force at this location. There are no assurances that we will continue to be successful in attracting and retaining the personnel required to develop, manufacture and market our products and expand our operations. See “Item 1. - Business — Employees.”

We are subject to the risk of liability for defective products. The application of many of our products entails an inherent risk of product liability. We cannot assure you that we will not face any material product liability claims in the future or that the product liability insurance we maintain at such time will be adequate to cover such claims.

We are subject to fluctuations in the prices of raw materials. The primary raw materials used in the manufacture of our products are aluminum, ductile iron and steel. We cannot assure you that prices for such materials will not increase or, if they do, that we will be able to increase the prices for our products to maintain our profit margins. If future price increases do not adequately cover material cost increases, our operating results may be adversely affected.

We are dependent upon our parts suppliers. Our largest expense in cost of sales is purchased cartridge valve parts. We cannot assure you that our manufacturing costs and output would not be materially and adversely affected by operational or financial difficulties experienced by one or more of our suppliers.

Hurricanes could cause a disruption in our operations which could adversely affect our business, results of operations, and financial condition. A significant portion of our operations are located in Florida, a region that is susceptible to hurricanes. Such weather events can cause disruption to our operations and could have a material adverse effect on our overall results of operations. While we have property insurance to partially reimburse us for wind losses resulting from a named storm, such insurance would not cover all possible losses.

We are subject to the cost of environmental compliance and the risk of failing to comply with environmental laws. Our operations involve the handling and use of substances that are subject to federal, state and local environmental laws and regulations that impose limitations on the discharge of pollutants into the soil, air and water and establish standards for their storage and disposal. We believe that our current operations are in substantial compliance with applicable environmental laws and regulations, the violation of which could have a material adverse effect on our business, financial condition and results of operations. New laws and regulations, or stricter interpretations of existing laws or regulations, could have a material adverse effect on our business, financial condition and results of operations. We have not suffered any material adverse effects due to compliance with environmental laws and regulations in the past.

Our board may decide to reduce or eliminate dividends. Although we have paid a cash dividend each quarter since our common stock began publicly trading in 1997, we cannot assure that funds will be available for this purpose in the future. The declaration and payment of dividends is subject to the sole discretion of our board of directors and will depend upon our profitability, financial condition, capital needs, acquisition opportunities, future prospects and other factors deemed relevant by the board, and may be restricted by the terms of our credit facilities.

Certain anti-takeover provisions may hinder or prevent a change in control. Our Articles of Incorporation provide for a classified board of directors. In addition, the Articles give the board of directors the authority, without further action by the shareholders, to issue and fix the rights and preferences of a new class, or classes, of preferred stock. These and other provisions of the Articles and our Bylaws may deter or delay changes in control, including transactions in which shareholders might otherwise receive a premium for their shares over then current market prices. In addition, these provisions may limit the ability of shareholders to approve transactions that they may deem to be in their best interests.

We are subject to control by certain shareholders and management. Christine L. Koski, the daughter of the deceased founder of the Company, Robert E. Koski, is a member of the board of directors. She, along with other family members, own or control approximately 22% of the outstanding shares of our common stock. Accordingly, the members of the Koski family have the ability to influence significantly the election of our directors and the outcome of certain corporate actions requiring shareholder approval, and to influence our business. Such influence could preclude any acquisition of the Company and could adversely affect the price of our common stock. Our directors and executive officers as a group beneficially own or control approximately 20% of the outstanding shares of our common stock.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The Company owns major facilities in the United States, United Kingdom, Germany, and Korea, as set forth below.

The Company owns a 66,000 square foot facility in Sarasota, Florida, which houses manufacturing, design, marketing and other administrative functions. The Sarasota facility is well suited for the design, testing and manufacture of the Company's products.

The Company also owns a 77,000 square foot manufacturing facility in Manatee County, Florida. The Manatee County facility, constructed in 1997, has a productive capacity similar to the Sarasota facility.

The close proximity of the Florida facilities allows for quick change and the ability to shift resources, including machinery and people, to effectively meet changing business requirements.

Both facilities in Florida are encumbered by a revolving line of credit, which matures on August 1, 2011. Monthly payment of interest only is due on the revolving line of credit, with a variable interest rate based upon the Company's leverage ratio. At January 1, 2011, there was no outstanding balance on the line of credit.

The Company also owns vacant land in Manatee County, Florida, for future expansion requirements. This land is adjacent to its existing facility. In total, the Company owns 27 acres of contiguous property. There is no mortgage on these properties and the Company believes the land to be well suited for additional manufacturing capacity.

The Company leases a 17,000 square foot manufacturing facility in Lenexa, Kansas, which is used to manufacture manifolds for the North American market.

The Company owns a 37,000 square foot facility in Coventry, England, free of any encumbrances. This operation, while primarily acting as a distributor, is also involved in manifold design and manufacturing.

The Company owns a 45,000 square foot distribution and manufacturing facility in Erkelenz, Germany, free of any encumbrances. This facility is well suited to house equipment used for manufacturing and testing of the Company's products. Currently, a small portion of the manufacturing area is utilized and the remainder is leased on an annual basis to an outside company.

The Company owns a 10,000 square foot distribution and manufacturing facility in Incheon, Korea, free of any encumbrances.

The Company believes that its properties have been adequately maintained, are generally in good condition, and are suitable and adequate for its business as presently conducted. The extent of utilization of the Company's properties varies from time to time and among its facilities.

ITEM 3. LEGAL PROCEEDINGS

The Company from time to time is involved in routine litigation incidental to the conduct of its business. The Company does not believe that any pending litigation will have a material adverse effect on its consolidated financial position or results of operations.

ITEM 4. RESERVED

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

The Common Stock of the Company has been trading publicly under the symbol SNHY on the Nasdaq Global Select Market since the Company's initial public offering on January 9, 1997. The following table sets forth the high and low closing sale prices of the Company's Common Stock as reported by the Nasdaq Global Select Market and the dividends declared for the periods indicated.

	High	Low	Dividends declared
<u>2010</u>			
First quarter	\$29.530	\$20.860	0.090
Second quarter	31.600	22.900	0.090
Third quarter	28.950	22.300	0.090
Fourth quarter	38.400	27.560	0.590
<u>2009</u>			
First quarter	\$19.610	\$10.590	\$ 0.180
Second quarter	19.000	13.930	0.090
Third quarter	22.170	15.050	0.090
Fourth quarter	27.840	19.060	0.090

Holdings

There were 127 shareholders of record of Common Stock on February 25, 2011. The number of record holders was determined from the records of the Company's transfer agent and does not include beneficial owners of Common Stock whose shares are held in the names of securities brokers, dealers, and registered clearing agencies. The Company believes that there are approximately 12,000 beneficial owners of Common Stock.

Dividends

Quarterly dividends were paid on the 15th day of each month following the date of declaration. Additionally, the Company declared a one-time special cash dividend of \$0.50 per share in 2010 and a shared distribution cash dividend of \$0.09 per share in 2009. The 2010 special cash dividend was paid on November 30, 2010, to shareholders of record as of November 15, 2010. The 2009 shared distribution cash dividend was paid on March 31, 2009, to shareholders of record as of March 15, 2009. The Company's board of directors has also declared a shared distribution cash dividend of \$0.11 per share, payable on March 31, 2011, to shareholders of record as of March 15, 2011.

The Company's board of directors currently intends to continue to pay a quarterly dividend of at least \$0.09 per share during 2011. However, the declaration and payment of future dividends is subject to the sole discretion of the board of directors, and any determination as to the payment of future dividends will depend upon the Company's profitability, financial condition, capital needs, acquisition opportunities, future prospects and other factors deemed pertinent by the board of directors.

Stock Split

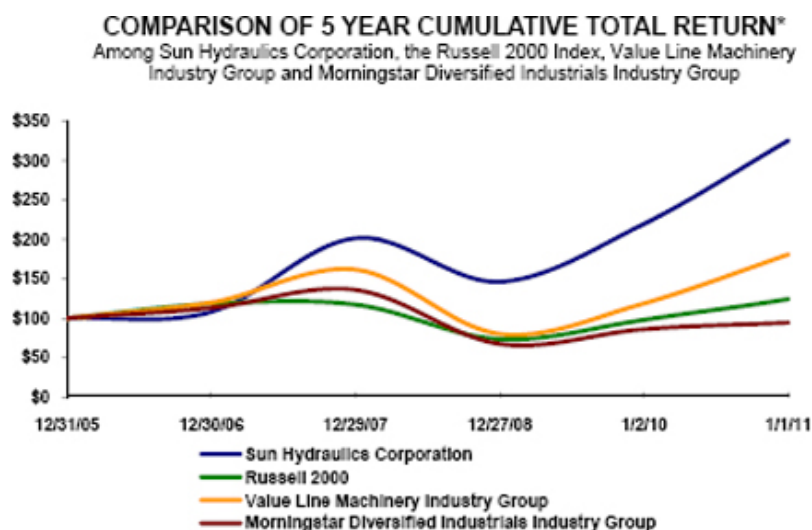
On June 19, 2007, the Company declared a three-for-two stock split, effected in the form of a 50% stock dividend, to shareholders of record on June 30, 2007, which was paid on July 15, 2007. The Company issued approximately 5,500,000 shares of common stock as a result of the stock split. The effect of the stock split on outstanding shares, earnings per share and dividends per share has been retroactively applied to all periods presented.

Issuer Purchases of Equity Securities

The Company did not repurchase any of its stock during the fourth quarter of 2010.

Five-Year Stock Performance Graph

The following graph compares cumulative total return among Sun Hydraulics Corporation, the Russell 2000 Index, the Value Line Machinery Industry Group and the Morningstar Diversified Industrials Industry Group, from December 31, 2005, to January 1, 2011, assuming \$100 invested in each on December 31, 2005. Total return assumes reinvestment of any dividends for all companies considered within the comparison. The stock price performance shown in the graph is not necessarily indicative of future price performance.



	<u>12/31/05</u>	<u>12/30/06</u>	<u>12/29/07</u>	<u>12/27/08</u>	<u>1/2/10</u>	<u>1/1/11</u>
Sun Hydraulics Corporation	100.00	108.22	201.57	146.35	219.72	325.42
Russell 2000	100.00	118.37	117.39	73.58	98.11	124.46
Value Line Machinery Industry Group	100.00	119.96	161.66	80.16	119.07	180.98
Morningstar Diversified Industrials Industry Group	100.00	113.14	136.00	67.50	86.24	94.52

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The following summary should be read in conjunction with the consolidated financial statements and related notes contained herein. See “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Item 1. Business.”

The Company reports on a fiscal year that ends on the Saturday closest to December 31st. Each quarter generally consists of thirteen weeks. As a result of the 2009 fiscal year ending January 2, 2010, the quarter ended January 2, 2010, consisted of fourteen weeks, resulting in a 53-week year.

	Year Ended				
	Jan 1, 2011	Jan 2, 2010	Dec 27, 2008	Dec 29, 2007	Dec 30, 2006
(in thousands except per share data)					
Statement of Operations:					
Net sales	\$150,695	\$ 97,393	\$ 178,278	\$ 167,374	\$ 142,282
Gross profit	52,343	21,957	59,117	54,850	43,932
Operating income	31,039	2,143	36,377	33,635	25,051
Income before income taxes	31,643	2,017	37,729	34,371	24,903
Net income	\$ 21,400	\$ 1,856	\$ 25,735	\$ 22,131	\$ 16,223
Basic net income per common share	\$ 1.26	\$ 0.11	\$ 1.55	\$ 1.35	\$ 0.99
Diluted net income per common share	\$ 1.26	\$ 0.11	\$ 1.55	\$ 1.34	\$ 0.99
Dividends per common share	\$ 0.86	\$ 0.45	\$ 0.45	\$ 0.34	\$ 0.27
Other Financial Data:					
Depreciation and amortization	\$ 6,873	\$ 6,968	\$ 7,096	\$ 6,341	\$ 5,849
Capital expenditures	3,856	5,096	10,874	12,591	9,525
Balance Sheet Data:					
Cash and cash equivalents	\$ 33,337	\$ 30,446	\$ 35,303	\$ 19,337	\$ 9,497
Working capital	66,150	53,454	50,217	36,198	24,015
Total assets	132,034	119,933	122,385	110,780	87,185
Total debt	—	—	272	701	1,072
Shareholders' equity	115,024	107,614	106,556	91,882	70,800

Quarterly Results of Operations
(unaudited, in thousands)

	For the Quarter Ended			
	Jan 1, 2011	Oct 2, 2010	Jul 3, 2010	Apr 3, 2010
Net sales	\$41,772	\$38,073	\$ 39,246	\$31,605
Gross profit	14,689	13,550	13,984	10,120
Operating income	8,754	8,182	9,139	4,964
Income before income taxes	8,762	8,409	9,323	5,148
Net income	<u>\$ 6,267</u>	<u>\$ 5,709</u>	<u>\$ 6,113</u>	<u>\$ 3,311</u>
Basic net income per common share	\$ 0.37	\$ 0.34	\$ 0.36	\$ 0.20
Diluted net income per common share	\$ 0.37	\$ 0.34	\$ 0.36	\$ 0.20

	For the Quarter Ended			
	Jan 2, 2010	Sep 26, 2009	Jun 27, 2009	Mar 28, 2009
Net sales	\$27,262	\$23,316	\$ 21,607	\$25,208
Gross profit	6,793	5,351	4,234	5,579
Operating income	1,549	423	(633)	804
Income before income taxes	1,626	570	(901)	722
Net income (loss)	<u>\$ 1,286</u>	<u>\$ 554</u>	<u>(\$ 536)</u>	<u>\$ 552</u>
Basic net income (loss) per common share	\$ 0.08	\$ 0.03	\$ (0.03)	\$ 0.03
Diluted net income (loss) per common share	\$ 0.08	\$ 0.03	\$ (0.03)	\$ 0.03

	For the Quarter Ended			
	Dec 27, 2008	Sep 27, 2008	Jun 28, 2008	Mar 29, 2008
Net sales	\$32,936	\$44,771	\$ 51,563	\$49,008
Gross profit	8,210	14,738	19,075	17,094
Operating income	2,674	9,281	13,283	11,139
Income before income taxes	3,154	9,768	13,341	11,465
Net income	<u>\$ 2,480</u>	<u>\$ 6,657</u>	<u>\$ 8,908</u>	<u>\$ 7,690</u>
Basic net income per common share	\$ 0.15	\$ 0.40	\$ 0.54	\$ 0.46
Diluted net income per common share	\$ 0.15	\$ 0.40	\$ 0.54	\$ 0.46

**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

OVERVIEW

Sun Hydraulics Corporation is a leading designer and manufacturer of high-performance screw-in hydraulic cartridge valves and manifolds, which control force, speed and motion as integral components in fluid power systems. The Company sells its products globally through wholly owned subsidiaries and independent distributors. Sales outside the United States for the year ended January 1, 2011, were approximately 61% of total net sales.

Approximately two thirds of product sales are used by the mobile market, which is characterized by applications where the equipment is not fixed in place, the operating environment is often unpredictable, and duty cycles are generally moderate to low. Some examples of the mobile market include equipment used in off-road construction, agriculture, fire and rescue, utilities, oil fields, and mining.

The remaining one third of sales are used by industrial markets, which are characterized by equipment that is fixed in place, typically in a controlled environment, and which operates at higher pressures and duty cycles. Power units, automation machinery, metal cutting machine tools and plastics machinery are some examples of industrial equipment. The Company sells to both markets with a single product line.

Industry Conditions

Demand for the Company's products is dependent on demand for the capital goods into which the products are incorporated. The capital goods industries in general, and the fluid power industry specifically, are subject to economic cycles. According to the National Fluid Power Association (the fluid power industry's trade association in the United States), the United States index of shipments of hydraulic products increased 42% in 2010, after a decrease of 40% in 2009 and an increase of 8% in 2008.

The Company's order trend has historically tracked closely to the United States Purchasing Managers Index (PMI). A PMI above 50 indicates economic expansion in the manufacturing sector and when below 50, it indicates economic contraction. The index increased to 58.5 in December 2010, from 56.4 in December 2009. The index has remained above 50 since August 2009. The report in February 2011 indicates continuing strong performance in the manufacturing sector with an index at 61.4, its highest level since 2004. New orders and production, driven by strength in exports in particular, continue to drive the composite index. Management believes these are very positive signs for the Company's business in 2011.

Results for the 2010 fiscal year

(Dollars in millions except net income per share)

	January 1, 2011	January 2, 2010	Increase
Twelve Months Ended			
Net Sales	\$ 150.7	\$ 97.4	55%
Net Income	\$ 21.4	\$ 1.9	1026%
Net Income per share:			
Basic	\$ 1.26	\$ 0.11	1045%
Diluted	\$ 1.26	\$ 0.11	1045%
Three Months Ended			
Net Sales	\$ 41.8	\$ 27.3	53%
Net Income	\$ 6.3	\$ 1.3	385%
Net Income per share:			
Basic	\$ 0.37	\$ 0.08	363%
Diluted	\$ 0.37	\$ 0.08	363%

Business activity in 2010 rebounded more quickly than management had anticipated. The Company has been able to keep up with the steadily increasing demand, while realizing substantial productivity improvements, thanks in large part to maintaining and investing in its workforce readiness throughout the downturn. The operational efficiency of the Company is demonstrated by its strong earnings numbers.

Generally, the Company's second quarter is its strongest, but business expanded in the fourth quarter, resulting in its highest revenue and earnings quarter of the year. That expansion has continued into the first quarter, as some of the Company's traditional markets gain strength. Sales in 2010 were buoyed by new customers around the world. Traditional markets like mining, construction and aerial work platforms appear to be gaining strength, which management believes is a good indication for 2011.

The macroeconomic outlook is robust, the PMI continues to expand and all signals are positive. As capital goods industries remain strong, management believes Sun will continue to grow and earnings will continue to rise. The Company has a very strong first quarter forecast, and expects to remain busy.

Maintaining the Company's strong balance sheet and financial flexibility remains a key strategy. The Company ended 2010 with cash and investments of \$45.0 million, up \$6.7 million from the previous year, an unused line of credit of \$35.0 million, and zero dollars of long-term debt. The Company continued to invest in its business in 2010 with capital expenditures for the year of approximately \$3.9 million. The Company has ample cash to do the things management believes are necessary to position the Company to take the next step in its growth.

Dividends

The Company declared quarterly dividends of \$0.09 per share that were paid on the 15th day of the month following the date of declaration. Additionally, the Company declared a one-time special cash dividend of \$0.50 per share that was paid on November 30, 2010, to shareholders of record as of November 15, 2010.

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

The shared distribution dividend will be issued to shareholders of record on March 15, 2011, with payment on March 31, 2011.

Outlook

First quarter 2011 revenues are expected to be approximately \$50 million, up approximately 58% from the first quarter of 2010. Earnings per share are estimated to be \$0.50 to \$0.53 compared to \$0.20 in the same period a year ago.

Results of Operations

The following table sets forth, for the periods indicated, certain items in the Company's statements of operations as a percentage of net sales.

	For the Year Ended				
	Jan 1, 2011	Jan 2, 2010	Dec 27, 2008	Dec 29, 2007	Dec 30, 2006
Net sales	100.0%	100.0%	100.0%	100.0%	100.0%
Gross profit	34.7%	22.5%	33.2%	32.8%	30.9%
Operating income	20.6%	2.2%	20.4%	20.1%	17.6%
Income before income taxes	21.0%	2.1%	21.2%	20.5%	17.5%

Segment Information (in thousands)

	United States	Korea	Germany	United Kingdom	Elimination	Consolidated
2010						
Sales to unaffiliated customers	\$ 94,067	\$ 16,284	\$ 19,770	\$ 20,574	\$ —	\$ 150,695
Intercompany sales	26,022	—	160	1,225	(27,407)	—
Operating income	22,040	2,246	4,024	2,822	(93)	31,039
Total assets	89,977	10,535	14,705	17,605	(788)	132,034
Depreciation and amortization	5,388	89	429	967		6,873
Capital expenditures	3,400	217	27	212		3,856
2009						
Sales to unaffiliated customers	\$ 59,278	\$ 9,978	\$ 14,654	\$ 13,483	\$ —	\$ 97,393
Intercompany sales	15,545	—	139	1,101	(16,785)	—
Operating income (loss)	(2,110)	616	2,475	884	278	2,143
Total assets	85,338	8,191	12,447	15,923	(1,966)	119,933
Depreciation and amortization	5,335	104	502	1,027		6,968
Capital expenditures	4,758	41	30	267		5,096
2008						
Sales to unaffiliated customers	\$ 111,180	\$ 17,455	\$ 27,356	\$ 22,287	\$ —	\$ 178,278
Intercompany sales	28,656	—	245	2,282	(31,183)	—
Operating income	24,531	1,148	7,693	3,231	(226)	36,377
Total assets	91,855	6,680	10,980	15,049	(2,179)	122,385
Depreciation and amortization	5,139	151	572	1,234		7,096
Capital expenditures	9,904	39	298	633		10,874

Comparison of Years Ended January 1, 2011 and January 2, 2010

Net Sales

Net sales were \$150.7 million, an increase of \$53.3 million, or 54.7%, compared to \$97.4 million in 2009. Net sales increased 54.8% excluding the effect of exchange rates. The increase in net sales was primarily driven by increased demand in our end markets, which primarily include capital goods equipment. Price increases instituted in July 2010 accounted for approximately 1.5% of total sales. New product sales (defined as products introduced within the last five years) generally made up 10-15% of total sales in 2010.

