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 December 30, 2017 **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:

Title of Each Class	Name of each exchange on which registered
Common Stock $.001 Par Value	**The NASDAQ Global Select Market**

Securities registered pursuant to Section 12(g) of the Act: **None**

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark 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, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller Reporting Company	☐
Emerging growth company	☐		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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 $1,013,166,484.

The Registrant had 31,484,590 shares of common stock, par value $.001, outstanding as of February 16, 2018.

PART 1

ITEM 1. BUSINESS

Our Business

Overview

Sun Hydraulics Corporation ("Sun," the "Company," "we," "our" or "us"), founded in 1970, in Sarasota, FL, is an industrial technology leader that develops and manufactures solutions for both the hydraulics and electronics markets. In the hydraulics market, operating under the brand Sun Hydraulics, we are a leading manufacturer of high-performance screw-in hydraulic cartridge valves, electro-hydraulics, manifolds, and integrated package solutions for the worldwide industrial and mobile hydraulics markets. In the electronics market, operating under the brands of Enovation Controls, Murphy, Zero Off and HCT, we are a global provider of innovative electronic control, display and instrumentation solutions for both recreational and off-highway vehicles, as well as stationary and power generation equipment

Sun has operated in the North American market for over 48 years. We expanded our global footprint over the past 30 years to include operations in the U.K., Germany and South Korea, as well as sales offices in China, India and South America. Enovation Controls, LLC ("Enovation Controls"), which was acquired by Sun on December 5, 2016 and is a wholly owned subsidiary of Sun, was formed in 2009 in connection with the reorganization of Murphy Group, Inc. and EControls Group, Inc. which were founded in 1939 and 1994, respectively. Enovation Controls operates the majority of its manufacturing in Tulsa, OK with sales and engineering capabilities in San Antonio, TX, the U.K., China and India. Until December 2017, High Country Tek ("HCT"), a wholly-owned subsidiary of Sun, operated in Nevada City, California as an independent designer and producer of modular, robust, reliable digital and analog electronic controller products for the fluid power industry sold under the brand of HCT. Subsequent to the Enovation Controls acquisition, the activities of HCT and Enovation Controls were closely coordinated. On December 29, 2017, we merged the operations of HCT and Enovation Controls, with Enovation Controls remaining as the surviving legal entity. Enovation Controls will continue to sell HCT products under the HCT brand.

Until 2016, we operated primarily in the hydraulics market with a small presence in the electronics market through HCT. On December 5, 2016, we purchased the Power Controls and Vehicle Technologies businesses of Enovation Controls, retaining the legal entity and related brands. The expansion of our electronic and digital capabilities through the acquisition of Enovation Controls was a significant step towards achieving our Vision 2025 goals. The acquisition further diversified our business, granting us access to the new, highly specialized marine, power generation and recreational vehicle markets and customers seeking complete machine control. Enovation Controls also brought a strong talent pool with a proven track record of new product development and technical innovation, complementing our existing competencies.

On February 19, 2018, we announced that we entered into a definitive agreement to acquire the shares of Polyusus Lux IV S.à r.l., a Luxembourg limited liability company, which owns Faster S.p.A., an Italian joint stock company ("Faster"), from Capvis Equity IV LP, a fund advised by the Swiss private equity firm Capvis Equity Partners AG, and other co-investors, for €430 million (approximately $531 million) in cash, less outstanding debt and unpaid transaction costs and other deductions from the purchase price as agreed to by the parties. The acquisition will be funded with approximately $161 million of cash on hand and $370 million drawn against our revolving credit facility, including exercise of the revolver's accordion.

Faster is a leading global manufacturer of quick-release hydraulic coupling solutions and is engaged in the business of designing, engineering and distributing hydraulic coupling solutions focused in the agriculture, construction equipment and industrial markets. Its primary markets include agriculture, construction equipment and general industrial applications. Headquartered in Milan, Italy, Faster has manufacturing operations co-located with its headquarters as well as in Toledo, Ohio and Pune, India. Additionally, the company has sales offices in Shanghai, China; São Paulo, Brazil; and Langenfeld, Germany.