North American sales increased 51.3% or \$22.8 million, to \$67.3 million in 2010, Asian sales increased 74.2% or \$12.8 million, to \$30.1 million in 2010, and European sales increased 46.9% or \$15.2 million, to \$47.7 million in 2010.

The U.S. reporting segment had sales of \$94.1 million during 2010, up \$34.8 million or 58.7%, compared to sales of \$59.3 million during 2009. The increase was driven by demand in our end markets and the general upturn in the global economy. International sales out of the U.S. were \$34.9 million during 2010, up 83.7% or \$15.9 million, compared to \$19.0 million during 2009. International sales out of the US include sales to Europe, Africa and the Asia/Pacific region. Significant increases in sales were noted in almost all geographic regions.

The Korean reporting segment had sales of \$16.3 million during 2010, up \$6.3 million or 63.2%, compared to sales of \$10.0 million during 2009. Currency effect increased 2010 sales by approximately \$1.4 million, the majority of which occurred in the first half of the year. The remaining increase was the result of efforts to expand and diversify the customer base, in addition to increased demand from existing customers.

The German reporting segment had sales of \$19.8 million during 2010, up \$5.1 million or 34.9%, compared to sales of \$14.7 million during 2009. The increases in sales was primarily related to demand within Germany. However increased sales were noted throughout most of Europe. These increases were partially offset by currency effect, which reduced 2010 sales by approximately \$1.0 million, most of which occurred in the second half of the year.

The U.K. reporting segment had sales of \$20.6 million during 2010, up \$7.1 million or 52.6%, compared to sales of \$13.5 million during 2009. The increase was primarily related to sales within the U.K., and to Sweden. Currency effect reduced 2010 sales by approximately \$0.4 million.

Gross Profit

Gross profit increased \$30.4 million or 138.4% to \$ 52.3 million in 2010, compared to \$22.0 million in 2009. Gross profit as a percentage of net sales increased to 34.7% in 2010, compared to 22.5% in 2009.

During the downturn of the prior year, the Company maintained its workforce and labor and variable overhead costs became essentially fixed. By maintaining its workforce, the Company has been able to respond to the increasing demand in 2010. As sales increased across all segments, the Company has experienced productivity improvements and was able to leverage its overhead costs to generate higher gross profit.

Higher sales volume in 2010 contributed \$11.4 million of the gross profit increase. The remaining increase in gross profit was attributed to productivity improvements of approximately \$4.5 million, and decreases in overhead expenses as a percentage of sales of approximately \$13.3 million, both of which occurred primarily in the U.S. A price increase in July 2010 added approximately \$2.6 million to gross profit. The increase in gross profit was partially offset by higher material costs as a percent of sales of \$1.4 million. Additionally, 2010 amounts include higher benefit costs of approximately \$1.9 million relating to the shared distribution, most of which will be paid into retirement plans.

In June 2009, the Company initiated rolling furloughs for the production workforce and a 3% salary reduction for non-production personnel. Production employees were brought back throughout the first quarter of 2010 as demand increased. In April 2010, the Company ended its employee furlough program

and restored the 3% salary decrease for all U.S. employees. There was minimal impact during 2010 relating to the furloughs and salary reductions, however, the prior year period includes cost savings of approximately \$1.3 million.

Selling, Engineering, and Administrative Expenses

Selling, engineering and administrative expenses in 2010 were \$21.3 million, a \$1.5 million, or 7.5%, increase, compared to \$19.8 million in 2009. The increase is primarily related to marketing efforts in Asia of approximately \$0.4 million, and additional benefits related to the shared distribution of approximately \$0.8 million, most of which will be paid into retirement plans. The prior year includes cost savings of approximately \$0.9 million, resulting from the furlough and salary reductions.

Operating Income

Operating income increased \$28.9 million or 1348.4% to \$31.0 million in 2010, compared to \$2.1 million in 2009, with operating margins of 20.6% and 2.2% for 2010 and 2009, respectively. Based on the Company's structure and decisions during the downturn, the increase in sales during 2010 has improved operating margins across all segments. During the downturn of the prior year, the Company maintained its workforce and labor and variable overhead costs became essentially fixed. By maintaining its workforce, the Company has been able to respond to the increasing demand. As sales increase across all segments, the Company is experiencing productivity improvements and is able to leverage its overhead costs to generate higher operating income.

The U.S. reporting segment contributed \$22.0 million to our consolidated operating income during 2010 compared to an operating loss of \$2.1 million during 2009, an increase of \$24.2 million. The increase in the U.S. operating segment is primarily related to productivity gains and leverage of its overhead costs. Productivity gains contributed \$4.5 million and decreases in variable and fixed overhead costs as a percent of sales added \$13.8 million to operating income. The remaining increases in operating income were primarily from absorption of selling, engineering, and administrative expenses.

The Korean reporting segment contributed \$2.2 million to our consolidated operating income during 2010 compared to \$0.6 million during 2009, an increase of \$1.6 million. The increase in operating income was primarily related to material costs due to the strength of the Korean Won against the U.S. Dollar for material purchases made in U.S. Dollars, and productivity improvements totaling \$1.0 million. The increase in sales volume resulted in \$0.4 million of additional operating income.

The German reporting segment contributed \$4.0 million to our consolidated operating income during 2010 compared to \$2.5 million during 2009, an increase of \$1.5 million. The increase was primarily due to the absorption of selling, engineering, and administrative expenses which remained flat in whole dollars. The increase in sales volume resulted in \$0.9 million of additional operating income. These amounts were offset by material costs, due to the weakening of the Euro against the U.S. Dollar for material purchases made in U.S. Dollars of \$0.6 million.

The U.K. reporting segment contributed \$2.8 million to our consolidated operating income during 2010 compared to \$0.9 million during 2009, an increase of \$1.9 million. The increase was primarily related to productivity improvements of \$0.8 million and decreased variable and fixed costs as a percent of sales of \$1.7 million. The increase in sales volume resulted in \$0.5 million of additional operating income. These amounts were partially offset by increased material costs of \$1.6 million, primarily related to product mix.

Interest Income, Net

Net Interest income for 2010 was \$0.7 million compared to net interest income of \$0.6 million for 2009. Total average cash and investments for 2010, was \$41.6 million compared to total average cash of \$36.8 million for 2009. Although total cash and investments increased in 2010, interest rates were at an all time low. Interest is primarily derived from investments in corporate and municipal bonds, mutual funds, certificates of deposit, and money market funds.

Foreign Currency Transaction Loss, Net

Net foreign currency transaction loss was \$0.1 million in 2010 compared to \$0.3 million in 2009. The U.S. Dollar strengthened against the Euro, the Korean Won and the British Pound at times during 2010 resulting in minimal foreign currency transaction losses at each of our international locations.

Miscellaneous (Income) Expense, Net

Miscellaneous income was \$0.1 million in 2010 compared to expense of \$0.4 million in 2009. The increase is primarily related to equity method investment earnings.

Income Taxes

The provision for income taxes for the year ended January 1, 2011, was 32.4% of pretax income compared to a provision of 8.0% for the year ended January 2, 2010. The change was primarily due to the relative levels of income and different tax rates in effect among the countries in which the Company sells its products. The prior year provision includes a tax benefit for losses recognized in the U.S.

Comparison of Years Ended January 2, 2010, and December 27, 2008***Net Sales***

Net sales were \$97.4 million, a decrease of \$80.9 million, or 45.4%, compared to \$178.3 million in 2008. Net sales decreased 42.5% excluding the effect of exchange rates. The decrease in net sales was primarily driven by decreased demand in our end markets, which primarily include capital goods equipment. Price increases instituted in October 2008 accounted for approximately 1.5% of total sales. New product sales (defined as products introduced within the last five years) generally made up 10-15% of total sales in 2009.

North American sales decreased 46.5% or \$38.7 million, to \$44.5 million in 2009, Asian sales decreased 44.0% or \$13.6 million, to \$17.3 million in 2009, and European sales decreased 45.2% or \$26.8 million, to \$32.4 million in 2009.

The U.S. reporting segment had sales of \$59.3 million during 2009, down \$51.9 million or 46.7%, compared to sales of \$111.2 million during 2008. The decrease was driven by demand in our end markets and the general downturn in the global economy. International sales out of the U.S. were \$19.0 million during 2009, down 48.7% or \$18.0 million, compared to \$37.1 million during 2008. International sales out of the US include some sales to Europe, Africa and the Asia/Pacific region. Significant decreases in sales were noted in almost all geographic regions.

The Korean reporting segment had sales of \$10.0 million during 2009, down \$7.5 million or 42.8%, compared to sales of \$17.5 million during 2008. Currency effect reduced 2009 sales by approximately \$1.5 million. The remaining decrease was related to a slowdown in sales to four major Korean customers that are in the construction equipment industry. The Korean reporting segment was the first segment to be affected by the slowdown in the global economy. As expected by management, the Korean reporting segment was also the first segment to show quarterly year over year growth, which occurred in the fourth quarter of 2009 with sales increasing \$1.2 million, or 69.0% from the prior year. The Korean reporting segment had declining quarterly year over year sales since the second quarter of 2008. Efforts to expand and diversify its customer base, in addition to increased demand from existing customers, led to the increased sales.

The German reporting segment had sales of \$14.7 million during 2009, down \$12.7 million or 46.4%, compared to sales of \$27.4 million during 2008. Currency effect reduced 2009 sales by approximately \$1.0 million. The remaining decrease was primarily related to demand within Germany. However, sales were down in all geographic markets.

The U.K. reporting segment had sales of \$13.5 million during 2009, down \$8.8 million or 39.5%, compared to sales of \$22.3 million during 2008. Currency effect reduced 2009 sales by approximately \$1.4 million. The largest reduction of sales was to customers within the U.K. however, sales were down in almost all geographic markets.

Gross Profit

Gross profit decreased \$37.2 million or 62.9% to \$ 22.0 million in 2009, compared to \$59.1 million in 2008. Gross profit as a percentage of net sales decreased to 22.5% in 2009, compared to 33.2% in 2008. The Company experienced a sharp decline in sales during the fourth quarter of 2008, which resulted in gross profit margins of 24.9% in that period. Sales continued to decline during the first half of 2009, resulting in further reductions in the gross profit margin. Both sales and gross profit margins increased sequentially in the third and fourth quarters of 2009. The gross profit margin in the fourth quarter of 2009 was flat compared to the prior year with a margin of 24.9%, while sales decreased \$5.7 million for the same period. The 2008 fourth quarter results included additional retirement expense related to the shared distribution that was not included in the current year.

The 2009 gross profit decreases were primarily related to lower sales volume, which contributed \$26.8 million of the decrease. The remaining decreases in gross profit were attributed to productivity declines of approximately \$2.5 million, and increases in overhead expenses as a percentage of sales of approximately \$10.0 million, both of which occurred primarily in the U.S. In periods of sharp declining sales, the Company cannot reduce costs at the same pace. However, the decrease in gross profit was partially offset by lower material costs as a percent of sales of approximately \$2.1 million, primarily in the U.S.

Additionally, the Company eliminated overtime premiums equal to approximately \$1.1 million, reduced retirement benefits, primarily related to the shared distribution, of approximately \$3.2 million that was included in the prior year results, and the Company had cost savings of approximately \$1.3 million resulting from the furloughs and salary reductions during the current year. These reductions were all primarily in the U.S.

Selling, Engineering, and Administrative Expenses

Selling, engineering and administrative expenses in 2009 were \$19.8 million, a \$2.9 million, or 12.8%, decrease, compared to \$22.7 million in 2008. The change was due to decreases in compensation of \$0.9 million, resulting primarily from salary freezes and reductions that began in January, fringe benefit costs of \$0.9 million, primarily related to retirement benefits associated with the shared distribution that was included in the prior year results, travel of \$0.4 million, and professional fees and outside services of \$0.4 million.

Operating Income

Operating income decreased \$34.2 million or 94.1% to \$2.1 million in 2009, compared to \$36.4 million in 2008, with operating margins of 2.2% and 20.4% for 2009 and 2008, respectively.

The U.S. reporting segment experienced an operating loss of \$2.1 million in 2009 compared to operating income of \$24.5 million during 2008, a decrease of \$26.7 million. The sharp decline in sales volume reduced operating income \$11.5 million. Additional decreases in operating income occurred from productivity declines as a result of keeping its workforce intact, and increased variable and fixed overhead costs as a percent of sales. Decreases in operating income were partially offset by decreases in material costs. Additionally, the Company had cost savings of approximately \$1.4 million in 2009, as a result of the furloughs and salary reductions.

The Korean reporting segment contributed \$0.6 million to our consolidated operating income during 2009 compared to \$1.1 million during 2008, a decrease of \$0.5 million. The decrease was almost entirely related to the reduction in sales volume.

The German reporting segment contributed \$2.5 million to our consolidated operating income during 2009 compared to \$7.7 million during 2008, a decrease of \$5.2 million. Reduction in sales volume resulted in a decrease of \$3.6 million to operating income. The remaining decrease was primarily related to increased fixed overhead costs as a percent of sales and increased material costs due to the strength of the U.S. Dollar against the Euro for material purchases made in U.S. Dollars.

The U.K. reporting segment contributed \$0.9 million to our consolidated operating income during 2009 compared to \$3.2 million during 2008, a decrease of \$2.3 million. The reduction in sales volume was responsible for \$1.3 million of the decrease in operating income. The remaining decrease was primarily related to increased fixed overhead costs as a percent of sales.

Interest Income, Net

Net Interest income for 2009 was \$0.6 million compared to net interest income of \$0.8 million for 2008. The Company paid off the remaining balance of its long-term debt in the first quarter of 2009, and had total average debt for 2008 of \$0.5 million. Total average cash and investments for 2009, was \$36.8 million compared to total average cash of \$27.3 million for 2008. Although total cash and investments increased in 2009, interest rates were at an all time low. In response to the decrease in interest rates in 2009, the Company invested in primarily corporate and municipal bonds to achieve an above average rate of return.

Foreign Currency Transaction (Gain) Loss, Net

Net foreign currency transaction loss was \$0.3 million in 2009 compared to a gain of \$0.5 million in 2008. While the Euro, the Korean Won and the British Pound strengthened against the U.S. Dollar, the UK operations experienced losses related to sales conducted in U.S. dollars and from the revaluation of Sun Ltd. balance sheet items, which were held in U.S. dollars. The inverse was true of 2008.

Miscellaneous (Income) Expense, Net

Miscellaneous expense was \$0.4 million in 2009 compared to income of \$0.1 million in 2008. The decrease in income is primarily related to a reduction in equity method investment earnings from the prior year. The prior year income was primarily a result of proceeds from an insurance claim. This amount was partially offset by a loss on disposal of assets and charitable contributions.

Income Taxes

The provision for income taxes for the year ended January 2, 2010, was 8.0% of pretax income compared to a provision of 31.8% for the year ended December 27, 2008. The change was primarily due to the relative levels of income and different tax rates in effect among the countries in which the Company sells its products, particularly from the tax benefit recognized in the U.S.

Liquidity and Capital Resources

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

Net cash flow from operations in 2010 was \$25.1 million, compared to \$13.7 million in 2009 and \$38.5 million in 2008. The \$11.4 million increase in the Company's net cash flow from operations was due primarily to the increase in net income of \$19.5 million, and changes in working capital relating to accounts receivable, inventories, accounts payable and accrued expenses. Cash on hand increased \$2.9 million from \$30.4 million in 2009 to \$33.3 million in 2010. The Company had \$11.6 million invested in available for sale securities at January 1, 2011, compared to \$7.8 million invested in available for sale securities at January 2, 2010. Days sales outstanding decreased to 32 in 2010 from 42 in 2009 and inventory turns increased to 10.6 in 2010 from 8.5 in 2009. Both days sales outstanding and inventory turns improved with the increased demand throughout 2010. The \$24.9 million decrease in the Company's net cash flow from operations in 2009 was due primarily to the decrease in net income of \$23.9 million.

Capital expenditures, consisting primarily of purchases of machinery and equipment, were \$3.9 million in 2010, compared to \$3.4 million in 2009 and \$8.4 million in 2008. Also included in capital expenditures for the year ended January 2, 2010, and December 27, 2008, were land purchases equal to \$1.7 million and \$2.5 million, respectively. The Company considers five factors when purchasing capital equipment; to

increase capability, increase capacity, reduce hassle, comply with changes to legal regulations and to improve safety. Capital expenditures in 2010 were less than originally estimated, which was primarily the result of having adequate capacity to meet demand. The level of demand we are currently experiencing makes it difficult to estimate capital expenditures for 2011, but we do anticipate first quarter purchases of \$1.0 to \$2.0 million.

On August 11, 2005, the Company completed a refinancing of its existing debt in the U.S. with Fifth Third Bank (the "Bank"). The new financing consists of a secured revolving line of credit of \$35 million (the "Line of Credit"). The Line of Credit is secured by the Company's U.S. assets, including its manufacturing facilities, and requires monthly payments of interest. The Line of Credit has a floating interest rate based upon LIBOR plus 1.5% or the Bank's Base Rate, whichever is more advantageous. The Line of Credit is payable in full on August 1, 2011, but maturity may be accelerated by the Bank upon an Event of Default (as defined). Prepayment may be made without penalty or premium at any time upon the required notice to the Bank. At January 1, 2011, the Line of Credit had no outstanding balance.

The Line of Credit is subject to debt covenants including: 1) Debt (as defined) to Tangible Net Worth (as defined) ratio of not more than 1.5:1.0, 2) Funded Debt (as defined) to EBITDA (as defined) ratio of not more than 2.5:1.0, and 3) EBIT (as defined) to Interest Expense (as defined) ratio of not less than 1.1:1.0; and requires the Company to maintain its primary domestic deposit accounts with the Bank. As of January 1, 2011, the Company was in compliance with all debt covenants.

The Company declared the following regular quarterly dividends to shareholders of record on the last day of the respective quarter:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
First quarter	\$0.090	\$0.090	\$0.090
Second quarter	0.090	0.090	0.090
Third quarter	0.090	0.090	0.090
Fourth quarter	0.590	0.090	0.090

These dividends were paid on the 15th day of each month following the date of declaration. In 2010, the Company also declared a one-time special cash dividend of \$0.50 per share, paid on November 30, 2010, to shareholders of record as of November 15, 2010.

During 2009 and 2008, the Company paid shared distribution cash dividends of \$0.09 per share. The 2009 dividend was paid on March 31, 2009, to shareholders of record as of March 15, 2009, and the 2008 dividend was paid on May 30, 2008, to shareholders of record as of May 15, 2008. The Board of Directors has declared a shared distribution cash dividend of \$0.11 per share, payable on March 31, 2011, to shareholders of record as of March 15, 2011. The shared distribution was introduced in 2008 as a way to reward both shareholders and employees when the Company has a successful year.

The declaration and payment of future dividends is subject to the sole discretion of the Board of Directors, and any determination as to the payment of future dividends will depend upon the Company's profitability, financial condition, capital needs, acquisition opportunities, future prospects and other factors deemed pertinent by the board of directors.

The Company believes that cash generated from operations and its borrowing availability under the revolving Line of Credit will be sufficient to satisfy the Company's operating expenses and capital expenditures for the foreseeable future. In the event that economic conditions were to severely worsen for a protracted period of time, the Company would have several options available to ensure liquidity in addition to increased borrowing. Capital expenditures could be postponed since they primarily pertain to long-term improvements in operations. Additional operating expense reductions also could be made. Finally, the dividend to shareholders could be reduced or suspended.

OTHER MATERIAL COMMITMENTS. Our contractual obligations and debt obligations as of January 1, 2011, are summarized in the table below (in thousands):

CONTRACTUAL OBLIGATIONS	Payments due by Period				
	TOTAL	LESS THAN 1 YEAR	1-3 YEARS	3-5 YEARS	MORE THAN 5 YEARS
Operating leases	\$ 129	98	31	—	—
Other long term liabilities (1)	1,197	—	—	—	1,197
Total contractual obligations	\$1,326	\$ 98	\$ 31	\$ —	\$ 1,197

- (1) Other long term liabilities consist of deferred compensation of \$1,197. Deferred compensation relates to Director compensation for attendance at Board meetings. Amounts will be paid upon an individual ceasing to be a Director of the Company or earlier dates selected by the Director provided in the deferred compensation plan.

Critical Accounting Policies and Estimates

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

Revenue Recognition

The Company reports revenues, net of sales incentives, when title passes and risk of loss transfers to the customer. The effect of material non-recurring events related to product liabilities is provided for when they become known. The Company has not experienced any material product liabilities in the past.

Impairment of Long-Lived Assets

Long-lived assets, such as property and equipment, and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the asset is measured by comparison of its carrying amount to future net cash flows the asset is expected to generate. If such assets are considered impaired, the impairment to be recognized is measured as the amount by which the carrying amount of the asset exceeds its fair value.

Accounts Receivable

The Company sells to most of its customers on a recurring basis, primarily through distributors with which the Company maintains long-term relationships. As a result, bad debt experience has not been material. The allowance for doubtful accounts is determined on a specific identification basis by a review of those accounts that are significantly in arrears. There can be no assurance that a distributor or a large direct sale customer with overdue accounts receivable balances will not develop financial difficulties and default on payment. See Consolidated Balance Sheets for allowance amounts.

Inventory

The Company offers a wide variety of standard products and as a matter of policy does not discontinue products. On an ongoing basis, component parts found to be obsolete through design or process changes are disposed of and charged to material cost. The Company reviews on-hand balances of products and component parts against specific criteria. Products and component parts without usage or that have excess quantities on hand are evaluated. An inventory reserve is then established for the full inventory carrying value of those products and component parts deemed to be obsolete or slow moving. See Note 5 to the Financial Statements for inventory reserve amounts.

Goodwill

The Company acquired its Korean operations in September 1998 using the purchase method. As a result, goodwill is reflected on the Consolidated Balance Sheet. A valuation using a discounted cash flow method was performed at January 1, 2011, and January 2, 2010. It was determined that the value of the goodwill was not impaired. There is no assurance that the value of the acquired company will not decrease in the future due to changing business conditions. See Note 7 to the Financial Statements for goodwill amounts.

Accruals

The Company makes estimates related to certain employee benefits and miscellaneous accruals. Estimates for employee benefit accruals are based on management's assessment of estimated liabilities related to workers' compensation, health care benefits and annual contributions to an employee stock ownership plan ("ESOP"), established in 2004 as part of the Company's retirement plan. Estimates for miscellaneous accruals are based on management's assessment of estimated liabilities for costs incurred.

The Company accrues for health care benefit costs under a self-funded plan. The Company purchases re-insurance for both specific and aggregate stop losses on claims that exceed \$115 thousand on an individual basis and approximately \$7.0 million on an aggregate basis.

Stock-Based Compensation

All share-based compensation cost is measured at the grant date, based on the fair value of the award, and is recognized as an expense in earnings over the requisite service period. Benefits of tax deductions in excess of recognized compensation costs are reported as a financing cash inflow.

Income Taxes

The Company's income tax policy provides for a liability approach under which deferred income taxes are provided for based upon enacted tax laws and rates applicable to the periods in which the taxes become payable. These differences result from items reported differently for financial reporting and income tax purposes, primarily depreciation, accrued expenses and reserves.

The Company reports a liability for unrecognized tax benefits resulting from unrecognized tax benefits taken or expected to be taken in a tax return. The Company recognizes potential interest and penalties related to its unrecognized tax benefits in income tax expense.

New Accounting Pronouncements

In January 2010, the Financial Accounting Standards Board ("FASB") issued guidance amending the existing fair value measurements and disclosures guidance. The amendment requires new disclosures regarding the transfers in and out of level 1 and 2 fair value measurements and activity in level 3 fair value measurements. The amendment also clarifies existing disclosures regarding the level of disaggregated information as well as more disclosure around valuation techniques and inputs to fair value measurements. The guidance was effective for interim and annual reporting periods commencing after December 15, 2009, with a portion effective for fiscal years beginning after December 15, 2010. The adoption of this guidance has not had a material impact on the Company's Consolidated Financial Statements, nor is the remaining guidance expected to have a material impact.

Off Balance Sheet Arrangements

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

The Company uses the equity method of accounting to account for its investments in Sun China, WhiteOak and High Country Tek. The Company does not have a majority ownership in or exercise control over any of the entities. These investments were not material to the financial statements of the Company at January 1, 2011.

Seasonality

The Company generally has experienced increased sales during the second quarter of the year, largely as a result of the order patterns of our customers. As a result, the Company's second quarter net sales, income from operations and net income historically are the highest of any quarter during the year. However, due to the economic conditions of the past two years, this pattern was not evident in 2010 and 2009.

Inflation

The impact of inflation on the Company's operating results has been moderate in recent years, reflecting generally lower rates of inflation in the economy. While inflation has not had, and the Company does not expect that it will have, a material impact upon operating results, there is no assurance that the Company's business will not be affected by inflation in the future.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to market risk from changes in interest rates on borrowed funds, which could affect its results of operations and financial condition. The Company has managed this risk by its ability to select the interest rate on its debt financing at LIBOR plus 1.5% or the Bank's Base Rate, whichever is more advantageous. The Company had no variable-rate debt outstanding at January 1, 2011, and January 2, 2010.

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and
Stockholders of Sun Hydraulics Corporation:

We have audited the accompanying consolidated balance sheet of Sun Hydraulics Corporation (a Florida corporation) and subsidiaries (collectively, the Company) as of January 1, 2011, and the related consolidated statements of operations, stockholders' equity and comprehensive income, and cash flows for the year then ended. We also have audited Sun Hydraulic Corporation's internal control over financial reporting as of January 1, 2011, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the company's internal control over financial reporting based on our audits.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audit of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall consolidated financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Sun Hydraulics Corporation as of January 1, 2011, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, Sun Hydraulics Corporation maintained, in all material respects, effective internal control over financial reporting as of January 1, 2011, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

/s/ Mayer Hoffman McCann P.C.

Clearwater, Florida
March 9, 2011

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and
Stockholders of Sun Hydraulics Corporation:

We have audited the accompanying consolidated balance sheet of Sun Hydraulics Corporation (a Florida corporation) and subsidiaries (collectively, the Company) as of January 2, 2010, and the related consolidated statement of operations, stockholders' equity and comprehensive income, and cash flows for each of the years in the two-year period ended January 2, 2010. The Company's management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Sun Hydraulics Corporation as of January 2, 2010, and the results of its operations and its cash flows for each of the years in the two-year period ended January 2, 2010 in conformity with accounting principles generally accepted in the United States of America.

/s/ Kirkland, Russ, Murphy, & Tapp, P.A.

Clearwater, Florida
March 12, 2010

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

	January 1, 2011	January 2, 2010
Assets		
Current assets:		
Cash and cash equivalents	\$ 33,206	\$ 30,314
Restricted cash	131	132
Accounts receivable, net of allowance for doubtful accounts of \$82 and \$90	16,399	9,949
Inventories	10,773	7,799
Income taxes receivable	1,154	1,485
Deferred income taxes	446	575
Marketable securities	11,614	7,844
Other current assets	2,556	1,797
Total current assets	76,279	59,895
Property, plant and equipment, net	53,127	56,633
Other assets	2,628	3,405
Total assets	\$ 132,034	\$ 119,933
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable	\$ 3,348	\$ 2,442
Accrued expenses and other liabilities	5,250	2,475
Dividends payable	1,531	1,524
Total current liabilities	10,129	6,441
Deferred income taxes	5,684	5,191
Other noncurrent liabilities	1,197	687
Total liabilities	17,010	12,319
Commitments and contingencies (Note 17)	—	—
Shareholders' equity:		
Preferred stock, 2,000,000 shares authorized, par value \$0.001, no shares outstanding	—	—
Common stock, 20,000,000 shares authorized, par value \$0.001, 17,015,045 and 16,933,168 shares outstanding	17	17
Capital in excess of par value	44,001	42,210
Retained earnings	71,141	64,383
Accumulated other comprehensive income (loss)	(135)	1,004
Total shareholders' equity	115,024	107,614
Total liabilities and shareholders' equity	\$ 132,034	\$ 119,933

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

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

	For the year ended		
	January 1, 2011	January 2, 2010	December 27, 2008
Net sales	\$ 150,695	\$ 97,393	\$ 178,278
Cost of sales	<u>98,352</u>	<u>75,436</u>	<u>119,161</u>
Gross profit	52,343	21,957	59,117
Selling, engineering and administrative expenses	<u>21,304</u>	<u>19,814</u>	<u>22,740</u>
Operating income	31,039	2,143	36,377
Interest income, net	(653)	(562)	(793)
Foreign currency transaction (gain) loss, net	106	265	(467)
Miscellaneous (income) expense, net	<u>(57)</u>	<u>423</u>	<u>(92)</u>
Income before income taxes	31,643	2,017	37,729
Income tax provision	<u>10,243</u>	<u>161</u>	<u>11,994</u>
Net income	\$ 21,400	\$ 1,856	\$ 25,735
Basic net income per common share	\$ 1.26	\$ 0.11	\$ 1.55
Weighted average basic shares outstanding	16,952	16,837	16,603
Diluted net income per common share	\$ 1.26	\$ 0.11	\$ 1.55
Weighted average diluted shares outstanding	16,985	16,870	16,634
Dividends declared per share	\$ 0.860	\$ 0.450	\$ 0.450

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

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

	Preferred Shares	Preferred Stock	Common Shares	Common stock	Capital in excess of par value	Retained earnings	Accumulated other comprehensive income (loss)	Total
Balance, December 29, 2007	—	\$ —	16,493	\$ 16	\$34,390	\$ 51,844	\$ 5,632	\$ 91,882
Shares issued, Restricted Stock			40	1				1
Shares issued, Other Comp			3					
Shares issued, Stock Options			17		87			87
Shares issued, ESPP			16		359			359
Shares issued, ESOP			89		2,255			2,255
Stock-based compensation					896			896
Tax benefit of stock-based compensation					55			55
Dividends issued						(7,480)		(7,480)
Comprehensive income (loss):								
Net income						25,735		25,735
Foreign currency translation adjustments							(7,234)	(7,234)
Comprehensive income (loss):								18,501
Balance, December 27, 2008	—	\$ —	16,658	\$ 17	\$38,042	\$ 70,099	\$ (1,602)	\$106,556
Shares issued, Restricted Stock			40					—
Shares issued, Other Comp			4					—
Shares issued, Stock Options			3		11			11
Shares issued, ESPP			29		392			392
Shares issued, ESOP			199		2,796			2,796
Stock-based compensation					960			960
Tax benefit of stock-based compensation					9			9
Dividends issued						(7,572)		(7,572)
Comprehensive income (loss):								
Net income						1,856		1,856
Unrealized gain on available for sale securities							116	116
Foreign currency translation adjustments							2,490	2,490
Comprehensive income (loss):								4,462
Balance, January 2, 2010	—	\$ —	16,933	\$ 17	\$42,210	\$ 64,383	\$ 1,004	\$107,614
Shares issued, Restricted Stock			46					—
Shares issued, Other Comp			5					—
Shares issued, Stock Options			10		44			44
Shares issued, ESPP			21		423			423
Stock-based compensation					1,149			1,149
Tax benefit of stock-based compensation					175			175
Dividends issued						(14,642)		(14,642)
Comprehensive income (loss):								
Net income						21,400		21,400
Unrealized loss on available for sale securities							(59)	(59)
Foreign currency translation adjustments							(1,080)	(1,080)
Comprehensive income (loss):								20,261
Balance, January 1, 2011	—	\$ —	17,015	\$ 17	\$44,001	\$ 71,141	\$ (135)	\$115,024

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

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

	For the year ended		
	January 1, 2011	January 2, 2010	December 27, 2008
Cash flows from operating activities:			
Net income	\$ 21,400	\$ 1,856	\$ 25,735
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	6,873	6,968	7,096
(Gain) loss on disposal of assets	(43)	30	138
Stock-based compensation expense	1,149	960	896
Deferred director and phantom stock unit expense	557	398	56
Stock options income tax benefit	(175)	(9)	(55)
Allowance for doubtful accounts	(8)	(2)	(123)
Provision for slow moving inventory	(159)	(41)	102
Provision for deferred income taxes	622	4	(195)
(Increase) decrease in:			
Accounts receivable	(6,442)	2,555	4,650
Inventories	(2,815)	2,202	1,359
Income tax receivable	506	(123)	(1,353)
Other current assets	(759)	(507)	(80)
Other assets, net	750	560	465
Increase (decrease) in:			
Accounts payable	861	(816)	(2,410)
Accrued expenses and other liabilities	2,775	(672)	2,888
Income taxes payable	—	—	(619)
Other noncurrent liabilities	(2)	304	(23)
Net cash from operating activities	<u>25,090</u>	<u>13,667</u>	<u>38,527</u>
Cash flows from investing activities:			
Capital expenditures	(3,856)	(5,096)	(10,874)
Proceeds from dispositions of equipment	175	—	99
Purchases of marketable securities	(14,175)	(10,600)	—
Proceeds from sale of marketable securities	<u>10,230</u>	<u>2,863</u>	<u>—</u>
Net cash used in investing activities	<u>(7,626)</u>	<u>(12,833)</u>	<u>(10,775)</u>
Cash flows from financing activities:			
Repayment of debt	—	(261)	(416)
Proceeds from exercise of stock options	44	11	87
Stock options income tax benefit	175	9	55
Proceeds from stock issued	423	392	359
Dividends to shareholders	<u>(14,635)</u>	<u>(7,547)</u>	<u>(7,465)</u>
Net cash used in financing activities	<u>(13,993)</u>	<u>(7,396)</u>	<u>(7,380)</u>
Effect of exchange rate changes on cash and cash equivalents	<u>(580)</u>	<u>1,705</u>	<u>(4,406)</u>
Net increase (decrease) in restricted cash	(1)	5	(19)
Net increase (decrease) in cash and cash equivalents	<u>2,892</u>	<u>(4,862)</u>	<u>15,985</u>
Cash and cash equivalents and restricted cash, beginning of period	<u>30,446</u>	<u>35,303</u>	<u>19,337</u>
Cash and cash equivalents and restricted cash, end of period	<u>\$ 33,337</u>	<u>\$ 30,446</u>	<u>\$ 35,303</u>
Supplemental disclosure of cash flow information:			
Cash paid:			
Interest	\$ —	\$ 9	\$ 31
Income taxes	\$ 9,290	\$ 289	\$ 14,216
Supplemental disclosure of noncash transactions:			
Common stock issued to ESOP through accrued expenses and other liabilities	\$ —	\$ 2,796	\$ 2,255
Unrealized gain (loss) on available for sale securities	\$ (59)	\$ 116	\$ —

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

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

1. BUSINESS

Sun Hydraulics Corporation, and its wholly-owned subsidiaries and joint ventures, design, manufacture, and sell screw-in cartridge valves and manifolds used in hydraulic systems. The Company has facilities in the United States, the United Kingdom, Germany, Korea, France, and China. Sun Hydraulics Corporation (“Sun Hydraulics”), with its main offices located in Sarasota, Florida, designs, manufactures, and sells primarily through distributors. Sun Hydraulik Holdings Limited (“Sun Holdings”), a wholly-owned subsidiary of Sun Hydraulics, was formed to provide a holding company for the European market operations; its wholly-owned subsidiaries are Sun Hydraulics Limited (a British corporation, “Sun Ltd.”) and Sun Hydraulik GmbH (a German corporation, “Sun GmbH”). Sun Ltd. operates a manufacturing and distribution facility located in Coventry, England, and Sun GmbH operates a manufacturing and distribution facility located in Erkelenz, Germany. Sun Hydraulics Korea Corporation (“Sun Korea”), a wholly-owned subsidiary of Sun Hydraulics, located in Inchon, South Korea, operates a manufacturing and distribution facility. Sun Hydraulics, SARL (“Sun France”), a wholly-owned subsidiary of Sun Hydraulics, located in Bordeaux, France, operates a sales and engineering support facility. Sun Hydraulics Systems (Shanghai) Co., Ltd. (“Sun China”), a 50/50 joint venture between Sun Hydraulics and Links Lin, the owner of Sun Hydraulics’ Taiwanese distributor, is located in Shanghai, China, and operates a manufacturing and distribution facility. The Company’s share of Sun China was sold to Links Lin in January 2011. Concurrently, Sun established Sun Hydraulics China Co. Ltd, a representative office in Shanghai which becomes the Company’s primary operation in the country. See Note 18 to the Financial Statements for subsequent events. WhiteOak Controls, Inc. (“WhiteOak”), a 40% equity method investment, located in Mediapolis, Iowa, designs and produces complementary electronic control products. High Country Tek, Inc. (“HCT”), a 48% equity method investment, located in Nevada City, California, designs and manufactures ruggedized electronic/hydraulic control solutions for mobile equipment markets. Sun Hydraulics opened a Liaison office in Bangalore, India during 2007 to develop new business opportunities in the Indian market.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies followed in the preparation of the Company’s consolidated financial statements is set forth below:

Principles of Consolidation

The consolidated financial statements include the accounts and operations of Sun Hydraulics and its direct and indirect subsidiaries. All significant intercompany accounts and transactions are eliminated in consolidation. The Company uses the equity method of accounting for its investments in Sun China, WhiteOak, and HCT. The Company does not have a majority ownership in or exercise control over these entities.

Critical Accounting Policies and Estimates

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

Revenue Recognition

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

Impairment of Long-Lived Assets

Long-lived assets, such as property and equipment, and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the asset is measured by comparison of its carrying amount to future net cash flows the asset is expected to generate. If such assets are considered impaired, the impairment to be recognized is measured as the amount by which the carrying amount of the asset exceeds its fair market value.

Accounts Receivable

The Company sells to most of its customers on a recurring basis, primarily through distributors with which the Company maintains long-term relationships. As a result, bad debt experience has not been material. The allowance for doubtful accounts is determined on a specific identification basis by a review of those accounts that are significantly in arrears. There can be no assurance that a distributor or a large direct sale customer with overdue accounts receivable balances will not develop financial difficulties and default on payment. See the consolidated balance sheets for allowance amounts.

Inventory

The Company offers a wide variety of standard products and as a matter of policy does not discontinue products. On an ongoing basis, component parts found to be obsolete through design or process changes are disposed of and charged to material cost. The Company reviews on-hand balances of products and component parts against specific criteria. Products and component parts without usage or that have excess quantities on hand are evaluated. An inventory reserve is then established for the full inventory carrying value of those products and component parts deemed to be obsolete or slow moving. See Note 5 to the Financial Statements for inventory reserve amounts.

Goodwill

The Company acquired its Korean operations in September 1998 using the purchase method. As a result, goodwill is reflected on the consolidated balance sheet. A valuation using a discounted cash flow method was performed at January 1, 2011 and January 2, 2010. It was determined that the value of the goodwill was not impaired. There is no assurance that the value of the acquired company will not decrease in the future due to changing business conditions. See Note 7 to the Financial Statements for goodwill amounts.

Accruals

The Company makes estimates related to certain employee benefits and miscellaneous accruals. Estimates for employee benefit accruals are based on management's assessment of estimated liabilities related to workers' compensation, health care benefits and annual contributions to an employee stock ownership plan ("ESOP"), established in 2004 as part of the Company's retirement plan. Estimates for miscellaneous accruals are based on management's assessment of estimated liabilities for costs incurred.

The Company accrues for health care benefit costs under a self-funded plan. The Company purchases re-insurance for both specific and aggregate stop losses on claims that exceed \$115 on an individual basis and approximately \$7,000 on an aggregate basis.

52-53 Week Fiscal Year

The Company reports on a fiscal year that ends on the Saturday closest to December 31st. Each quarter generally consists of thirteen weeks. As a result of the 2009 fiscal year ending January 2, 2010, the quarter ended January 2, 2010, consisted of fourteen weeks, resulting in a 53-week year.

Reclassification

Certain amounts shown in the 2008 consolidated financial statements and notes to the consolidated financial statements have been reclassified to conform to the current presentation.