We believe the acquisition of Faster is in alignment with our Vision 2025 goals, advancing the Company as a global technology leader in the industrial goods sector while maintaining superior profitability and financial strength. Faster further diversifies the Company more deeply into the growing global agriculture market and broadens the Company's global footprint, advancing its 'in the region, for the region' initiative."

Faster recorded 2017 sales of €105 million (approximately $130 million) and an adjusted 2017 EBITDA margin of 27.5%. The acquisition is expected to be accretive to GAAP earnings in 2018 and beyond.

The closing of the transaction, which is expected to occur in the second quarter of 2018, is subject to the satisfaction of customary closing conditions, including, among others, the preparation and delivery of certain audited financial statements of Faster, all as determined in accordance with the Purchase Agreement.

We have been profitable every year since 1972 and Sun has paid a dividend every quarter since going public in January 1997.

The Company's executive offices are located at 1500 West University Parkway, Sarasota, Florida 34243, and our telephone number is (941) 362-1200. Our websites include www.sunhydraulics.com, www.enovationcontrols.com and www.zerogps.com.

Strategy & Vision 2025

In 2016, we announced our Vision 2025 for Sun. We believe we can reach a critical mass of $1 billion in annual sales by 2025 while remaining a technology leader in the industrial goods sector. Additionally, we believe we can maintain superior profitability and financial strength. There are two significant components to reaching the revenue goal: organic growth and acquisitions. We expect that, by 2025, up to $650 million of the anticipated annual $1 billion in revenue will result from organic growth of our existing segments (specifically $450 million from our Hydraulics segment and $200 million from our Electronics segment), with the remaining $350 million to be derived from acquisitions of companies that advance our technology position with adjacent products for the industrial goods sector and broaden our geographic reach. We will seek acquisition targets that will bring us advanced technologies in the industrial goods sector. Generally, targets should be accretive in the first year and contribute to maintaining Sun's superior profitability and financial strength long-term. This is imperative to creating lasting shareholder value. Our current initiatives for organic growth include new product development to expand our electro-hydraulic product offering, penetrating new geographic markets, expanding sales and marketing efforts in existing geographies, developing new channels to market to reach customers not currently in Sun's purview and further diversifying our end market penetration.

Vision 2025

ACHIEVE GLOBAL technology leadership
IN THE INDUSTRIAL GOODS SECTOR by 2025
WITH CRITICAL MASS EXCEEDING $1B in sales
WHILE MAINTAINING superior profitability & financial strength.

Sun's strategic roadmap includes product and service differentiation, disciplined and thoughtful leadership throughout our global organization and ensuring that all processes and activities consider the view of the customer. We have identified and have begun applying several tactics to execute our strategies which include capitalizing on our unique and deeply rooted values, structured human capital development and differentiated engineering for both products and processes. Internal key performance indicators are used on a daily basis to align our short-term actions with our long-term strategy.

A primary focus of our strategic thinking is the identification of megatrends, such as globalization, which will impact the future capital and industrial goods markets. We have identified three megatrends: globalization, growing sophistication of safe machinery and equipment, and increased computing power as further described below:

> *Globalization.* We believe global population growth and urbanization, driven predominantly by Asian mega-cities, will generate ongoing demand for infrastructure projects, resources and food production, all of which require equipment and machinery from our key end markets.

Sophistication of safe machinery and equipment. Machine users increasingly demand safety, productivity, efficiency, and even automated control. Advancements in the design of these machines require continuous evolution of critical components such as hydraulic and electronic functionality control.

Increased computing power. In the current electronic and digital age, electronics are increasingly used to activate processes which were once activated only manually or mechanically. Information is increasingly being converted into a form that allows it to be processed, stored and transmitted digitally, resulting in both time and energy savings.

Our culture of innovation is at the core of our business. We have approximately 200 engineers in support of product innovation, as well as technical support and customer service. We believe our product innovation will aid organic growth and fill the expected demand resulting from the identified megatrends. All growth initiatives are intended to preserve Sun's history of superior profitability and financial strength.

Business Segments

Beginning with the fourth quarter of 2016, we are now organized into two operating and reporting segments: Hydraulics and Electronics. The Hydraulics segment consists of all of the historical Sun Hydraulics companies globally. Nearly all of the Electronics segment consists of the recently acquired Enovation Controls business. Financial information about our business segments is presented in Note 16 of the Notes to the Consolidated Financial Statements included in this Annual Report.

Hydraulics

Over the past 48 years, the Hydraulics segment has provided global capital goods industries with hydraulic components and systems used to transmit power and control force, speed and motion. Our products typically add a fine degree of precision and safety to the machinery and equipment in which they are used.

Sun's hydraulics products are sold globally through a combination of wholly-owned companies, representative sales offices, independent channel partners, which includes value-add distributors and integrators, and original equipment manufacturers ("OEM"). Activities at Sun companies and sales offices include technical support, inventory warehousing, distributor management and custom manifold design and manufacturing. Our global channel partner network includes representation in many industrialized markets. Channel partners are the local experts in our products. They typically hold a certain amount of local inventory and transact all business with customers. In 2016, we started adding more application specialists in the field, to facilitate problem-solving directly for OEMs, in conjunction with our channel partners. These activities are in alignment with our "In the region, for the region" initiative.

On a component level, the Hydraulics segment designs and manufactures screw-in hydraulic cartridge valves, manifolds, and integrated fluid power packages and subsystems. Our products provide an important function within a hydraulic system: to control rates and direction of fluid flow and to regulate and control pressures.

Our screw-in hydraulic cartridge valves use a fundamentally different design platform compared to most other competitive product offerings, which are often referred to as industry common products. The floating construction that we pioneered results in a self-alignment characteristic that provides performance and reliability advantages compared to most competitors' product offerings. This floating construction differentiates our products from those of most of our competitors, who design and manufacture rigid screw-in cartridge valves that fit a common cavity. Our cartridge valves, offered in five size ranges and including both electrically actuated and non-electrically actuated products, were designed to be able to operate reliably at higher pressures, making them equally suitable for both industrial and mobile applications. Sun's product development approach yields a product line of extreme breadth and depth compared to our competitors. Our broad scope of product offering, coupled with the high performance characteristics of our cartridge valves, makes Sun a leader in our industry.

To fully leverage our cartridge product family, we routinely compete in the manifold and custom integrated package market. 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. These products allow customers to easily integrate our 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 our hydraulics manufacturing operations. An integrated package consists of multiple cartridge

valves assembled into a custom designed manifold for a specific customer to provide the specific operating characteristics of a customer's circuit. Because of the unique nature of our cartridge valve designs, manifolds may be designed and machined to make them up to 50% smaller when compared to manifolds that use only industry common cartridge valves.

Additionally, we have internally-developed proprietary expert system software that we use 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.

Hydraulic systems are increasingly taking signals from on-board electronic control systems making it necessary for hydraulic products to be capable of digital communication. In response to this, in recent years, we have aggressively expanded our offering of electrically-actuated cartridge valves. In 2017, we introduced two new electro-hydraulic product lines, FLeX™ and XMD. XMD represents the first joint product development project between our Electronics and Hydraulics business segments.

The new Sun FLeX™ family includes competitively priced, high-performance electro-hydraulic products. These sixteen completely new solenoid-operated cartridge valves and three new coils are the first products in the FLeX Series Solenoid Valves for both the mobile and industrial hydraulics markets. The valves are designed to outperform comparable valves in the market. They are virtually leak proof poppet-style valves that deliver consistently better pressure drop. Coil options include interchangeable low-power, high power and hazardous location (explosion-proof) versions for expanded configuration flexibility. The FLeX Series valves use Sun's unique floating-style design, adding an extra layer of security in those harsh applications where torque and force can become excessive.