Management Estimates and Assumptions

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Company considers all short-term highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Inventories

Inventories are valued at the lower of cost or market, cost being determined on a first-in, first-out basis. Obsolete and slow moving inventory is evaluated and reserves are established based on specific criteria determined by management.

Property, Plant and Equipment

Property, plant and equipment is stated at cost. Expenditures for repairs and improvements that significantly add to the productive capacity or extend the useful life of an asset are capitalized. Repairs and maintenance are expensed as incurred. Depreciation is computed using the straight line method over the following useful lives:

	<u>Years</u>
Computer equipment	3 - 5
Machinery and equipment	4 - 12
Furniture and fixtures	4 - 10
Leasehold and land improvements	5 - 15
Buildings	40

Gains or losses on the retirement, sale, or disposition of property, plant, and equipment are reflected in the Consolidated Statement of Operations in the period in which the assets are taken out of service.

Valuation Assessment of Long-Lived Assets

Management periodically evaluates long-lived assets for potential impairment and will provide for impairment whenever events or changes in circumstances indicate the carrying amount of the assets may not be fully recoverable. Assets are reviewed for utilization on a monthly basis by management in conjunction with employees who work directly with the assets.

Goodwill

Goodwill, which represents the excess of the purchase price of acquisition over the fair value of the net assets acquired and other acquisition costs, is carried at cost. Goodwill is not amortized by the Company. Instead, goodwill is reviewed for impairment on an annual basis, or more frequently if events or circumstances indicate possible impairment.

Other Assets

Other assets consist of equity investments in the Company's joint ventures in Sun China, WhiteOak and HCT. The equity investments were recorded at cost and have been adjusted for investment income or loss and dividend distributions for each quarterly period since their origin.

Revenue Recognition

Sales are recognized when products are shipped and title to the products is passed to the customer. Sales incentives are granted to customers based upon the volume of purchases. These sales incentives are recorded at the time of sales as a reduction of gross sales.

Shipping and Handling Costs

Shipping and handling costs billed to distributors and customers are recorded in revenue. Shipping costs incurred by the Company are recorded in cost of goods sold.

Foreign Currency Translation and Transactions

The Pound Sterling is the functional currency of Sun Ltd. The Euro is the functional currency of Sun GmbH. The South Korean Won is the functional currency of Sun Korea. The U.S. Dollar is the functional currency for Sun Hydraulics and the reporting currency for the consolidated group. The assets and liabilities of Sun Ltd., Sun GmbH, and Sun Korea are translated at the exchange rate in effect at the balance sheet date, and income and expense items are translated at the average annual rate of exchange for the period. The resulting unrealized translation gains and losses are included as a component of shareholders' equity designated as "accumulated other comprehensive income (loss)." Realized gains and losses from foreign currency transactions are included in the Consolidated Statement of Operations.

Income Taxes

The Company's income tax policy provides for a liability approach under which deferred income taxes are provided for based upon enacted tax laws and rates applicable to the periods in which the taxes become payable. These differences result from items reported differently for financial reporting and income tax purposes, primarily depreciation, accrued expenses and reserves.

The Company reports a liability for unrecognized tax benefits resulting from unrecognized tax benefits taken or expected to be taken in a tax return. The Company recognizes potential interest and penalties related to its unrecognized tax benefits in income tax expense.

Stock-Based Compensation

All share-based compensation cost is measured at the grant date, based on the fair value of the award, and is recognized as an expense in earnings over the requisite service period. Benefits of tax deductions in excess of recognized compensation costs are reported as a financing cash inflow.

3. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company uses the three-tier fair value hierarchy which prioritizes the inputs used in measuring fair value as follows:

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

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

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

At January 1, 2011, and January 2, 2010, the Company held available-for-sale securities with an aggregate fair value of \$11,614 and \$7,844, respectively. The Company, on a recurring basis, measures available-for-sale securities at fair value using quoted prices in active markets. Unrealized gains and losses arising from the revaluation of available-for-sale securities are included in equity within accumulated other comprehensive income (loss) in the Consolidated Balance Sheets. Realized gains and losses on the sale of available-for-sale securities are generally determined using the specific identification method, and are included in miscellaneous (income) expense in the Consolidated Statements of Operations. The net unrealized holding gain or loss on available-for-sale securities amounted to a loss of \$59 at January 1, 2011, and a gain of \$116 at January 2, 2010. The net realized gain on the sale of available-for-sale securities for the year ended January 1, 2011, was \$70, compared to zero for the year ended January 2, 2010. In addition, the Company reports deferred director stock units and phantom stock units as a liability. These liabilities, on a recurring basis, are measured at fair value using quoted prices in the active market. The Company recognized an expense related to those liabilities of \$557 and \$398 for the years ended January 1, 2011, and January 2, 2010, respectively.

The Company did not have any fair value adjustments for assets and liabilities measured at fair value on a nonrecurring basis during the period ended January 1, 2011 and January 2, 2010.

Assets measured at fair value on a recurring basis include the following as of January 1, 2011:

Description	January 1, 2011	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available-for-sale securities	\$ 11,614	\$ 11,614	\$ —	\$ —

Assets measured at fair value on a recurring basis include the following as of January 2, 2010:

Description	January 2, 2010	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available-for-sale securities	\$ 7,844	\$ 7,844	\$ —	\$ —

Liabilities measured at fair value on a recurring basis include the following as of January 1, 2011:

Description	January 1, 2011	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Deferred director stock units	\$ 1,197	\$ 1,197	\$ —	\$ —
Phantom stock units	34	34	—	—
Total	\$ 1,231	\$ 1,231	\$ —	\$ —

Liabilities measured at fair value on a recurring basis include the following as of January 2, 2010:

Description	January 2, 2010	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Deferred director stock units	\$ 659	\$ 659	\$ —	\$ —
Phantom stock units	19	19	—	—
Total	\$ 678	\$ 678	\$ —	\$ —

The carrying amounts of cash and cash equivalents, restricted cash, accounts receivable, other current assets, accounts payable, accrued expenses and other liabilities approximate fair value based on their short-term status.

The carrying amount of long-term debt approximates fair value, as the interest rates on the debt approximate rates currently available to the Company for debt with similar terms and remaining maturities.

4. RESTRICTED CASH

On January 1, 2011 and January 2, 2010, the Company had restricted cash of \$131 and \$132, respectively. \$47 and \$48 of the 2010 and 2009 restricted cash balance, respectively, consisted of reserves for customs and excise taxes in the U.K. operation. The restricted amount was calculated as an estimate of two months of customs and excise taxes for items coming into the Company's U.K. operations and was held with Lloyd's TSB in the U.K. The remaining 2010 and 2009 amounts relate to a guarantee of VAT in our France operation. The guarantee is held with Crédit Agricole Bank in France.

5. INVENTORIES

	<u>January 1, 2011</u>	<u>January 2, 2010</u>
Raw materials	\$ 4,315	\$ 3,186
Work in process	3,628	2,420
Finished goods	3,379	2,900
Provision for slow moving inventory	<u>(549)</u>	<u>(707)</u>
Total	<u>\$ 10,773</u>	<u>\$ 7,799</u>

6. PROPERTY, PLANT, AND EQUIPMENT

	<u>January 1, 2011</u>	<u>January 2, 2010</u>
Machinery and equipment	\$ 75,728	\$ 75,487
Office furniture and equipment	9,047	10,509
Buildings	25,257	25,650
Leasehold and land improvements	2,754	2,723
Land	<u>7,022</u>	<u>7,065</u>
	\$ 119,808	\$ 121,434
Less: Accumulated depreciation	<u>(68,648)</u>	<u>(66,715)</u>
Construction in progress	<u>1,967</u>	<u>1,914</u>
Total	<u>\$ 53,127</u>	<u>\$ 56,633</u>

Depreciation expense for the years ended January 1, 2011, January 2, 2010, and December 27, 2008 totaled \$6,730, \$6,932, and \$7,069, respectively.

7. GOODWILL

On January 1, 2011 and January 2, 2010, the Company had \$715 of goodwill related to its acquisition of Sun Korea.

Valuation models reflecting the expected future cash flow projections were used to value Sun Korea at January 1, 2011 and January 2, 2010. The analysis indicated that there was no impairment of the carrying value of the goodwill.

8. OTHER ASSETS

	<u>January 1, 2011</u>	<u>January 2, 2010</u>
Goodwill	\$ 715	\$ 715
Equity investment in joint venture		
Sun China	1,016	1,214
WhiteOak Controls, Inc.	162	157
High Country Tek, Inc.	495	1,042
Loan acquisition costs, net of amortization of \$151 and \$123	19	47
Deposits with suppliers	110	130
Other	<u>111</u>	<u>100</u>
Total	<u>\$ 2,628</u>	<u>\$ 3,405</u>

9. ACCRUED EXPENSES AND OTHER LIABILITIES

	<u>January 1, 2011</u>	<u>January 2, 2010</u>
Compensation and benefits	\$ 4,349	\$ 1,660
Self insurance liability	236	456
Other	<u>665</u>	<u>359</u>
Total	<u>\$ 5,250</u>	<u>\$ 2,475</u>

10. LONG-TERM DEBT

The Company has a \$35,000 revolving line of credit, collateralized by U.S. assets, with an interest rate of Libor plus 1.5% (1.761% at January 1, 2011), that comes due August 1, 2011. The Company did not have any debt outstanding as of January 1, 2011 and January 2, 2010.

The revolving line of credit is subject to debt covenants (capitalized terms are defined therein) including: 1) Debt to Tangible Net Worth ratio of not more than 1.5:1.0, 2) Funded Debt to EBITDA ratio of not more than 2.5:1.0, and 3) EBIT to Interest Expense ratio of not less than 1.1:1.0; and requires the Company to maintain its primary domestic deposit accounts with the Bank. As of January 1, 2011, the Company was in compliance with all debt covenants.

11. DIVIDENDS TO SHAREHOLDERS

The Company declared dividends of \$14,642, \$7,572, and \$7,480 to shareholders in 2010, 2009, and 2008, respectively.

The Company declared the following regular quarterly dividends to shareholders of record on the last day of the respective quarter:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
First quarter	\$0.090	\$0.090	\$0.090
Second quarter	0.090	0.090	0.090
Third quarter	0.090	0.090	0.090
Fourth quarter	0.590	0.090	0.090

These dividends were paid on the 15th day of each month following the date of declaration. In 2010, the Company also declared a one-time special cash dividend of \$0.50 per share, paid on November 30, 2010, to shareholders of record as of November 15, 2010.

During 2009 and 2008, the Company paid shared distribution cash dividends of \$0.09 per share. The 2009 dividend was paid on March 31, 2009, to shareholders of record as of March 15, 2009, and the 2008 dividend was paid on May 30, 2008, to shareholders of record as of May 15, 2008. The Board of Directors has declared a shared distribution cash dividend of \$0.11 per share, payable on March 31, 2011, to shareholders of record as of March 15, 2011. The shared distribution was introduced in 2008 as a way to reward both shareholders and employees when the Company has a successful year.

12. INCOME TAXES

Deferred income tax assets and liabilities are provided to reflect the future tax consequences of differences between the tax basis of assets and liabilities and their reported amounts in the financial statements.

For financial reporting purposes, income before income taxes includes the following components:

	For the year ended		
	January 1, 2011	January 2, 2010	December 27, 2008
United States	\$22,344	\$(1,934)	\$ 24,820
Foreign	9,299	3,951	12,909
Total	\$31,643	\$ 2,017	\$ 37,729

The components of the income tax provision (benefit) are as follows:

	For the year ended		
	January 1, 2011	January 2, 2010	December 27, 2008
Current tax expense (benefit):			
United States	\$ 7,985	\$ (773)	\$ 7,711
State and local	202	(46)	503
Foreign	1,434	976	3,975
Total current	9,621	157	12,189
Deferred tax expense (benefit):			
United States	469	14	42
State and local	263	6	13
Foreign	(110)	(16)	(250)
Total deferred	622	4	(195)
Total income tax provision	\$10,243	\$ 161	\$ 11,994

The reconciliation between the effective income tax rate and the U.S. federal statutory rate is as follows:

	For the year ended		
	January 1, 2011	January 2, 2010	December 27, 2008
U.S. federal taxes at statutory rate	\$11,075	\$ 706	\$ 13,205
Increase(decrease)			
Net residual tax on foreign distributions	—	—	827
Foreign tax credit	(227)	—	—
Domestic production activity deduction	(519)	—	(519)
Research and Development Tax Credit - Current Year	(150)	(200)	(241)
Research and Development Tax Credit - Prior Years	—	—	(849)
Foreign income taxed at lower rate	(584)	(424)	(793)
Nondeductible items	40	67	94
State and local taxes, net	465	(40)	516
Change in reserve	9	124	2
Other	134	(72)	(248)
Income tax provision	\$10,243	\$ 161	\$ 11,994

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income taxes. The temporary differences that give rise to significant portions of the deferred tax assets and liabilities as of January 1, 2011 and January 2, 2010 are presented below:

	January 1, 2011	January 2, 2010
Deferred tax assets:		
Current:		
Accrued expenses and other	\$ 446	\$ 575
Total current deferred tax assets	<u>446</u>	<u>575</u>
Noncurrent:		
Accrued expenses and other	1,008	626
Deferred royalty income	<u>—</u>	<u>10</u>
Total noncurrent deferred tax assets	<u>1,008</u>	<u>636</u>
Deferred tax liabilities:		
Noncurrent:		
Depreciation	(6,692)	(5,827)
Other	<u>—</u>	<u>—</u>
Total noncurrent deferred tax liabilities	<u>(6,692)</u>	<u>(5,827)</u>
Net noncurrent deferred tax liability	<u>\$(5,684)</u>	<u>\$(5,191)</u>

A valuation allowance to reduce the deferred tax assets reported is required if, based on the weight of the evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. For the fiscal years ended 2010 and 2009, management has determined that a valuation allowance is not required.

The Company intends and has the ability to indefinitely reinvest the earnings of its non-U.S. subsidiaries, which reflect full provision for non-U.S. income taxes, to expand its international operations. These earnings relate to ongoing operations and, at January 1, 2011, cumulative earnings were approximately \$35 million. Accordingly, no provision has been made for U.S. income taxes that might be payable upon repatriation of such earnings. In the event any earnings of non-U.S. subsidiaries are repatriated, the Company will provide U.S. income taxes upon repatriation of such earnings, which will be offset by applicable foreign tax credits, subject to certain limitations. Due to specific circumstances, during the year ended December 27, 2008, the Company repatriated \$6,000 from its foreign subsidiaries. U.S. income taxes due based on the repatriations have been provided for in the above income tax provisions.

The Company prescribes a recognition threshold and measurement attribute for an uncertain tax position taken or expected to be taken in a tax return.

The following is a roll-forward of the Company's unrecognized tax benefits:

Unrecognized tax benefits - December 29, 2007	\$ 34
Increases from positions taken during prior periods	2
Lapse of statute of limitations	—
Unrecognized tax benefits - December 27, 2008	\$ 36
Increases from positions taken during prior periods	124
Lapse of statute of limitations	—
Unrecognized tax benefits - January 2, 2010	\$160
Increases from positions taken during prior periods	47
Lapse of statute of limitations	(38)
Unrecognized tax benefits - January 1, 2011	\$169

At January 1, 2011, the Company had an unrecognized tax benefit of \$169 including accrued interest. If recognized, the unrecognized tax benefit would have a favorable effect on the effective tax rate in future periods. The Company recognizes interest and penalties related to income tax matters in income tax expense. Interest related to the unrecognized tax benefit has been recognized and included in income tax expense. Interest accrued as of January 1, 2011, is not considered material to the Company's Consolidated Financial Statements.

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

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

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

13. STOCK OPTION PLANS

During 1996, the Company adopted the 1996 Stock Option Plan (the "Stock Option Plan"), which provides for the grant of incentive stock options and nonqualified stock options for the purchase of up to an aggregate of 2,250,000 shares of the Company's common stock by officers, employees and directors of the Company. Under the terms of the plan, incentive stock options may be granted to employees at an exercise price per share of not less than the fair value per common share on the date of the grant (not less than 110% of the fair value in the case of holders of more than 10% of the Company's voting stock). Nonqualified stock options may be granted at the discretion of the Company's Board of Directors. The maximum term of an option may not exceed 10 years, and options become exercisable at such times and in such installments as determined by the Board of Directors.

A summary of the Company's stock option plan for the years ended January 1, 2011, January 2, 2010, and December 27, 2008 is summarized as follows:

	Number of shares	Exercise price range		Weighted average exercise price
		(share amounts are in thousands)		
Under option, December 29, 2007 (32 shares exercisable)	36	\$ 3.00	- 12.27	\$ 5.62
Granted	—	\$ —	-	\$ —
Exercised	(17)	\$ 3.00	- 12.27	\$ 5.23
Forfeitures	—	\$ —	-	\$ —
Under option, December 27, 2008 (16 shares exercisable)	19	\$ 3.00	- 12.27	\$ 5.95
Granted	—	\$ —	-	\$ —
Exercised	(3)	\$ 3.00	- 5.49	\$ 3.66
Forfeitures	—	\$ —	-	\$ —
Under option, January 2, 2010 (15 shares exercisable)	16	\$ 3.00	- 12.27	\$ 6.39
Granted	—	\$ —	-	\$ —
Exercised	(10)	\$ 3.00	- 5.49	\$ 4.20
Forfeitures	—	\$ —	-	\$ —
Under option, January 1, 2011 (6 shares exercisable)	6	\$ 5.49	- 12.27	\$ 10.01

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

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model using weighted average assumptions. Stock option compensation expense for the periods ended January 1, 2011, and January 2, 2010, was \$6.

A summary of outstanding and exercisable options at January 1, 2011 is summarized as follows:

Range of exercise prices	Options Outstanding			Options Exercisable	
	Number of shares	Weighted-average Remaining contractual life	Exercise price	Number of shares	Weighted average exercise price
5.49	2	0.75	5.49	2	5.49
12.27	4	1.92	12.27	4	12.27

There were no stock options granted during 2010, 2009 and 2008.

In September 2006, the Company adopted the 2006 Stock Option Plan ("2006 Plan"), which provides for the grant of incentive stock options and nonqualified stock options for the purchase of up to an aggregate of 750,000 shares of the Company's common stock by officers, employees and directors of the Company. The Company adopted the 2006 Plan due to the expiration of the Company's 1996 Stock Option Plan in 2006. Under the terms of the plan, incentive stock options may be granted to employees at an exercise price per share of not less than the fair value per common share on the date of the grant (not less than 110% of the fair value in the case of holders of more than 10% of the Company's voting stock). Nonqualified stock options may be granted at the discretion of the Company's Board of Directors. The maximum term of an option may not exceed 10 years, and options become exercisable at such times and in such installments as determined by the Board of Directors. No awards have been granted under the 2006 Plan.

During 2001, the Company adopted the 2001 Restricted Stock Plan, which provides for the grant of restricted stock of up to an aggregate of 618,750 shares of the Company's common stock to officers, employees, consultants and directors of the Company. Under the terms of the plan, the minimum period before any shares become non-forfeitable may not be less than six months. Compensation cost has been measured at the date of the grant and is recognized in earnings over the period in which the shares vest. Restricted stock expense for the years ended January 1, 2011, January 2, 2010, and December 27, 2008, totaled \$880, \$794, and \$722, respectively. At January 1, 2011, 41,161 shares remained available to be issued through the Restricted Stock Plan.

A summary of the Company's restricted stock plan for the years ended January 1, 2011, January 2, 2010, and December 27, 2008, is summarized as follows:

	Number of shares	Weighted average grant-date fair value
Nonvested balance at December 29, 2007	68	\$ 21.22
Granted	40	18.90
Vested	(35)	18.24
Forfeitures	—	—
Nonvested balance at December 27, 2008	73	\$ 21.45
Granted	40	20.97
Vested	(37)	22.86
Forfeitures	(1)	22.82
Nonvested balance at January 2, 2010	75	\$ 21.78
Granted	46	31.11
Vested	(35)	23.40
Forfeitures	—	—
Nonvested balance at January 1, 2011	86	\$ 26.11

The Company has \$1,899 of total unrecognized compensation cost related to restricted stock awards granted under the Plan as of January 1, 2011. That cost is expected to be recognized over a weighted average period of 1.70 years.