XMD is our new compact, Bluetooth configurable electro-hydraulic driver. XMD is a high-powered, electronic control device for electrically operated hydraulic actuators that is built to stand up to extreme environmental conditions in mobile and industrial applications. The XMD is the first of its kind from Sun and was jointly engineered by a team consisting of our Hydraulics and Electronics segment personnel. The XMD Bluetooth-configurable electro-hydraulic driver meets the needs of international mobile and industrial equipment. The XMD serves actuators used in on- and off-highway equipment in numerous applications including agriculture, forestry, construction, marine, earth moving and material handling.

We do not warrant our 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.

Electronics

In 2016 we acquired Enovation Controls to further develop our digital and electronic capabilities in accordance with our strategy. A portion of the product portfolio offered by Enovation Controls serves end markets also served by our Hydraulics segment such as off-highway vehicles including construction, agricultural and utility vehicles as well as material handling equipment. However, the majority of Enovation's products are sold into end markets not historically served by our Hydraulics segment such as marine, power generation and recreational vehicles. This provides additional diversification of Sun's revenue base.

Globally, electronics products are sold primarily direct to OEM customers, with a small portion sold through independent, authorized channel partners. End markets within the Electronics segment are divided into two lines of business: Power Controls ("PC") and Vehicle Technologies ("VT"). PC serves a variety of end markets, some of which are outlined below, with products such as displays, panels, gauges, controllers, battery chargers and various end devices. VT serves the recreational vehicles end market with products such as electronic controls, displays and instrumentation.

Power Controls

For the off-highway market, Enovation Controls offers rugged and reliable instruments, coupled with expertise in J1939 engine protocol, to produce an industry-leading array of easy-to-read displays and gauges for controller area network (CAN) transmitted engine data and faults. Our PowerView™ system goes a step further with even more focus on the operator interface: larger, full-graphic displays; flexible hardware configurations; multi-language support; class-leading environmental protection; and software tools that deliver the ultimate solution for OEM display customization and CAN control. Product categories include traditional mechanical and electronic gauge instrumentation; plug and go CAN-based

instruments; after-market support through global distribution; complete, custom panel and console offerings; engineering and application specialists; 3D solid modeling; proprietary hardware and software development and wiring harness design and manufacturing.

For the agricultural market, Enovation provides a compact, customizable, all-in-one unit that meets the needs of engine-driven pumping equipment applications. Using dedicated microprocessor-based, single engine controllers, we offer field-adjustable operating parameters that can be changed without the need for a computer. Enovation Controls' controllers are built tough with the ability to withstand a wide ambient temperature range. Some of them come standard in a National Electrical Manufacturers Association (NEMA) 4 rated enclosure secured by four rubber shock mounts. Enovation Controls' products are a tested solution for pumps and irrigation.

For the panel solutions market, we offer top-quality design and simple, turnkey solutions. Our Industrial Panel Division offers engineers dedicated to applications, wire harnesses, panels and software development. Engineers focus entirely on custom and standard solutions built to desired specifications. Our services go beyond design and development including on-site installation and testing with reviews to ensure the solution works with the application out of the box.

For the fluid power industry, through our HCT brand, we design and manufacture electronic controllers, which manage the function of electrically actuated hydraulic components. HCT brand products range from simple one valve, manually adjusted controllers to fully integrated hydraulic control systems managing multiple hydraulic valves as well as other input and output products such as joysticks and displays. All controllers are potted and therefore impervious to outside influence, making them ideal for mobile, industrial and marine applications.

Enovation Controls consistently sets and meets specification standards that are rarely matched by our competitors. Our solutions are designed to work in a variety of harsh environments: wet or dry, hot or cold, dirt or mud. Many of our products offer protection for extreme heat and cold, environmental sealing and water resistance. In order to ensure durability across a wide range of environmental conditions, we perform extensive testing on each instrument that comes off our assembly lines so they are ready to meet the most demanding applications.

We also offer a full line of products for the commercial marine market as boat builders move towards a more integrated solution approach. We provide instrumentation and control solutions for applications in the commercial marine market from fishing vessels and tugboats to offshore drilling workboats.

Vehicle Technologies

Enovation Controls is a leader in display and control integration solutions for the recreational vehicle markets which include watercraft, all-terrain vehicles, snowmobiles and motorcycles. We offer our customers the ability to customize screens for our PowerView™ line of displays. Our displays offer easy-to-read, bonded LCD graphical views with the industry's best readability even in direct sunlight or harsh water conditions. In addition, our Zero Off brand provides GPS-based speed control for waterski and wakeboard boats. We offer industry leading integrated solutions by combining high-quality displays with controls and instrumentation.

Vehicle Technologies group enables Marine and Recreational Vehicle OEMs to create solutions that outpace automotive and give end users the best of the consumer electronics world, with hardware that can withstand the environmental challenges. Transforming the vehicles with cutting-edge technology, we connect users and their recreational vehicle more elegantly and seamlessly than the competition.

Custom engineered solutions include processors with enough memory to allow products to stay current, even years after launch, best-in-class sunlight viewability and touch screen technology that is adaptable for specific use, whether it be on the water in a boat, or with gloves on a motorcycle. Our technology reaches beyond the cockpit and into the users' environment, by integrating virtually every function into a customized infotainment interface. This allows the Vehicle Technologies group to target large customers or industries who see value in this level of integration and ruggedness, thus our customer list contains a wide variety of OEM applications. Our unmatched commitment to testing and quality ensures that our components thrive in the rugged environments which provides us with the ability to develop products for use in any outdoor environment.

The growth of the Vehicle Technology group is driven by developing application expertise in targeted industries by immersing ourselves in the world of our customers to create a truly customized solution in less time than our competitors. Ongoing revenue is achieved with the current customer base by continued advancements in software and hardware which

increases the overall Enovation Controls content, and new customers are evaluated for fit and long term viability before being pursued.

Engineering

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

Both of our segments have manufacturing engineers who are responsible for evaluating and changing manufacturing processes as well as implementing lean initiatives throughout global operations.

Hydraulics

Our Hydraulics segment engineers are comprised of two distinct groups: sustaining and innovation. The sustaining engineering group focuses on improving existing products, both from a design as well as a manufacturing perspective including optimizing manufacturing costs. The innovation engineering group is responsible for new product development and evaluating future needs, from a product perspective, of the hydraulics industry. Additionally, our field application specialists are engineers with local customer interface.

Electronics

Our Electronics segment engineers are comprised of four distinct groups: R&D, application, software and sales. Engineering of new products is often very fast paced and is completed in a collaborative manner with each OEM based on product release date. All engineering groups have significant interface with the customer which enables them to understand market demands and identify opportunities for technological advancement, driving market share gains.

New product development generally starts in the VT line of business, driven by the need for innovative products by VT customers. Once products are released and in use by VT customers, they become available for sale to PC customers as well.

Manufacturing

Hydraulics

We utilize 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. We employ lean technologies to continually improve our productivity and efficiency. We are somewhat vertically integrated and have the capability to manufacture many of the parts that go into our products, although the majority of unfinished parts are purchased from trusted suppliers. We control most critical finishing processes in-house but rely 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. We are selective in establishing our supplier base and attempt to develop and maintain long-term relationships with suppliers.

At our U.S. manufacturing plants, we have extensive testing facilities that allow us to test fully all cartridge valve products. We also utilize testing facilities in our manufacturing plants located in the U.K., Germany and South Korea. A metallurgist and complete metallurgical laboratory support our design engineers and in-house heat treatment.

We hold minimal finished goods inventory, typically at our overseas facilities, and rely on our channel partners to purchase and maintain sufficient inventory to meet customers' demands. We maintain best-in-class lead times, giving us a competitive advantage. 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.

We continually review all of our suppliers to improve the quality of incoming parts and to assess opportunities for better control of price, quality and lead times. Our quality systems at our U.S. facilities are in compliance with ISO 9001:2015 for design, manufacture, and distribution of high performance screw-in hydraulic cartridge valves and manifolds used to control force, speed and motion in fluid power systems. Those in the U.K. are certified to ISO 9001:2015 for the design and

manufacture of aluminum and ferrous manifold bodies, hydraulic control valves and cartridge valves. Quality systems in Germany are certified to ISO 9001:2015 for the design, distribution and manufacturing of hydraulic components for mobile and industrial applications. Finally, quality systems in South Korea are certified to ISO 9001:2009 and 14001:2009 for the design, development and production of hydraulic valves.