The Company maintains an employee stock purchase plan in which most U.S. employees are eligible to participate and a share incentive plan in which most U.K. employees are eligible to participate (collectively, "the ESPP"). Employees in the United States who choose to participate are granted an opportunity to purchase common stock at 85 percent of market value on the first or last day of the quarterly purchase period, whichever is lower. Employees in the United Kingdom are granted an opportunity to purchase common stock at market value, on the first or last day of the quarterly purchase period, whichever is lower, with the Company issuing one additional free share of common stock for each six shares purchased by the employee under the ESPP. The ESPP authorizes the issuance, and the purchase by employees, of up to 731,250 shares of common stock through payroll deductions. No U.S. employee is allowed to buy more than \$25 of common stock in any year, based on the market value of the common stock at the beginning of the purchase period, and no U.K. employee is allowed to buy more than the lesser of £1.5 or 10% of his or her annual salary in any year. Employees purchased 21,304 shares at a weighted average price of \$19.85, and 28,065 shares at a weighted average price of \$13.96, under the ESPP during 2010 and 2009, respectively. The Company recognized \$126 and \$95 of compensation expense during 2010 and 2009, respectively. At January 1, 2011, 518,402 shares remained available to be issued through the ESPP.

The Company has a Nonemployee Director Equity and Deferred Compensation Plan (the "Plan"), which originally was adopted by the Board of Directors and approved by the shareholders in 2004. The Plan was amended on March 1, 2008 and was approved by the shareholders at the 2008 Annual Meeting. Under the Plan, Directors who are not officers of the Company are paid 250 shares of Company common stock and \$3 in fees for attendance at each meeting of the Board of Directors, as well as each meeting of each Board Committee on which they serve when the committee meeting is not held within one day of a meeting of the Board of Directors. Additionally, the Board of Directors has the authority to increase from time to time, as it deems desirable or appropriate, the number of shares of stock awarded to all or any one or more of the Nonemployee Directors. No more than 25,000 shares of stock, in the aggregate, may be issued under the Plan during any single calendar year. Committee Chairmen currently receive additional fees equal to 25% of normal compensation and the Chairman of the Board is paid twice the

amount of normal compensation, with such additional compensation payable in Company common stock. Previously under the Plan, Nonemployee Directors were paid \$5 of which half was paid in Company common stock.

Directors may elect under the Plan to receive all or part of their cash fees in Company stock and to defer receipt of their fees until a subsequent year. The Plan authorizes the issuance of up to 180,000 shares of common stock.

Directors were granted 10,894 and 10,601 shares during 2010 and 2009, respectively. At January 1, 2011, there were 31,658 deferred stock units outstanding. Deferred stock units are treated as liabilities. At January 1, 2011, 132,157 shares remained available to be issued through the Plan. The Company recognized total deferred and non-deferred director stock compensation expense of \$630 and \$390, for 2010 and 2009, respectively.

14. EARNINGS PER SHARE

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

	January 1, 2011	January 2, 2010	December 27, 2008
Net income	\$ 21,400	\$ 1,856	\$ 25,735
Basic weighted average number of common shares outstanding	16,952	16,837	16,603
Basic net income per common share	\$ 1.26	\$ 0.11	\$ 1.55
Effect of dilutive stock options and deferred director stock units	33	33	31
Diluted weighted average number of common shares outstanding	16,985	16,870	16,634
Diluted net income per common share	\$ 1.26	\$ 0.11	\$ 1.55

15. EMPLOYEE BENEFITS

The Company has a defined contribution retirement plan covering substantially all of its eligible United States employees. Employer contributions under the retirement plan amounted to approximately \$3,304, \$880, and \$4,333 during 2010, 2009, and 2008, respectively.

The Company provides supplemental pension benefits to its employees of foreign operations in addition to mandatory benefits included in local country payroll tax statutes. These supplemental pension benefits amounted to approximately \$353, \$280, and \$256 during 2010, 2009, and 2008, respectively.

The Company uses an Employee Stock Ownership Plan ("ESOP") as the discretionary match portion of its 401(k) retirement plan. The Company contributes to the ESOP for all eligible United States employees. Under the ESOP, which is 100% company funded, the Company allocates common stock to each participants account. The allocation is generally a percentage of a participant's compensation as determined by the Board of Directors on an annual basis.

In May 2008, the Board introduced the concept of a shared distribution dividend. The shared distribution dividend rewards the majority of employees through a contribution into their retirement accounts and concurrently rewards shareholders with a special cash dividend. As a result of the shared distribution, the Company contributed 176,827 and 20,185 shares into the ESOP in March 2009 and May 2008, respectively. In 2010, the Company accrued an amount equal to 9% of eligible wages in accordance with the shared distribution dividend announced in March 2011.

The Company incurred retirement benefit expense under the ESOP of approximately \$2,255, zero and \$3,221 during 2010, 2009 and 2008, respectively. The 2008 amount includes both the 3% and 9% shared distributions announced in May 2008, and March 2009, respectively. These amounts are included in the total employer contributions to the retirement plan noted above.

There are no restrictions on the shares contributed to the ESOP. This allows participants to sell their shares to enable diversification within their individual 401(k) accounts. The Company does not have any repurchase obligations under the ESOP.

During 2008, the Company developed plans for international employees to participate in the shared distributions. The Company's foreign operations recognized total expense of approximately \$483, zero, and \$753 in 2010, 2009, and 2008, respectively. The Company's U.K. employees received 23,246 shares in March 2009, into a share incentive plan, while employees in the remaining locations received their shared distribution in the form of cash. In Korea the cash was deposited into a Company retirement plan.

The Company awards deferred cash bonuses to key employees of its foreign operations. The deferred cash bonuses are similar to phantom stock units, in that such bonuses are tied to the value of the Company's common stock. Awards are recognized over the deferral period as variable plan awards. The Company recognized approximately \$45, \$54 and \$35 of compensation expense in 2010, 2009 and 2008, respectively, related to the awards.

16. SEGMENT REPORTING

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

Total assets of the foreign subsidiaries are those assets related to the operation of those companies. United States assets consist of all other operating assets of the Company. Segment information is as follows:

	United States	Korea	Germany	United Kingdom	Elimination	Consolidated
2010						
Sales to unaffiliated customers	\$ 94,067	\$16,284	\$19,770	\$20,574	\$ —	\$ 150,695
Intercompany sales	26,022	—	160	1,225	(27,407)	—
Operating income	22,040	2,246	4,024	2,822	(93)	31,039
Total assets	89,977	10,535	14,705	17,605	(788)	132,034
Depreciation and amortization	5,388	89	429	967		6,873
Capital expenditures	3,400	217	27	212		3,856
2009						
Sales to unaffiliated customers	\$ 59,278	\$ 9,978	\$14,654	\$13,483	\$ —	\$ 97,393
Intercompany sales	15,545	—	139	1,101	(16,785)	—
Operating income (loss)	(2,110)	616	2,475	884	278	2,143
Total assets	85,338	8,191	12,447	15,923	(1,966)	119,933
Depreciation and amortization	5,335	104	502	1,027		6,968
Capital expenditures	4,758	41	30	267		5,096
2008						
Sales to unaffiliated customers	\$111,180	\$17,455	\$27,356	\$22,287	\$ —	\$ 178,278
Intercompany sales	28,656	—	245	2,282	(31,183)	—
Operating income	24,531	1,148	7,693	3,231	(226)	36,377
Total assets	91,855	6,680	10,980	15,049	(2,179)	122,385
Depreciation and amortization	5,139	151	572	1,234		7,096
Capital expenditures	9,904	39	298	633		10,874

Sales to unaffiliated customers represent sales from each of the individual subsidiaries. For information on sales to geographic locations, see the Comparisons of the Years Ended January 1, 2011, and January 2, 2010, in Management's Discussion and Analysis of Financial Condition and Results of Operations. Operating income is total sales and other operating income less operating expenses. Segment operating income does not include interest income/expense, foreign currency transaction gain/loss, and net miscellaneous income/expense.

Included in U.S. sales to unaffiliated customers were export sales of \$34,955, \$19,031, and \$37,073, during 2010, 2009, and 2008, respectively. Export sales to Canada and Asia/Pacific totaling, \$24,705, \$12,918, and \$24,824, during 2010, 2009, and 2008, respectively, make up the majority of these export sales. Additionally, export sales to Europe were \$8,066, \$4,916 and \$10,708 during 2010, 2009, and 2008, respectively.

17. COMMITMENTS AND CONTINGENCIES

The Company is not a party to any legal proceedings other than routine litigation incidental to its business. In the opinion of management, the amount of ultimate liability with respect to these actions will not materially affect the results of operations, financial position or cash flows of the Company.

OPERATING LEASES — The Company leases a manufacturing facility in Lenexa, Kansas and production support facilities in Sarasota, Florida under operating leases having initial terms expiring in 2010. The lease for the manufacturing facility in Kansas is currently on a month to month basis, and represents approximately 17,000 square feet of space. The lease for the production support facilities in Florida is expiring in April, 2012, and represents approximately 10,000 square feet. Total rental expense for the years ended 2010, 2009 and 2008 was approximately \$229, \$221 and \$236, respectively.

Future minimum lease payments on operating leases are as follows:

2011	98
2012	31
Total minimum lease payments	<u>\$129</u>

INSURANCE — The Company accrues for health care benefit costs under a self-funded plan. The Company purchases re-insurance for both specific and aggregate stop losses on claims that exceed \$115 on an individual basis and approximately \$7,000 on an aggregate basis. The Company records a liability for all unresolved claims at the anticipated cost to the Company at the end of the period based on management's assessment. The Company believes it has adequate reserves for all self-insurance claims.

18. SUBSEQUENT EVENTS

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

The former joint venture helped develop a significant presence for Sun in China and over the past twelve years has been able to build brand awareness and a customer base. China is a large and important market for Sun Hydraulics. The new office will help the Company to better serve the entire market, which is diverse and geographically spread out. Sun's sales to China continue to positively impact consolidated revenues and, in 2010, approximately five percent of the Company's sales came from China.

On February 1, 2011, the Company provided HCT with a \$200 loan to provide operating cash making total notes receivable from HCT \$1,700. The Company has agreements whereby it can acquire additional shares of HCT. No changes were made to the purchase price calculation set forth in those agreements, and additional shares will be purchased, if the Company exercises its options, as provided therein. Additionally, there was no change in accounting for the Company's investment in HCT due to the loan, as it had no effect on ownership percentage or control of the entity.

On March 7, 2011, the Company announced that its Board of Directors had elected to issue a shared distribution cash dividend of \$0.11 per share to shareholders. This is in addition to the Company's regular quarterly dividends. The dividend is payable on March 31, 2011 to shareholders of record as of March 15, 2011. The dividend totals approximately \$1,872.

19. NEW ACCOUNTING PRONOUNCEMENTS

In January 2010, the Financial Accounting Standards Board ("FASB") issued guidance amending the existing fair value measurements and disclosures guidance. The amendment requires new disclosures regarding the transfers in and out of level 1 and 2 fair value measurements and activity in level 3 fair value measurements. The amendment also clarifies existing disclosures regarding the level of disaggregated information as well as more disclosure around valuation techniques and inputs to fair value measurements. The guidance was effective for interim and annual reporting periods commencing after December 15, 2009, with a portion effective for fiscal years beginning after December 15, 2010. The adoption of this guidance has not had a material impact on the Company's Consolidated Financial Statements, nor is the remaining guidance expected to have a material impact.

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH
ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

The Company's management, with the participation of the Chief Executive Officer and Chief Financial Officer, after evaluating the effectiveness of the Company's "disclosure controls and procedures" (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report, have concluded that our disclosure controls and procedures are effective and are designed to ensure that the information we are required to disclose is recorded, processed, summarized and reported within the necessary time periods. Our disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in reports that we file or submit pursuant to the Securities Exchange Act of 1934, as amended, are accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Management's Report on Internal Control over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Internal control over financial reporting includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- provide reasonable assurance that transactions are recorded, as necessary, to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Management, with the participation of the Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of the Company's internal control over financial reporting based on the criteria set forth in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation under the Internal Control - Integrated Framework, management, with the participation of the Chief Executive Officer and Chief Financial Officer, concluded that the internal control over financial reporting was effective as of January 1, 2011.

Changes in Internal Control Over Financial Reporting

There were no changes in the Company's internal control over financial reporting during the quarter ended January 1, 2011, that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Attestation Report of Independent Registered Public Accounting Firm

Mayer Hoffman McCann P.C., our independent registered accounting firm, has issued an attestation report on our internal control over financial reporting. This report appears on page 31.

ITEM 9B. OTHER INFORMATION

None.

PART III.

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS OF THE REGISTRANT AND CORPORATE GOVERNANCE MATTERS

Executive Officers

The information required by this item with respect to our executive officers is set forth in our 2011 Proxy Statement under the caption “Governance of the Company” and is incorporated herein by reference.

Directors

The information required by this item with respect to our board of directors and committees thereof is set forth in our 2011 Proxy Statement under the caption “Governance of the Company” and is incorporated herein by reference.

Section 16(a) Beneficial Ownership Reporting Compliance

The information required by this item with respect to Section 16(a) beneficial ownership reporting compliance is set forth in our 2011 Proxy Statement under the caption “Compliance with Section 16(a) of the Securities Exchange Act of 1934” and is incorporated herein by reference.

Code of Business Conduct and Ethics

The information required by this item with respect to our Code of Business Conduct and Ethics is set forth in our 2011 Proxy Statement under the caption “Governance of the Company” and is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is set forth under the caption “Executive Compensation” in our 2011 Proxy Statement and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this item with respect to equity compensation plans is set forth under the caption “Equity Compensation Plan Information” in our 2011 Proxy Statement and with respect to security ownership of certain beneficial owners, directors and executive officers is set forth under the caption “Security Ownership of Certain Beneficial Owners and Management” in our 2011 Proxy Statement and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS, RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information required by this item is set forth under the captions “Compensation Committee Interlocks and Insider Participation,” “Certain Relationships and Related Transactions” and “Independence and Committees of the Board of Directors” in our 2011 Proxy Statement and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this item is set forth under the caption “Independent Registered Public Accounting Firm” in our 2011 Proxy Statement and is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

1. The following financial statements are included in Part II, Item 8:

Report of Independent Registered Certified Public Accounting Firm	28
Report of Independent Registered Certified Public Accounting Firm	30
Consolidated Balance Sheets as of January 1, 2011 and January 2, 2010	31
Consolidated Statements of Operations for the years ended January 1, 2011, January 2, 2010, and December 27, 2008	32
Consolidated Statements of Shareholders' Equity and Comprehensive Income for the years ended January 1, 2011, January 2, 2010, and December 27, 2008	33
Consolidated Statements of Cash Flows for the years ended January 1, 2011, January 2, 2010, and December 27, 2008	34
Notes to the Consolidated Financial Statements	35

All other schedules are omitted as the required information is inapplicable or the information is presented in the consolidated financial statements and notes thereto in Item 8 above.

2. Exhibits:

Exhibit Number	Exhibit Description
3.1	Amended and Restated Articles of Incorporation of the Company (previously filed as Exhibit 3.1 in the Pre-Effective Amendment No. 4 to the Company's Registration Statement on Form S-1 filed on December 19, 1996 (File No. 333-14183) and incorporated herein by reference).
3.2	Amended and Restated Bylaws of the Company.
10.1+	Form of Indemnification Agreement (previously filed as Exhibit 10.4 in the Pre-Effective Amendment No. 4 to the Company's Registration Statement on Form S-1 filed on December 19, 1996 (File No. 333-14183) and incorporated herein by reference).
10.2	Form of Distributor Agreement (Domestic) (previously filed as Exhibit 10.1 in the Company's Registration Statement on Form S-1 filed on October 15, 1996 (File No. 333-14183) and incorporated herein by reference).
10.3	Form of Distributor Agreement (International) (previously filed as Exhibit 10.2 in the Company's Registration Statement on Form S-1 filed on October 15, 1996 (File No. 333-14183) and incorporated herein by reference).

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- 10.4 Credit and Security Agreement dated August 11, 2005, between the Company, as Borrower, and Fifth Third Bank, as Lender (previously filed as Exhibit 4.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended October 1, 2005 and incorporated herein by reference).
- 10.5 Renewal and Future Advance Revolving Line of Credit Promissory Note dated August 11, 2005, between the Company, as Borrower, and Fifth Third Bank, as Lender (previously filed as Exhibit 4.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended October 1, 2005 and incorporated herein by reference).
- 10.6 Renewed, Amended and Restated Mortgage and Security Agreement dated August 11, 2005, between the Company, as Mortgagor, and Fifth Third Bank, as Mortgagee (previously filed as Exhibit 4.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended October 1, 2005 and incorporated herein by reference).
- 10.7+ 1996 Sun Hydraulics Corporation Stock Option Plan (previously filed as Exhibit 10.3 in the Pre-Effective Amendment No. 4 to the Company's Registration Statement on Form S-1 filed on December 19, 1996 (File No. 333-14183) and incorporated herein by reference).
- 10.8+ Amendment No. 1 to 1996 Stock Option Plan (previously filed as Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1997 and incorporated herein by reference).
- 10.9+ Forms of agreement for grants under the Sun Hydraulics Corporation 1996 Stock Option Plan (previously filed as Exhibit 10.12+ to the Company's Quarterly Report on Form 10-Q for the quarter ended September 25, 2004 and incorporated herein by reference).
- 10.10+ Sun Hydraulics Corporation 2006 Stock Option Plan (previously filed as Exhibit 99.2 to the Company's Form 8-K filed on September 14, 2006 and incorporated herein by reference).
- 10.11+ Sun Hydraulics Corporation Employee Stock Award Program (previously filed as Exhibit 4 to the Company's registration statement on Form S-8 filed on July 20, 1999, and incorporated herein by reference).
- 10.12+ 2001 Sun Hydraulics Corporation Restricted Stock Plan (previously filed as Exhibit 4 to the Company's registration statement on Form S-8 filed on June 12, 2001 (file No. 333-62816), and incorporated herein by reference).
- 10.13+ Form of agreement for grants of restricted shares under the Sun Hydraulics Corporation Restricted Stock Plan (previously filed as Exhibit 10.14 to the Company's Annual Report on Form 10-K for the year ended January 2, 2010 and incorporated herein by reference).
- 10.14+ Sun Hydraulics Corporation Employee Stock Purchase Plan.
- 10.15+ Sun Hydraulics Corporation 2004 Nonemployee Director Equity and Deferred Compensation Plan (As Amended and Restated Effective March 1, 2008) (previously filed as Appendix A to the Company's Proxy Statement for the 2008 Annual Meeting of Shareholders filed with the Commission on April 25, 2008 and incorporated herein by reference).
- 10.16+ Form of Performance Share Agreement (previously filed as Exhibit 99.1 to the Company's Form 8-K filed on December 16, 2004 and incorporated herein by reference).

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- 10.17+ The Sun Hydraulics Corporation 401(k) and ESOP Retirement Plan dated December 12, 2007 (previously filed as Exhibit 10.17 to the Company's Form 10-K filed on March 11, 2009 and incorporated herein by reference).
 - 10.18+ Amendments to Sun Hydraulics Corporation 401(K) and ESOP Retirement Plan.
 - 10.19+ Sun Hydraulics Limited Share Incentive Plan (previously filed as Exhibit 4 to the Company's Registration Statement on Form S-8 filed on March 27, 2009 (File Number 333158245) and incorporated herein by reference).
 - 10.20+ Peter Robson Employment Agreement dated April 22, 1981 (previously filed as Exhibit 10.1+ to the Company's Quarterly Report on Form 10-Q filed on May 6, 2009 and incorporated herein by reference).
 - 10.21+ Executive Continuity Agreement, dated December 7, 2009, between Sun Hydraulics Corporation and Allen J. Carlson (previously filed as Exhibit 99.1 to the Company's Form 8-K filed on December 11, 2009 and incorporated herein by reference).
 - 10.22+ Executive Continuity Agreement, dated December 7, 2009, between Sun Hydraulics Corporation and Tricia L. Fulton (previously filed as Exhibit 99.2 to the Company's Form 8-K filed on December 11, 2009 and incorporated herein by reference).
 - 10.23 Securities Purchase Agreement between Sun Hydraulics Corporation and High Country Tek, Inc., dated November 30, 2007 (previously filed as Exhibit 99.1 in the Company's Form 8-K filed on November 30, 2007 and incorporated herein by reference).
 - 14 Code of Ethics (previously filed as Exhibit 14 in the Company's Annual report on Form 10-K for the year ended December 31, 2005 and incorporated herein by reference).
 - 21 Subsidiaries of the Registrant (previously filed as Exhibit 21 in the Company's Annual report on Form 10-K for the year ended December 31, 2005 and incorporated herein by reference).
 - 23.1 Mayer Hoffman McCann P.C. Consent of Independent Registered Certified Public Accounting Firm.
 - 23.2 Kirkland, Russ, Murphy and Tapp, P.A. Consent of Independent Registered Certified Public Accounting Firm.
 - 31.1 CEO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
 - 31.2 CFO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
 - 32.1 CEO Certification pursuant to 18 U.S.C. § 1350.
 - 32.2 CFO Certification pursuant to 18 U.S.C. § 1350.
 - + Executive management contract or compensatory plan or arrangement.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Sarasota, State of Florida on March 9, 2011.