Electronics

We offer a wide range of advanced manufacturing and engineering capabilities, including mechanical and electronic hardware design, software design, product testing, in-house LCD bonding, panel and harness engineering and more. State-of-the-art manufacturing capabilities include surface mount technology, x-ray inspection and LCD bonding. Multipoint functional testing delivers higher quality products for our customers. We are a project-based organization, backed by vertically integrated manufacturing capabilities.

A global integrated operating system, which utilizes intelligent approaches like lean manufacturing and six sigma for maximum productivity, allows us to identify and remove variables in our manufacturing and business processes. By pinpointing areas for improvement, we are able to provide our customers with faster delivery time and higher quality products.

Our facilities feature focused in-house cells dedicated to specific product production, such as Surface-Mount Technology (SMT), Panel, Wire and Sheet Metal. Testing on a product specific basis is performed in these cells before manufacturing can be completed. LCD bonding is performed in-house and allows for complete bonding of the LCD to the glass in order to provide long-term durability without yellowing, delamination or degradation.

We hold significant raw materials and finished goods inventory in our Tulsa, OK facility. Finished goods inventory contains high demand items which require quick delivery. Raw materials inventory generally has fairly significant lead times, therefore raw material inventory is held in significant quantities to enable us to fulfill orders based on customer request dates which are often less than three weeks.

Quality systems at our U.S. facilities are in compliance with ISO 9001:2015 for design, manufacture, and sale of rugged instrumentation, panels, displays, and electronic control solutions for engines and engine-driven equipment serving the commercial, industrial and recreational markets. Quality systems at our U.K facility are certified to ISO 9001:2008 for the sales, marketing, support and logistics of pressure, temperature, and level instrumentation, as well as battery chargers, power supply units and shock switches and the design and manufacture of battery chargers and power supply units.

Sales and Marketing

Hydraulics

In the U.S. market, Hydraulic products are sold primarily through independent fluid power channel partners. In most international markets, products are often sold directly to OEMs. Technical support is provided by experts based at each of our operations (U.S., U.K., Germany, South Korea, India, China and South America).

We currently have 149 channel partners, 118 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 2017, sales to our largest distributor represented less than 6% of the consolidated net sales of our Hydraulics segment. We sell approximately 22% of our products directly to OEMs, primarily located outside the US.

In addition to channel partners and OEMs, we sell directly to other companies within the hydraulics industry, including competitors, which incorporate our products into their hydraulic products or systems. We believe that making it easy for other manufacturers to buy our products provides them with a better alternative than developing competing products themselves.

We provide end users with technical information through Sun’s website and catalogues in multiple languages, including all information necessary to specify and obtain our products. We believe this approach helps stimulate demand for our products.

Electronics

Electronic products are sold globally, primarily directly to OEM customers. Building strong partnerships with OEMs is a priority. 24-hour customer service support and an in-house technical service department is available before, during and after the initial sale to create sustainable partnerships with our customers.

Our VT line of business sells products to a small group of large OEMs, whereas the PC line of business sells products to a large number of customers of varying sizes. Overall, approximately 12% of segment sales are derived from independent, authorized channel partners.

We rely on direct customer contacts to stimulate demand for our products. We work closely with our customers to design and deliver innovative reliable products for specific applications.

Competition

Hydraulics

Competitors in the hydraulics market are broken down into three categories: full-line hydraulics system producers, cartridge valve only producers, and low cost producers. Most competitors market globally. Full-line producers have the ability to provide complete hydraulic systems to their customers, including component functionally similar to those manufactured by Sun. Cartridge valve only producers are like Sun in that they only offer cartridge valves and integrated packages, while additional parts of the hydraulics system are obtained from other manufacturers. Low cost producers are competitors who have emerged in low cost production areas such as Asia and Eastern Europe. These competitors will typically copy both our products and like products designed by competitors to fit industry common cavities. Low cost producers typically have a limited product range compared to full line or cartridge valve only producers which also limits the opportunities for which they can be competitive.