SUN HYDRAULICS CORPORATION

By: /s/ Allen J. Carlson

Allen J. Carlson, President and
Chief Executive Officer

Pursuant to requirements of the Securities Exchange Act of 1934, this Report has been signed by the following persons on behalf of the Registrant and in the capacities indicated as of March 9, 2011.

<u>Signature</u>	<u>Title</u>
<u>/s/ Allen J. Carlson</u> Allen J. Carlson	President, Chief Executive Officer and Director
<u>/s/ Tricia L. Fulton</u> Tricia L. Fulton	Chief Financial Officer (Principal Financial and Accounting Officer)
<u>/s/ Marc Bertoneche</u> Marc Bertoneche	Director
<u>/s/ Wolfgang H. Dangel</u> Wolfgang H. Dangel	Director
<u>/s/ John S. Kahler</u> John S. Kahler	Director
<u>/s/ Christine L. Koski</u> Christine L. Koski	Director
<u>/s/ Philippe Lemaitre</u> Philippe Lemaitre	Director
<u>/s/ Ferdinand E. Megerlin</u> Ferdinand E. Megerlin	Director, Chairman of the Board of Directors
<u>/s/ David N. Wormley</u> David N. Wormley	Director

**AMENDED AND RESTATED
BYLAWS
OF
SUN HYDRAULICS CORPORATION**

Set forth below are the Bylaws of Sun Hydraulics Corporation, a Florida corporation (the "Corporation"), as adopted by the Board of Directors of the Corporation effective as of December 17, 1996, as amended on February 26, 1999, March 13, 2004, March 3, 2007, and March 5, 2011.

ARTICLE I

Offices

Section 1. Registered Office. The address of the Corporation's registered office in the State of Florida is 1500 University Parkway, Sarasota, Florida 34230.

Section 2. Other Offices. The Corporation also may have offices at such other places both within and without the State of Florida as the Board of Directors may from time to time determine.

ARTICLE II

Meetings of Shareholders

Section 1. Place of Meetings. Meetings of the Shareholders for the election of Directors or for any other purpose shall be held at such time and place, either within or without the State of Florida, as shall be designated from time to time by the Board of Directors and stated in the notice of the meeting or in a duly executed waiver of notice thereof.

Section 2. Annual Meetings. The Annual Meetings of Shareholders shall be held on such date and at such time as shall be designated from time to time by the Board of Directors and stated in the notice of the meeting. Written notice of the Annual Meeting stating the place, date and hour of the meeting shall be given to each shareholder entitled to vote at such meeting not less than ten (10) nor more than sixty (60) days before the date of the meeting.

Section 3. Special Meeting. Special Meetings of Shareholders may be called by the Chairman, the President, a majority of the Board of Directors and shall be called if the holders of fifty percent (50%) of the votes entitled to be cast on any issue proposed to be considered at the proposed meeting sign, date and deliver a written demand or several such written demands for the special meeting describing the purpose or purposes for the meeting to the Corporation's Secretary. Only business within the purpose or purposes described in the special meeting notice may be conducted at such special meeting. Written notice of a Special Meeting must state the place, date

and hour of the meeting and the purpose or purposes for which the meeting is called and shall be given not less than ten (10) nor more than sixty (60) days before the date of the meeting to each shareholder entitled to vote at such meeting.

Section 4. Quorum. Except as otherwise provided by law or by the Articles of Incorporation, the holders of a majority of the capital stock issued and outstanding and entitled to vote thereat, present in person or represented by proxy, shall constitute a quorum at all meetings of the shareholders for the transaction of business. If, however, such quorum shall not be present or represented at any meeting of the shareholders, the shareholders entitled to vote thereof, present in person or represented by proxy, shall have power to adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present or represented. At such adjourned meeting at which a quorum shall be present or represented, any business may be transacted which might have been transacted at the meeting as originally noticed. If the adjournment is for more than thirty (30) days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each shareholder entitled to vote at the meeting.

Section 5. Voting. If a quorum exists, (i) action on a matter (other than the election of directors) is approved if the votes cast favoring the action exceed the votes cast opposing the action, unless the Articles of Incorporation or Florida law requires a greater number of affirmative votes, and (ii) each shareholder represented at a meeting of shareholders shall be entitled to cast one vote for each share of the capital stock entitled to vote thereat held by such shareholder. Such votes may be cast in person or by proxy but no proxy shall be voted on or after three (3) years from its date, unless such proxy provides for a longer period. The Board of Directors, in its discretion, or the officer of the Corporation presiding at a meeting of shareholders, in his or her discretion, may require that any votes cast at such meeting shall be cast by written ballot.

Section 6. List of Shareholders Entitled to Vote. The officer of the Corporation who has charge of the stock ledger of the Corporation shall prepare and make, at least ten (10) days before every meeting of shareholders, a complete list of the shareholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each shareholder and the number of shares registered in the name of each shareholder. Such list shall be open to the examination of any shareholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten (10) days prior to the meeting, either at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting or, if not so specified, at the place where the meeting is to be held. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any shareholder of the Corporation who is present.

Section 7. Stock Ledger. The stock ledger of the Corporation shall be the only evidence as to who are the shareholders entitled to examine the stock ledger, the list required by Section 6 of this Article II or the books of the Corporation, or to vote in person or by proxy at any meeting of shareholders.

Section 8. Notice of Business. At any annual meeting of shareholders, only such business shall be conducted as shall have been (a) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Board of Directors, (b) otherwise properly brought before the meeting by or to the direction of the Board of Directors, or (c) otherwise properly brought before the annual meeting by a shareholder who is a shareholder of record at the time of the giving of the notice provided for in this Section 8 of this Article II and who shall be entitled to vote at such meeting. If the outstanding shares of the capital stock are held by more than thirty (30) shareholders, then no action required or permitted to be taken at any annual or special meeting of shareholders of the Corporation may be taken by written consent without a meeting of such shareholders.

In addition to any other applicable requirements, for business to be properly brought before an annual meeting by a shareholder, the shareholder must have given timely notice thereof in writing to the Secretary of the Corporation. To be timely, a shareholder's notice must be delivered to or mailed and received at the principal executive offices of the Corporation not less than one hundred twenty (120) days prior to the anniversary of the date of the proxy statement relating to the prior year's annual meeting of shareholders. A shareholder's notice to the Secretary shall set forth as to each matter the shareholder proposes to bring before the annual meeting (i) a brief description of the business desired to be brought before the annual meeting, (ii) the reasons for conducting such business at the meeting, (iii) the name and record address of the shareholder proposing such business, (iv) the class or series and number of shares of the Corporation which are owned beneficially or of record by the shareholder, (v) a description of all arrangements or understandings between the shareholder and any other person or persons (including their names) in connection with the proposal of such business by the shareholder and any material interest of the shareholder in such business, and (vi) a representation that the shareholder intends to appear in person or by proxy at the annual meeting to bring such business before the meeting.

Notwithstanding anything in these Bylaws to the contrary, no business shall be conducted at the annual meeting except in accordance with the procedures set forth in this Section 8 of this Article II; provided, however, that nothing in this Section 8 of this Article II shall be deemed to preclude discussion by any shareholder of any business properly brought before the annual meeting in accordance with said procedure.

The officer of the Corporation presiding at the annual meeting shall, if the facts warrant, determine and declare to the meeting that business was not properly brought before the meeting in accordance with the provisions of this Section 8 of this Article II, and if he or she should so determine, shall so declare to the meeting and any such business not properly brought before the meeting shall not be transacted. Notwithstanding the foregoing provisions of this Section 8 of this Article II, a shareholder also shall comply with all applicable requirements of the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder with respect to the matters set forth in this Section 8 of this Article II.

ARTICLE III

Directors

Section 1. Number of Directors. The number of Directors shall be determined from time to time by resolution adopted by the affirmative vote of a majority of the Directors then in office. The Board of Directors shall be divided into three classes, designated Class I, Class II and Class III. Each class shall consist, as nearly as may be possible, of one-third of the total number of Directors constituting the entire Board of Directors. Each Director shall be elected for a three-year term. If the number of Directors is changed, any increase or decrease shall be apportioned among the classes so as to maintain the number of Directors in each class as nearly equal as possible, but in no case shall a decrease in the number of Directors shorten the term of any incumbent Director.

Section 2. Nomination of Directors. Only persons who are nominated in accordance with the following procedures shall be eligible for election as Directors. Nominations of persons for election to the Board of Directors at the annual meeting may be made at a meeting of shareholders by or at the direction of the Board of Directors, by any nominating committee or person appointed by the Board of Directors or by any shareholder of the Corporation entitled to vote for the election of Directors at the meeting who complies with the notice procedures set forth in this Article III. Such nominations, other than those made by or at the direction of the Board of Directors, shall be made pursuant to timely notice in writing to the Secretary of the Corporation. To be timely, a shareholder's notice shall be delivered to or mailed and received at the principal executive offices of the Corporation not less than one hundred and twenty (120) days nor more than one hundred and fifty (150) days prior to the meeting; provided, however, that in the event that less than one hundred and twenty (120) days' notice or prior public disclosure of the date of the meeting is given or made to shareholders, notice by the shareholder to be timely must be received not later than the close of business on the tenth (10th) day following the day on which such notice of the date of the meeting was mailed or such public disclosure was made, whichever first occurs. Such shareholder's notice to the Secretary shall set forth (a) as to each person whom the shareholder proposes to nominate for election or re-election as a Director, (i) the name, age, business address and residence address of the person, (ii) the principal occupation or employment of the person, (iii) the class and number of shares of capital stock of the Corporation which are beneficially owned by the person, (iv) any other information relating to the person that is required to be disclosed in solicitations for proxies for election of Directors pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended, and (v) the consent of the person to serve as a Director of the Corporation, if so elected; and (b) as to the shareholder giving the notice (i) the name and record address of shareholder, (ii) the class or series and number of shares of capital stock of the Corporation which are beneficially owned by the shareholder, (iii) a description of all arrangements or understandings between the shareholder and each proposed nominee and any other person pursuant to which the nominations are to be made, (iv) a representation that the shareholder intends to appear in person or by proxy at the meeting to nominate the persons named, and (v) certain other information. The Corporation may require any proposed nominee to furnish such other information as reasonably may be required by the Corporation to determine the eligibility of such proposed nominee to serve as Director of the Corporation. No person shall be eligible for election as a Director of the Corporation unless nominated in accordance with the procedures set forth herein.

The officer of the Corporation presiding at the meeting shall, if the facts warrant, determine and declare to the meeting that a nomination was not made in accordance with the foregoing procedure, and if he or she should so determine, shall so declare to the meeting and the defective nomination shall be disregarded.

Subject to the rights of holders of any series of Preferred Stock then outstanding, any vacancy on the Board of Directors that results from an increase in the number of Directors may be filled by a majority of the Board of Directors then in office, provided that a quorum is present, and any other vacancy occurring in the Board of Directors may be filled by a majority of the Directors then in office, even if less than a quorum is present, or by a sole remaining Director. Any Director of any class elected to fill a vacancy resulting from an increase in such class shall hold office for a term that shall coincide with the remaining term of that class. Any Director elected to fill a vacancy not resulting from an increase in the number of Directors shall have the same remaining term as that of his or her predecessor.

Subject to the rights of holders of any series of Preferred Stock then outstanding, any Director or the entire Board of Directors, may be removed from office at any time, but only for cause by an affirmative vote of the holders of a majority of the then outstanding shares of voting stock.

Section 3. Duties and Powers. The business of the Corporation shall be managed by or under the direction of the Board of Directors which may exercise all such powers of the Corporation and do all such lawful acts and things as are not by statute or by the Articles of Incorporation or by these Bylaws directed or required to be exercised or done by the shareholders.

Section 4. Meetings. The Board of Directors of the Corporation may hold meetings, both regular and special, either within or without the State of Florida. Regular meetings of the Board of Directors may be held without notice at such time and at such place as may from time to time be determined by the Board of Directors. Special meetings of the Board of Directors may be called by the Chairman, if there be one, the President or by a majority of the Board of Directors. Notice of a special meeting must be given at least two (2) days prior to the date of the meeting by written notice pursuant to the notice provisions of these Bylaws. The notice of a special meeting need not describe the purpose of the special meeting.

Section 5. Quorum. Except as may be otherwise specifically provided by law, the Articles of Incorporation or these Bylaws, at all meetings of the Board of Directors, a majority of the entire Board of Directors shall constitute a quorum for the transaction of business, and the act of a majority of the Directors present at any meeting at which there is a quorum shall be the act of the Board of Directors. If a quorum shall not be present at any meeting of the Board of Directors, the Directors present thereat may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present.

Section 6. Actions of the Board. Unless otherwise provided by the Articles of Incorporation or these Bylaws, any action required or permitted to be taken at any meeting of the Board of Directors or of any committee thereof may be taken without a meeting, if all the members of the Board of Directors or committee, as the case may be, consent thereto in writing, and the writing or writings are filed with the minutes of proceedings of the Board of Directors or committee.

Section 7. Meetings by Means of Conference Telephone. Unless otherwise provided by the Articles of Incorporation or these Bylaws, members of the Board of Directors of the Corporation, or any committee designated by the Board of Directors, may participate in a meeting of the Board of Directors or such committee by means of a conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and participation in a meeting pursuant to this Section 7 of Article III shall constitute presence in person at such meeting.

Section 8. Committees. The Board of Directors may, by resolution passed by a majority of the entire Board of Directors, designate one or more committees, each committee to consist of one or more of the Directors of the Corporation. The Board of Directors may designate one or more Directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of any such committee. In the absence or disqualification of a member of a committee, and in the absence of a designation by the Board of Directors of an alternate member to replace the absent or disqualified member, the member or members thereof present at any meeting and not disqualified from voting, whether or not he, she or they constitute a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in the place of any absent or disqualified member. Any committee, to the extent allowed by law and provided in the resolution establishing such committee, shall have and may exercise all the powers and authority of the Board of Directors in the management of the business and affairs of the Corporation. Each committee shall keep regular minutes and report to the Board of Directors when required.

Section 9. Compensation. The Directors may be paid their expenses, if any, of attendance at each meeting of the Board of Directors and may be paid a fixed sum for attendance at such meeting of the Board of Directors and/or a stated salary as Director. No such payment shall preclude any Director from serving the Corporation in any other capacity and receiving compensation therefor. Members of special or standing committees may be allowed like compensation for attending committee meetings.

Section 10. Interested Directors. No contract or transaction between the Corporation and one or more of its Directors or officers, or between the Corporation and any other corporation, partnership, association, or other organization in which one or more of its Directors or officers are Directors or officers, or have a financial interest, shall be void or voidable solely for this reason, or solely because the Director or officer is present at or participates in the meeting of the Board of Directors or committee thereof which authorizes the contract or transaction, or solely because his, her or their votes are counted for such purpose if (a) the fact of such relationship or interest is disclosed or known to the Board of Directors or committee which authorizes, approves, or ratifies the contract or transaction by a vote or consent sufficient for the purpose without counting the votes or consents of such interested Directors; (b) the fact of such relationship or interest is disclosed or known to the shareholders entitled to vote and they authorize, approve, or ratify such contract or transaction by vote or written consent; or (c) the contract or transaction is fair and reasonable as to the Corporation at the time it is authorized by the Board of Directors, a committee, or the shareholders.

ARTICLE IV

Officers

Section 1. General. The officers of the Corporation shall be chosen by the Board of Directors and shall be a President, a Secretary and a Treasurer. The Board of Directors, in its discretion, also may choose a Chairman and a Vice Chairman of the Board of Directors (each of whom must be a Director) and one or more Vice Presidents, Assistant Secretaries, Assistant Treasurers and other officers. Any number of offices may be held by the same person, unless otherwise prohibited by law, the Articles of Incorporation or these Bylaws. The officers of the Corporation need not be shareholders of the Corporation nor, except in the case of the Chairman and Vice Chairman of the Board of Directors, need such officers be Directors of the Corporation.

Section 2. Election. The Board of Directors at its first meeting held after each Annual Meeting of Shareholders shall elect the officers of the Corporation, who shall hold their offices for such terms and shall exercise such powers and perform such duties as shall be determined from time to time by the Board of Directors; and all officers of the Corporation shall hold office until their successors are chosen and qualified, or until their earlier resignation or removal. Any officer elected by the Board of Directors may be removed at any time by the affirmative vote of a majority of the Board of Directors. Any vacancy occurring in any office of the Corporation shall be filled by the Board of Directors. The salaries of all officers of the Corporation shall be fixed by the Board of Directors.

Section 3. Voting Securities Owned by the Corporation. Powers of attorney, proxies, waivers of notice of meeting, consents and other instruments relating to securities owned by the Corporation may be executed in the name of and on behalf of the Corporation by the President or any Vice President and any such officer may, in the name of and on behalf of the Corporation, take all such actions as any such officer may deem advisable to vote in person or by proxy at any meeting of security holders of any corporation in which the Corporation may own securities and at any such meeting shall possess and may exercise any and all rights and powers incident to the ownership of such securities and which, as the owner thereof, the Corporation might have exercised and possessed if present. The Board of Directors may, by resolution, from time to time confer like powers upon any other person or persons.

Section 4. Chairman. The Chairman, if present, shall preside at all meetings of the shareholders and of the Board of Directors. The Chairman of the Board of Directors shall also perform such other duties and may exercise such other powers as from time to time may be assigned to him or her by these Bylaws or by the Board of Directors.

Section 5. Vice Chairman. In the absence or disability of the Chairman, or if there be none, the Vice Chairman shall preside at all meetings of the shareholders and the Board of Directors. The Vice Chairman of the Board of Directors also shall perform such other duties and may exercise such other powers as from time to time may be assigned to him or her by these Bylaws or by the Board of Directors.

Section 6. President. The President shall be the chief executive officer of the Corporation unless the Board of Directors shall resolve otherwise, and, as such, shall have general supervision and direction of the business and affairs of the Corporation and shall see that all orders and resolutions of the Board of Directors are carried into effect. In the absence or disability of the Chairman and the Vice Chairman, or if there be none, the President shall preside at all meetings of the shareholders and the Board of Directors. The President also shall perform such other duties and may exercise such other powers as from time to time may be assigned to him or her by these Bylaws or by the Board of Directors.

Section 7. Vice President. At the request of the President or in his or her absence or in the event of his or her inability or refusal to act (and if there be no Chairman or Vice Chairman of the Board of Directors), the Vice President or the Vice Presidents if there is more than one (in the order designated by the Board of Directors) shall perform the duties of the President, and when so acting, shall have all the powers of and be subject to all the restrictions upon the President. Each Vice President shall perform such other duties and have such other powers as the Board of Directors from time to time may prescribe. If there is no Vice President, the Board of Directors shall designate the officer of the Corporation who, in the absence of the President or in the event of the inability or refusal of the President to act, shall perform the duties of the President, and when so acting, shall have all powers of and be subject to the restrictions upon the President.

Section 8. Secretary. The Secretary shall attend all meetings of the Board of Directors and all meetings of shareholders and record all the proceedings thereat in a book or books to be kept for that purpose; the Secretary also shall perform like duties of the standing committees when required. The Secretary shall give, or cause to be given, notice of all meetings of the shareholders and special meetings of the Board of Directors, and shall perform such other duties as may be prescribed by the President or the Board of Directors, under whose supervision he or she shall be. If the Secretary shall be unable or shall refuse to cause to be given notice of all meetings of the shareholders and special meetings of the Board of Directors, and if there be no Assistant Secretary, then either the President or the Board of Directors may choose another officer to cause such notice to be given. The Secretary shall have custody of the seal of the Corporation and the Secretary or any Assistant Secretary, if there be one, shall have authority to affix the same to any instrument requiring it and when so affixed, it may be attested by the signature of the Secretary or by the signature of any such Assistant Secretary. The Board of Directors may give general authority to any other officer to affix the seal of the Corporation and to attest the affixing by his or her signature. The Secretary shall see that all books, reports, statements, certificates and other documents and records required by law to be kept or filed are properly kept or filed, as the case may be.

Section 9. Treasurer. The Treasurer shall have the custody of the corporate funds and securities and shall keep full and accurate accounts of receipts and disbursements in books belonging to the Corporation and shall deposit all moneys and other valuable effects in the name and to the credit of the Corporation in such depositories as may be designated by the Board of Directors. The Treasurer shall disburse the funds of the Corporation as may be ordered by the

Board of Directors, taking proper vouchers for such disbursements, and shall render to the Board of Directors, at its regular meetings, or when the Board of Directors so requires, an account of all his or her transactions as Treasurer and of the financial condition of the Corporation. If required by the Board of Directors, the Treasurer shall give the Corporation a bond in such sum and with such surety or sureties as shall be satisfactory to the Board of Directors for the faithful performance of the duties of his or her office and for the restoration to the Corporation in case of his or her death, resignation, retirement or removal from office, of all books, papers, vouchers, money and other property of whatever kind in his or her possession or under his or her control belonging to the Corporation.

Section 10. Assistant Secretaries. Except as may be otherwise provided in these Bylaws, Assistant Secretaries, if there be any, shall perform such duties and have such powers as from time to time may be assigned to them by the Board of Directors, the President, any Vice President, if there be one, or the Secretary, and in the absence of the Secretary or in the event of his or her disability or refusal to act, shall perform the duties of the Secretary, and when so acting, shall have all the powers of and be subject to all the restrictions upon the Secretary.

Section 11. Assistant Treasurers. Assistant Treasurers, if there be any, shall perform such duties and have such powers as from time to time may be assigned to them by the Board of Directors, the President, any Vice President, if there be one, or the Treasurer, and in the absence of the Treasurer or in the event of his or her disability or refusal to act, shall perform the duties of the Treasurer, and when so acting, shall have all the powers of and be subject to all the restrictions upon the Treasurer. If required by the Board of Directors, an Assistant Treasurer shall give the Corporation a bond in such sum and with such surety or sureties as shall be satisfactory to the Board of Directors for the faithful performance of the duties of his or her office and for the restoration to the Corporation, in case of his or her death, resignation, retirement or removal from office, of all books, papers, vouchers, money and other property of whatever kind in his or her possession or under his or her control belonging to the Corporation.

Section 12. Other Officers. Such other officers as the Board of Directors may choose shall perform such duties and have such powers from time to time may be assigned to them by the President or the Board of Directors, as the case may be. The Board of Directors may delegate to any other officer of the Corporation the power to choose such other officers and to prescribe their respective duties and powers.

ARTICLE V

Stock

Section 1. Form of Certificates. Every holder of stock in the Corporation shall be entitled to have a certificate signed, in the name of the Corporation (i) by the Chairman or Vice Chairman of the Board of Directors, the President or a Vice President and (ii) by the Treasurer or an Assistant Treasurer, or the Secretary or an Assistant Secretary of the Corporation, certifying the number of shares owned in the Corporation.

Section 2. Signatures. Where a certificate is countersigned by (i) a transfer agent other than the Corporation or its employee, or (ii) a registrar other than the Corporation or its employee, any other signature on the certificate may be a facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate issued, it may be issued by the Corporation with the same effect as if he or she were such officer, transfer agent or registrar at the date of issue.

Section 3. Lost Certificates. The Board of Directors may direct a new certificate to be issued in place of any certificate theretofore issued by the Corporation alleged to have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate of stock to be lost, stolen or destroyed. When authorizing such issue of a new certificate, the Board of Directors may, in its discretion and as a condition precedent to the issuance thereof, require the owner of such lost, stolen or destroyed certificate, or his or her legal representative, to advertise the same in such manner as the Board of Directors shall require and/or to give the Corporation a bond in such sum as it may direct as indemnity against any claim that may be made against the Corporation with respect to the certificate alleged to have been lost, stolen or destroyed.

Section 4. Transfers. Stock of the Corporation shall be transferable in the manner prescribed by law and in these Bylaws. Transfers of stock shall be made on the books of the Corporation only by the person named as the owner of the stock in the Corporation's books and records or by his, her or its attorney lawfully constituted in writing and, if such stock is represented by a stock certificate, upon the surrender of the certificate therefor.

Section 5. Record Date. In order that the Corporation may determine the shareholders entitled to notice of or to vote at any meeting of shareholders or any adjournment thereof, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock, or for the purpose of any other lawful action, the Board of Directors may fix, in advance, a record date, which shall not be more than seventy (70) days nor less than ten (10) days before the date of such meeting, nor more than seventy (70) days prior to any other action. A determination of shareholders of record entitled to notice of or to vote at a meeting of shareholders shall apply to any adjournment of the meeting unless the Board of Directors fixes a new record date, which it must do if the meeting is adjourned to a date more than one hundred and twenty (120) days after the date fixed for the original meeting.

Section 6. Beneficial Owners. The Corporation shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends, and to vote as such owner, and to hold liable for calls and assessments a person registered on its books as the owner of shares, and shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by law.

ARTICLE VI

Notices

Section 1. Notices. Whenever written notice is required by law, the Articles of Incorporation or these Bylaws, to be given to any Director, member of a committee or shareholder, such notice may be given by mail, addressed to such Director, member of a committee or shareholder, at his or her address as it appears on the records of the Corporation, with postage thereon prepaid, and such notice shall be deemed to be given at the time when the same shall be deposited in the United States mail. Written notice may also be given personally or by electronic facsimile, or telegram, telex or cable. Written notices delivered personally, by mail, telegram, telecopy or nationally recognized overnight courier service (such as Federal Express, Airborne, UPS, Emery or Purolator) to each Director at his or her address. Such notice shall be effective upon the earliest of (a) receipt, (b) five days after its deposit in the United States mail, as evidenced by the postmark, if mailed postpaid and correctly addressed, or (c) the day after its deposit with such an overnight courier service, marked for next day delivery. Such written notice shall include the date, time and place of the meeting.

Section 2. Waivers of Notice. Whenever any notice is required by law, the Articles of Incorporation or these Bylaws, to be given to any Director, member of a committee or shareholder, a waiver thereof in writing, signed, by the person or persons entitled to said notice, whether before or after the time stated therein, shall be deemed equivalent thereto.

ARTICLE VII

General Provisions

Section 1. Dividends. Dividends upon the capital stock of the Corporation, subject to the provisions of the Articles of Incorporation, if any, may be declared by the Board of Directors at any regular or special meeting, and may be paid in cash, in property, or in shares of the capital stock. Before payment of any dividend, there may be set aside out of any funds of the Corporation available for dividends such sum or sums as the Board of Directors from time to time, in its absolute discretion, deems proper as a reserve or reserves to meet contingencies, or for equalizing dividends, or for repairing or maintaining any property of the Corporation, or for any proper purpose, and the Board of Directors may modify or abolish any such reserve.

Section 2. Disbursements. All checks or demands for money and notes of the Corporation shall be signed or signed by facsimile by each officer or officers or such other person or persons as the Board of Directors may from time to time designate.

Section 3. Fiscal Year. The fiscal year of the Corporation shall be fixed by resolution of the Board of Directors.

Section 4. Corporate Seal. The corporate seal shall have inscribed thereon the name of the Corporation, the year of its organization and the words "Corporate Seal, Florida." The seal may be used by causing it or a facsimile thereof to be impressed or affixed or reproduced or otherwise.

ARTICLE VIII

Indemnification

Section 1. Power to Indemnify in Actions, Suits or Proceedings Other Than Those by or in the Right of the Corporation. Subject to Section 3 of this Article VIII, the Corporation shall indemnify each person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the Corporation) by reason of the fact that he or she is or was a Director, officer, employee, or agent of the Corporation, or is or was serving at the request of the Corporation as a Director, officer, employee or agent of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him or her in connection with such action, suit or proceeding if he or she acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his or her conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that the person did not act in good faith and in a manner in which he or she reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding, had reasonable cause to believe that his or her conduct was unlawful.

Section 2. Power to Indemnify in Actions, Suits or Proceedings by or in the Right of the Corporation. Subject to Section 3 of this Article VIII, the Corporation shall indemnify each person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the Corporation to procure a judgment in its favor by reason of the fact that he or she is or was a Director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a Director, officer, employee or agent of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise against expenses (including attorneys' fees) actually and reasonably incurred by him or her in connection with the defense or settlement of such action or suit if he or she acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the Corporation; except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the Corporation unless and only to the extent that the Court of Chancery or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the Court of Chancery or such other court shall deem proper.

Section 3. Authorization of Indemnification. Any indemnification under this Article VIII (unless ordered by a court) shall be made by the Corporation only as authorized in the specific case upon a determination that indemnification of the Director, officer or other person is proper in the circumstances because he or she has met the applicable standard of conduct set forth in Section 1 or Section 2 of this Article VIII, as the case may be. Such determination shall be made (a) by the Board of Directors by a majority vote of a quorum consisting of Directors who were not parties to such proceeding; (b) if such a quorum is not obtainable or, event if obtainable, by majority vote of a committee duly designated by the Board of Directors (in which Directors who are parties may participate) consisting solely of two or more Directors not at the time parties to the proceeding; (c) by independent legal counsel (1) selected by the Board of Directors prescribed in paragraph (a) or the committee prescribed in paragraph (b); or (2) if a quorum of the Directors cannot be obtained for paragraph (a) and the committee cannot be designated under paragraph (b), selected by majority vote of the full Board of Directors (in which Directors who are parties may participate); or (d) by the shareholders by a majority vote of a quorum consisting of shareholders who were not parties to such proceeding or, if no such quorum is obtainable, by a majority vote of shareholders who were not parties to such proceeding. To the extent, however, that a Director or officer of the Corporation has been successful in the merits or otherwise in defense of any action, suit or proceeding described above, or in defense of any claim, issue or matter therein, he or she shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by him or her in connection therewith, without the necessity of authorization in the specific case.

Section 4. Good Faith Defined. For purposes of any determination under Section 3 of this Article VIII, a person shall be deemed to have acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the Corporation, or, with respect to any criminal action or proceeding, to have had no reasonable cause to believe his or her conduct was unlawful, if his or her action is based on the records or books of account of the Corporation or another enterprise, or on information supplied to him or her by the officers of the Corporation or another enterprise in the course of their duties, or on the advice of legal counsel for the Corporation or another enterprise or on information or records given or reports made to the Corporation or another enterprise by an independent certified public accountant or by an appraiser or other expert selected with reasonable care by the Corporation or another enterprise. The term "another enterprise" as used in this Section 4 of this Article VIII shall mean any other corporation or any partnership, joint venture, trust, employee benefit plan or other enterprise of which such person is or was serving at the request of the Corporation as a Director, officer, employee or agent. The provisions of this Section 4 of this Article VIII shall not be deemed to be exclusive or to limit in any way the circumstances in which a person may be deemed to have met the applicable standard of conduct set forth in Section 1 or Section 2 of this Article VIII, as the case may be.

Section 5. Indemnification by a Court. Notwithstanding any contrary determination in the specific case under Section 3 of this Article VIII, and notwithstanding the absence of any determination thereunder, any Director or officer may apply to any court of competent jurisdiction in the State of Florida for indemnification to the extent otherwise permissible under Sections 1 and 2 of this Article VIII. The basis of such indemnification by a court shall be a determination of such court that indemnification of the Director or officer is proper in the circumstances because he or she has met the applicable standards of conduct as set forth in Section 1 or Section 2 of this Article VIII, as the case may be. Neither a contrary determination in

the specific case under Section 3 of this Article VIII nor the absence of any determination thereunder shall be a defense to such application or create a presumption that the Director or officer seeking indemnification has not met any applicable standard of conduct. Notice of any application for indemnification pursuant to this Section 5 of this Article VIII shall be given to the Corporation promptly upon the filing of such application. If successful, in whole or in part, the Director or officer seeking indemnification shall also be entitled to be paid the expense of prosecuting such application.

Section 6. Expenses Payable in Advance. Expenses incurred by a Director or officer in defending or investigating a threatened or pending action, suit or proceeding shall be paid by the Corporation in advance of the final disposition of such action, suit or proceeding upon receipt of an undertaking by or on behalf of such Director or officer to repay such amount if it shall ultimately be determined that he or she is not entitled to be indemnified by the Corporation as authorized in this Article VIII. Such expenses (including attorney's fees) incurred by other employees and agents may be so paid upon such terms and conditions, if any, as the Board of Directors deems appropriate.

Section 7. Nonexclusivity of Indemnification and Advancement of Expenses. The indemnification and advancement of expenses provided by or granted pursuant to this Article VIII shall not be deemed exclusive of any other rights to which those seeking indemnification or advancement of expenses may be entitled under any Bylaw, agreement, contract, vote of shareholders or disinterested Directors or pursuant to the direction (howsoever embodied) of any court of competent jurisdiction or otherwise, but as to action in his or her official capacity and as to action in another capacity while holding such office, it being the policy of the Corporation that indemnification of the persons specified in Sections 1 and 2 of this Article VIII shall be made to the fullest extent permitted by the Florida Business Corporation Act, as the same exists or may hereafter be amended. The provisions of this Article VIII shall not be deemed to preclude the indemnification of any person who is not specified in Section 1 or Section 2 of this Article VIII but whom the Corporation has the power or obligation to indemnify under the provisions of the Florida Business Corporation Act or otherwise.

Section 8. Insurance. The Corporation shall have power to purchase and maintain insurance on behalf of any person who is or was a Director or officer of the Corporation, or is or was serving at the request of the Corporation as a Director, officer, employee or agent of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise against any liability asserted against him or her and incurred by him or her in any such capacity, or arising out of his or her status as such, whether or not the Corporation would have the power or the obligation to indemnify him or her against such liability under the provisions of this Article VIII.

Section 9. Certain Definitions. For purposes of this Article VIII, references to "the Corporation" shall include, in addition to the resulting corporation, any constituent corporation (including any constituent of a constituent) absorbed in a consolidation or merger which, if its separate existence had continued, would have had power and authority to indemnify its Directors and officers, so that any person who is or was a Director or officer of such constituent corporation, or is or was a Director or officer of such constituent corporation serving at the request of such constituent corporation as a Director, officer, employee or agent of another corporation, partnership,

joint venture, trust, employee benefit plan or other enterprise, shall stand in the same position under the provisions of this Article VIII with respect to the resulting or surviving corporation as such indemnification relates to his or her acts while serving in any of the foregoing capacities, of such constituent corporation, as he or she would have with respect to such constituent corporation if this separate existence had continued. For purposes of this Article VIII, references to “fines” shall include any excise taxes assessed on a person with respect to an employee benefit plan; and references to “serving at the request of the Corporation” shall include any service as a Director or officer of the Corporation which imposes duties on, or involves services by, such Director or officer with respect to an employee benefit plan, its participants or beneficiaries; and a person who acted in good faith and in a manner he or she reasonably believed to be in the interest of the participants and beneficiaries of an employee benefit plan shall be deemed to have acted in a manner “not opposed to the best interests of the Corporation” as referred to in this Article VIII.

Section 10. Survival of Indemnification and Advancement of Expenses. The indemnification and advancement of expenses provided by, or granted pursuant to, this Article VIII shall, unless otherwise provided when authorized or ratified, continue as to a person who has ceased to be a Director or officer and shall inure to the benefit of the heirs, executors and administrators of such a person. Any repeal or modification of this Article VIII by the shareholders of the Corporation shall not adversely affect any rights to indemnification and advancement of expenses existing pursuant to this Article VIII with respect to any acts or omissions occurring prior to such repeal or modification.

Section 11. Limitation on Indemnification. Notwithstanding anything contained in this Article VIII to the contrary, except for proceedings to enforce rights to indemnification (which shall be governed by Section 5 of this Article VIII), the Corporation shall not be obligated to indemnify any Director or officer in connection with a proceeding (or part thereof) initiated by such person unless such proceeding (or part thereof) was authorized or consented to by the Board of Directors of the Corporation.

ARTICLE IX

Amendments

The Corporation’s Board of Directors may amend or repeal these Bylaws unless: (a) the Articles of Incorporation or law reserves the power to amend the Bylaws generally, or a particular Bylaw provision exclusively, to the shareholders; or (b) the shareholders, in amending or repealing the Bylaws generally or a particular Bylaw provision, provide expressly that the Board of Directors may not amend or repeal the Bylaws or that Bylaw provision.

The Corporation’s shareholders may amend or repeal the Corporation’s Bylaws even though the Bylaws also may be amended or repealed by its Board of Directors.

**SUN HYDRAULICS CORPORATION
EMPLOYEE STOCK PURCHASE PLAN**

1. PURPOSES

The Sun Hydraulics Corporation Employee Stock Purchase Plan (the “Plan”) is intended to provide employees of Sun Hydraulics Corporation, a Florida corporation (the “Company”) and its Subsidiaries with an opportunity to acquire shares of the Company’s Common Stock at an advantageous price, with savings accumulated through payroll deductions. It is the intention of the Company that the Plan be an “employee stock purchase plan” under Section 423 of the Code. The provisions of the Plan shall, accordingly, be construed in a manner consistent with the requirements of that section of the Code.

2. DEFINITIONS

- A. “Agent” means the firm appointed by the Company’s Board of Directors to carry out the functions assigned to the Agent.
- B. “Board of Directors” means the Company’s Board of Directors.
- C. “Closing Market Price” means the last sale price of the Common Stock as reported on the Nasdaq National Market (or any other exchange or quotation system, if applicable) on the date specified; or if no sales occurred on such day, at the last sale price reported for the Common Stock; but if there should be any material alteration in the present system of reporting sales prices of such Common Stock, or if such Common Stock should no longer be listed on the Nasdaq National Market (or other exchange or quotation system), or if the last sale price reported shall be on a date more than 30 days from the date in question, the market value of the Common Stock as of a particular date shall be determined in such a method as shall be specified by the Plan’s Agent.
- D. “Code” means the Internal Revenue Code of 1986, as amended.
- E. “Common Stock” means the Company’s common stock, par value \$.001 per share, as traded on the Nasdaq National Market.
- F. “Compensation” means cash compensation before any payroll deductions for taxes or any other purpose, paid by the Company or a Subsidiary to a Participant in respect of the service of such Participant to the Company or a Subsidiary during an Offering Period. This amount shall be deemed to include any amount that the Participant has elected to defer for federal income tax purposes under any 401(k) savings plan, cafeteria plan or deferred compensation plan maintained by the Company or a Subsidiary. Compensation shall not include any amount paid to the Participant that (i) is paid during the relevant Offering Period under any employee pension benefit plan (as defined in Section 3(2) of the Employee Retirement Income Security Act of 1974, as amended (“ERISA”)); (ii) is calculated as an excess, incentive compensation or bonus amount; and (iii) except as otherwise provided in the preceding sentence, is not included in the income of the Participant for federal income tax purposes.

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- G. "Enrollment Date" means August 1, 2001, and July 1 of any year thereafter.
 - H. "Offering Date" means August 1, 2001, and the first day of any calendar quarter thereafter.
 - I. "Offering Period" means the period from August 1, 2001 through September 30, 2001, and thereafter, the three-month period commencing on any Offering Date after the first Offering Date and ending on the Purchase Date.
 - J. "Option" means the right of a Participant to acquire Common Stock pursuant to Plan provisions.
 - K. "Participant" means an eligible employee who has authorized payroll deductions for the purchase of Common Stock under the Plan and has an account maintained by the Agent, containing shares of Common Stock and/or Proceeds.
 - L. "Proceeds" means the total amount of cash accumulated for the benefit of a Participant during a single Offering Period, comprised of the aggregate of the payroll deductions taken from the Participant's Compensation during such Offering Period together with earnings thereon and dividends paid on shares of Common Stock beneficially owned by the Participant.
 - M. "Purchase Date" means the last Trading Day of each Offering Period.
 - N. "Subsidiary" means a corporation that is a subsidiary of the Company within the meaning thereof as stated in Code Section 424(f). Any Subsidiary located outside the United States shall not participate in the Plan unless designated by the Board of Directors to participate.
 - O. "Trading Day" means any day that the principal stock exchange or other national market upon which the Common Stock is traded is open for business.

Wherever appropriate in this Plan the singular shall include the plural; the masculine, the feminine; and vice versa.

3. ELIGIBILITY

All employees of the Company who have been employed for at least three (3) months as of the Enrollment Date shall be eligible to participate in the Plan, provided that no employee shall be eligible if such employee:

- A. is a Highly Compensated Employee [within the meaning of Section 414(q) of the Code] of the Company who owns, immediately after any Option is granted, stock

possessing five percent (5%) or more of the total combined voting power or value of all classes of Company stock, applying the rules of Code Section 424(d) in determining stock ownership, or

- B. is an employee whose customary employment is twenty hours or less per week, or whose customary employment is for not more than five months in any calendar year.

In addition, all employees of each Subsidiary shall be eligible to participate in the Plan to the extent they satisfy the requirements set forth in the preceding paragraph.

4. EMPLOYEE PARTICIPATION AND PAYROLL DEDUCTIONS

- A. An eligible employee shall become a Participant in the Plan by completing and filing with the Company at least 20 days prior to the Enrollment Date an authorization for a payroll deduction on the form provided by the Company, together with instructions to use the deductions to purchase shares of Common Stock under the Plan. The Participant shall choose a deduction in a whole percentage from 1% to 15%. As of each pay day during each Offering Period, the Company will deduct the specified amount from the Compensation payable to each Participant. The Company will hold each Participant's Proceeds in non-interest bearing accounts until each Participant's proceeds are used to purchase shares. The Agent will perform the record keeping function under the Plan, assuring that the Agent, from the information provided to it by the Company, will account for each Participant's deductions and maintain each Participant's account. A Participant may not make any separate cash payment into such account.
- B. On each Offering Date, each Participant shall be granted the right to purchase on the next Purchase Date such number of shares of Common Stock as may be purchased by the Participant's Proceeds accumulated during the preceding Offering Period. The maximum number of shares of Common Stock a Participant may purchase under this Plan during any Offering Period shall be limited to 2,500 shares.
- C. No Participant, however, may be granted the right to purchase shares of Common Stock under all employee stock purchase plans of the Company subject to Section 423 of the Code where the accrual is at a rate that exceeds \$25,000 of the Common Stock's fair market value, determined at the time the option is granted, for any one calendar year in which an option is outstanding for any part of the year.
- D. A Participant may not increase or reduce the amount of Participant's payroll deductions until the next Enrollment Date, except Participant may reduce the amount of Participant's payroll deductions to 0% as described in Section 7. A Participant shall be deemed to have elected to purchase all shares able to be purchased with the Proceeds on the applicable Purchase Date.

5. OPTION PRICE

The price to Participants for each share to be purchased on a Purchase Date shall be the lesser of

- A. eighty-five percent (85%) of the Closing Market Price on the Offering Date, or
- B. eighty-five percent (85%) of the Closing Market Price on the Purchase Date.

6. METHOD OF PURCHASE

- A. On each Purchase Date the Agent shall cause all Participants' Proceeds, together with applicable Company contributions during the preceding Offering Period, if any, to be applied to the purchase of Common Stock from the Company.
- B. As of the Purchase Date, the account of each Participant shall be credited with a number of shares of Common Stock that were able to be purchased with that Participant's Proceeds.

7. WITHDRAWALS

Prior to any Purchase Date, a Participant may give written notice to the Company or its agent of an intent to reduce the amount of payroll deductions to 0% and to withdraw the entire cash balance and earnings accumulated during the Offering Period preceding the said Purchase Date. The written notice shall effectuate a withdrawal only if the Agent has not purchased shares for the account of the notifying Participant. Such withdrawal will terminate the Participant's right to exercise any Options for that Offering Period. A Participant who withdraws shall not participate again in the Plan unless and until a new Enrollment Form is filed at least 20 days prior to the next Enrollment Date.

8. TERMINATION OF EMPLOYMENT

As soon as administratively practicable after the termination of a Participant's employment with the Company for any reason other than death, the Participant's Proceeds accumulated during the Offering Period in which his employment terminated will be refunded, and any shares of Common Stock held by the Agent will be distributed in kind. As an alternative to the latter, the terminated Participant may request that the Agent, at the Participant's expense, sell the Common Stock in the account and forward the net proceeds to the Participant.

9. RIGHTS AS A SHAREHOLDER; DIVIDENDS; HOLDING AND ISSUANCE OF SHARES

- A. A Participant shall have no rights as a shareholder with respect to any shares of Common Stock offered hereunder until completion of payment therefor. Shares purchased pursuant to the Plan initially will be registered in the name of the Agent as custodian for the account of the Participant entitled thereto. In regard to shares paid

for and in a Participant's account, the Participant shall have all rights accruing to an owner of record of such shares, including voting rights and the right to receive dividends.

- B. The Agent shall receive the dividends payable on the shares in its custody and shall credit to the Proceeds account of each Participant as beneficial owner of a certain number of shares the amount of dividends attributable thereto. In the event that the Participant has not authorized payroll deductions during the Offering Period in which the Agent receives the Participant's dividends, unless requested otherwise by the Participant on notice from the Agent, the Agent shall re-establish a Proceeds account to contain these dividends and earnings thereon. In the event that the Participant's shares have been distributed when dividends are received, the Agent shall return said dividends to the Common Stock's transfer agent for reissuance to the distributee of the shares.
- C. Until such time as the Plan has been approved by the Company's shareholders, the stock certificates representing all of the shares purchased on behalf of Participants under this Plan shall be retained by the Agent, and Participants may not withdraw or sell such shares.
- D. After the Plan has been approved by the Company's shareholders, the stock certificate or certificates representing the shares purchased on behalf of a Participant on each Purchase Date shall be retained by the Agent until such time as the Participant may request the Agent in writing to distribute such shares to the Participant. The Company and the Agent may establish such rules and procedures as they, in their discretion, determine to be necessary or desirable with respect to distributions of shares purchased under this Plan, including any rules imposing limits on such distributions or restricting the timing or frequency of such distributions they may determine to be suitable.

10. NONTRANSFERABILITY

Neither payroll deductions credited to the account of a Participant nor any Options to purchase shares of common Stock under the Plan may be assigned, transferred, or alienated, and Options must be exercised only by the Participant during his lifetime.

11. BENEFICIARY DESIGNATION AND RIGHTS

A Participant may file with the Company's Chief Financial Officer, or such delegee appointed by the Chief Financial Officer, a written designation of beneficiary, or a revision thereof. In the absence of such designation, or if the named beneficiary predeceased the Participant, the Participant's estate shall be deemed to be the beneficiary. In the event of the Participant's death, the Agent shall apply the Proceeds to the purchase of shares on the next Purchase Date, and deliver all the Common Stock held for the deceased Participant to the beneficiary, together with any remaining Proceeds, subject to the Agent's receipt of Participant's death certificate and satisfactory evidence of the beneficiary's identity and acceptance of the Common Stock and Proceeds. The beneficiary shall have no rights under the Plan during the Participant's lifetime.

12. SHARES AUTHORIZED; CHANGE IN CORPORATE STRUCTURE AND CAPITALIZATION

- A. Subject to adjustment upon changes in the capitalization of the Company, the maximum number of shares of Common Stock which shall be made available for purchase under this Plan is 492,952 shares (after taking into account the action taken by the Board of Directors in 2009 to reallocate a portion of the shares previously reserved for purchase under this Plan for future issuance under the Sun Hydraulics Limited Share Incentive Plan). The shares of Common Stock purchased under the Plan may, at the election of the Company, be authorized but unissued shares of the Company's Common Stock, authorized but unissued treasury shares held by the Company, or shares of Common Stock purchased on the open market by the Agent.
- B. In the event of any change in the number of outstanding shares of Common Stock by reason of a recapitalization, merger, consolidation, reorganization, separation, liquidation, stock split, stock dividend, combination of shares, or any other change in the corporate structure or shares of stock of the Company, the Board of Directors will make an appropriate adjustment, in accordance with applicable provisions of the Code and law, in the number and kind of shares which may be offered under the Plan, both in the aggregate and as to each Participant, the number of shares then subject to offerings theretofore made, and the price of shares offered under the Plan.
- C. If the Company shall not be the surviving corporation in any merger or consolidation, or survives only as a subsidiary of another entity, or if the Company is to be dissolved or liquidated, and unless a surviving corporation assumes or substitutes new options within the meaning of Section 424(a) of the Code, for all Options then outstanding under the Plan,
 - i. the Purchase Date for all Options then outstanding shall be accelerated to a date fixed by the Board of Directors prior to the effective date of such merger or consolidation or such dissolution or liquidation and shall be deemed to be exercised, and
 - ii. upon such effective date any unexercised Options shall expire.

13. SECURITIES LAWS

The Plan is intended to comply with Rule 16b-3 of the Securities Act of 1934, and shall be interpreted therewith. The Company shall not be obligated to issue any Common Stock pursuant to the Plan at any time when the shares have not been registered under the Securities Act of 1933, as amended, and such other state and federal laws, rules or regulations as the Company or the Board of Directors deems applicable and, in the opinion of legal counsel for the Company, there is no exemption from the registration requirements of such laws, rules or regulations available for the issuance and sale of such shares.

Further, all Common Stock acquired pursuant to the Plan shall be subject to, and may be sold only in a manner consistent with the Company's Policy on Confidentiality-Insider Trading and other policies concerning compliance with securities laws and insider trading, as the same may be amended from time to time.

14. ADMINISTRATION

- A. The Plan shall be administered by the Board of Directors. Notwithstanding the preceding sentence, the Board of Directors may delegate its authority to a Compensation Committee of at least two members of the Board of Directors. The members of the Compensation Committee shall serve at the pleasure of the Board of Directors. The interpretation and construction of any provision of the Plan, and the adoption of rules for administering the Plan, shall be made by the Board of Directors (or, in its place, the Compensation Committee). Determinations made by the Board of Directors (or the Compensation Committee) with respect to any matter or provision contained in the Plan shall be final, conclusive and binding upon the Company and all Participants, their beneficiaries and legal representatives. Any rule adopted by the Board of Directors (or the Compensation Committee) shall remain in full force and effect unless and until amended or repealed by the Board of Directors (or the Compensation Committee).
- B. The Board of Directors (or the Compensation Committee) shall have the right to appoint the Agent and any other entity or person, including Company employees, and to delegate to them certain functions or services to be performed in connection with Plan administration, and to name successors.
- C. The Participant or beneficiary, as the case may be, shall bear all costs and expenses associated with requests for the issuance of stock certificates, the sale of Common Stock, and a Participant's withdrawal from the Plan.
- D. The Agent will mail to each Participant's home address a quarterly statement showing the number of shares of Common Stock held beneficially for the Participant, the amount and derivation of cash in the Participant's Proceeds account, and any purchases of shares in the Offering Period that closed during the calendar quarter reflected in the statement.
- E. If at any time the number of shares as to which Options have been granted shall exceed the number of shares authorized for purchase under the Plan on a certain Purchase Date, the number of shares which may be purchased by each Participant shall be reduced proportionately. Payroll deductions not able to be used shall remain in the Participant's Proceeds account.

15. AMENDMENT AND TERMINATION

The Board of Directors may at any time terminate or amend the Plan, provided that no amendment may be made without approval of the shareholders of the Company if such

amendment would increase the number of shares which may be available under the Plan, except by operation of Section 12 of the Plan, or materially modify the requirements as to eligibility for participation in the Plan.

16. NONGUARANTEED EMPLOYMENT

Neither eligibility to participate in, actual participation in, nor any provision of the Plan shall be construed as giving any eligible employee or Participant any employment right with the Company or a Subsidiary.

17. AGENT FOR SERVICE OF PROCESS

Legal process may be served upon the Secretary of the Company or the Chief Financial Officer, Sun Hydraulics Corporation, 1500 West University Parkway, Sarasota, FL 34243.

18. SHAREHOLDER APPROVAL

The effectiveness of this Plan is subject to its approval by the Company's shareholders at the next Annual Meeting of Shareholders, or within a twelve month period after the date the Plan is adopted by the Board of Directors. In the event shareholder approval of this Plan is not obtained within this period, the Plan shall terminate, all shares purchased under the Plan shall be returned to the Company, and the Agent shall refund to each Participant any Proceeds accumulated for the Participant and the current value of any shares of Common Stock then held by the Agent on the Participant's behalf.

Revised through June 9, 2010

**SUN HYDRAULICS CORPORATION
Amendments to 401(K) and ESOP Retirement Plan**

First Amendment
(Final Section 415 Limit Regulations)

1. Section 4.10 of the Plan, entitled "Maximum on Annual Additions," is revised effective as of January 1, 2008 by the addition of the following paragraph at the end of such Section 4.10:

"(i) For purposes of this Section 4.10 of the Plan and Section 415(c) of the Code, "415 Compensation" shall be the Participant's Compensation but shall not include any payments the Employer makes to a retired or terminated Participant after the Participant's date of severance from employment (within the meaning of Section 401(k)(2)(B)(i)(I) of the Code) with the Employer, except that for Plan Years beginning on or after January 1, 2008, post-severance payments shall be included in 415 Compensation for purposes of this Section to the extent that such payments:

- (i) are made to the Participant within 2-1/2 months after the date of severance from employment with the Employer or, if later, by the end of the limitation year which includes such date of severance;
- (ii) would have been paid to the Participant while the Participant continued in employment with the Employer, absent a severance from employment; and
- (iii) consist of (A) regular salary or wage payments for services during the Participant's regular employment (including overtime or shift differential, commissions, bonuses, or other similar regularly scheduled components of the Participant's regular pay), (B) payments of vacation pay, sick time or other paid time off accrued during the Participant's active employment with the Employer but not yet paid by the last day of active employment, or (C) military differential pay."

2. In all other respects, the terms of the Plan, as amended to date, are hereby ratified and confirmed.

September 22, 2008

Second Amendment
(Non-spousal Rollovers)

1. Section 7.13 of the Plan, entitled "Direct Rollover," is revised effective as of January 1, 2009 by the addition of the following paragraph at the end of Subsection 7.13(b)(3):

"(3) Effective for distributions payable after December 31, 2008 as a result of an Employee's death, the term distributee shall also include an individual who is the deceased Employee's designated beneficiary but is not the surviving spouse of the deceased Employee, and a direct trustee-to-trustee transfer to an Individual Retirement Account established on behalf of such non-spousal beneficiary shall be treated as an eligible rollover distribution for purposes of this Section 7.13 and Code Section 402(c), to the extent permitted by Treasury Regulations or other guidance published under section 402(c) of the Code."

2. In all other respects, the terms of the Plan, as amended to date, are hereby ratified and confirmed.

December 16, 2008

Third Amendment
(Pension Protection Act)

1. Section 1.11 of the Plan defining the term "Compensation" is amended by adding the following to the end of Section 1.11, effective for Plan Years beginning after December 31, 2008:

"For Plan Years beginning after December 31, 2008, any military differential pay paid to a Participant by the Company shall be treated as Compensation. For this purpose, military differential pay consists of any payments made by the Company to a Participant for periods in which the Participant is on active military duty, representing the difference between (A) the wages the Participant would have received from the Company if the Participant were actively performing services for the Company and (B) the Participant's military compensation."

2. Section 1.37 of the Plan defining the term "Income," is hereby further amended by inserting the following at the end of Subsection 1.37, effective for Plan Years beginning after December 31, 2007:

"For Plan Years beginning after December 31, 2007, notwithstanding anything in the preceding paragraph or elsewhere in this Section 1.37 to the contrary, the requirement that gap period income be allocated pursuant to Treasury Regulations Section 1.401(k)-2(b)(2) shall no longer apply to Excess Aggregate Contributions, Excess Contributions, and Excess Deferred Compensation returned to a Participant. Thus, with respect to such items, the Plan Administrator may exclude gap period income that is allocated to Participants' accounts prior to distribution."

3. Section 7.5 of the Plan, entitled "Distribution of Benefits" is amended by replacing "ninety (90) days" with "180 days (or, prior to January 1, 2008, 90 days)", effective on and after January 1, 2008.

4. Section 7.6 of the Plan, entitled "Distribution of Benefit Upon Death" is amended by inserting the following as a new subsection (f):

"Effective on and after January 1, 2007, if a Participant dies while performing qualified military service [within the meaning of Section 414(u) of the Code], his or her surviving spouse or other Beneficiary shall be entitled to receive the same death benefits from the Plan that would have been payable under this Section 7.6 if the Participant had resumed active employment with the Company immediately prior to the date of his death.

5. Section 7.13 of the Plan, entitled "Direct Rollover," is revised effective as of January 1, 2009 by the addition of the following at the end of Subsection 7.13(b)(2):

"For distributions made after December 31, 2007, an Eligible Retirement Plan shall include a Roth IRA as described in Code Section 408A; however, for taxable years beginning prior to January 1, 2010, the income restrictions that apply to a rollover from a traditional IRA into a Roth IRA will continue to apply."

6. In all other respects, the terms of the Plan, as amended to date, are hereby ratified and confirmed.

December 22, 2009

Fourth Amendment

1. Section 4.14 of the Plan, entitled "Directed Investment Account," is hereby further amended by revising the first sentence of Subsection 4.14(a) to read as follows, effective for Plan Years beginning after December 31, 2010:

"Participants may, subject to a procedure established by the Administrator (the Participant Direction Procedures) and applied in a uniform nondiscriminatory manner, direct the Trustee, in writing (or in such other form which is acceptable to the Trustee), to invest all of their accounts, excluding the Participants' ESOP Accounts, in specific assets, specific funds or other investments permitted under the Plan and the Participant Direction Procedures, including providing the Trustee with directions to invest the portions of their account attributable to one or more specified sources or accounts in different assets."

2. Section 7.4 of the Plan, entitled "Determination of Benefits Upon Termination of Employment" is amended by revising the fourth paragraph of Subsection 7.4(a) to read as follows:

"Effective on and after March 28, 2005 but prior to January 1, 2011, there will be no mandatory lump sum cashout distributions out of this Plan, and during such period notwithstanding any other provision of the Plan, the Participant's consent to the distribution shall now be required before the Plan may make any immediate lump sum cashout distribution."

3. In all other respects, the terms of the Plan, as amended to date, are hereby ratified and confirmed.

December 4, 2010

CONSENT OF INDEPENDENT REGISTERED CERTIFIED PUBLIC ACCOUNTING FIRM

We have issued our report dated March 9, 2011 accompanying the consolidated financial statements included in the Annual Report of Sun Hydraulics Corporation on Form 10-K as of January 1, 2011 and for the year then ended. We hereby consent to the incorporation by reference of said report in the Registration Statements of Sun Hydraulics Corporation on Forms S-8 (File No. 333-30801, effective July 3, 1997, File No. 333-83269, effective July 20, 1999, File No. 333-62816, effective June 12, 2001, File No. 333-66008, effective July 27, 2001, File No. 333-119367, effective September 29, 2004, File No. 333-124174, effective April 19, 2005, and File No. 333-158245, effective March 27, 2009).

/s/ Mayer Hoffman McCann P.C.

Clearwater, Florida
March 9, 2011

CONSENT OF INDEPENDENT REGISTERED CERTIFIED PUBLIC ACCOUNTING FIRM

We have issued our report dated March 12, 2010 accompanying the consolidated financial statements included in the Annual Report of Sun Hydraulics Corporation on Form 10-K as of January 2, 2010 and for each of the two years in the period ended January 2, 2010. We hereby consent to the incorporation by reference of said report in the Registration Statements of Sun Hydraulics Corporation on Forms S-8 (File No. 333-30801, effective July 3, 1997, File No. 333-83269, effective July 20, 1999, File No. 333-62816, effective June 12, 2001, File No. 333-66008, effective July 27, 2001, File No. 333-119367, effective September 29, 2004, File No. 333-124174, effective April 19, 2005, and File No. 333-158245, effective March 27, 2009).

/s/ Kirkland, Russ, Murphy, & Tapp, P.A.

Clearwater, Florida
March 9, 2011

CERTIFICATION

I, Allen J. Carlson, certify that:

1. I have reviewed this Annual Report on Form 10-K for the year ended January 1, 2011, of Sun Hydraulics Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 9, 2011

/s/ Allen J. Carlson

Allen J. Carlson
President, Chief Executive Officer

CERTIFICATION

I, Tricia L. Fulton, certify that:

1. I have reviewed this Annual Report on Form 10-K for the year ended January 1, 2011, of Sun Hydraulics Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

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

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

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

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

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

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

Date: March 9, 2011

/s/ Tricia L. Fulton

Tricia L. Fulton
Chief Financial Officer

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

I, Allen J. Carlson, the Chief Executive Officer of Sun Hydraulics Corporation (the “Company”), certify that (i) the Annual Report on Form 10-K for the Company for the year ended January 1, 2011 (the “Report”), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Allen J. Carlson
Chief Executive Officer
March 9, 2011

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

I, Tricia L. Fulton, the Chief Financial Officer of Sun Hydraulics Corporation (the “Company”), certify that (i) the Annual Report on Form 10-K for the Company for the year ended January 1, 2011 (the “Report”), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Tricia L. Fulton

Chief Financial Officer
March 9, 2011