We believe that we compete based upon the quality, reliability, price, value, speed of delivery and technological characteristics of our products and services.

Electronics

Competition within the electronics market is very broad with competitors ranging from large multi-national companies with a full electronics offering to small niche companies who specialize in one product type. Enovation Controls is a niche player in the displays, gauges and instrumentation panel markets.

The market for Power Controls and Vehicle Technologies is relatively fragmented with the top four to six companies comprising 70% of the market, mostly servicing the automotive space. Enovation Controls differentiates itself through product quality, customization ability and service with a focus on low volume niche markets that are not well served by the large competitors.

Our overall position in our key markets is defensible due to high barriers to switching suppliers, such as up front engineering and programming costs, and positive perceptions among core customers on key selection criteria, including quality and service.

Employees

As of December 30, 2017, we have approximately 1,150 full-time employees with 950 in the Americas, 120 in Europe, the Middle East and Africa (“EMEA”) and 80 in Asia Pacific. No employees are represented by a bargaining union in any of our operating units, and we believe that relations with our employees are good.

Patents and Trademarks

In addition to trade secrets, unpatented know-how, and other intellectual property rights, we own a number of patents, trademarks and copyrights relating to certain of our products and businesses. We believe that the growth of our business is dependent upon the quality and functional performance of our products and our relationship with the marketplace, rather than on any single patent, trademark, copyright, or other item of intellectual property or group of patents, trademarks or copyrights.

Available Information

Our 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 our 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 website under the heading "Investor Relations - 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, our beliefs, and assumptions made by us, including (i) our strategies regarding growth, including our intention to develop new products and undertake acquisitions; (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 (iv) the following risk factors:

Risks Relating to Our Business

General global economic trends and industry trends may affect our sales. The capital goods industry in general, and the Hydraulics segment 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. Cyclical economic expansions such as those of 2014, provide a context where demand for capital goods is stimulated, creating increased demand for the products we produce. In the Electronics segment, our business and widespread adoption of advanced digital control solutions that integrate technologies such as high resolution displays, configurable software GPS navigation telematics, vehicle management systems, and diagnostics to improve engine safety, energy efficiency, performance, and reliability with less dependence on operator skill, is dependent on the general economy, but also favorable industry trends of the many industries our products serve. If one or more of these expected industry trends fails to occur, or occurs at a slower rate than expected, our sales growth will be negatively impacted and our business will be adversely affected. In the future, continued weakening or improvement in the economy will directly affect orders and influence results of operations.

Our business could be harmed by adverse global and regional economic and political conditions. In June 2016, voters in the United Kingdom approved the United Kingdom's exit from the European Union ("Brexit"), and the British government has indicated that it intends to negotiate the withdrawal of the United Kingdom from the European Union based on the results of this vote. The Brexit vote has created significant economic uncertainty in the United Kingdom and in Europe, the Middle East, and Asia, which may negatively impact our business results in those regions. In addition, the terms of Brexit, once negotiated, could potentially disrupt the markets we serve and the tax jurisdictions in which we operate and adversely change tax benefits or liabilities in these or other jurisdictions, and may cause us to lose customers, suppliers, and employees. In addition, Brexit could lead to legal uncertainty and potentially divergent national laws and regulations as the United Kingdom determines which European Union laws to replace or replicate. Any of these effects could adversely affect our business and results of operations.

We are subject to intense competition.

Hydraulics

The Hydraulics segment is intensely competitive, and competition comes from a large number of companies, 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. Also, competitors have emerged in low cost production areas such as Asia and Eastern Europe with look-alike products. We cannot assure you 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 you 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.

Electronics

In the Electronics segment, our products face, and will continue to face, significant competition, including from incumbent technologies. New developments in technology may negatively affect the development or sale of some or all of our products or make our products uncompetitive or obsolete. Other companies, many of which have substantially longer operating histories and larger customer bases, name recognition, and financial and marketing resources than we do, are currently engaged in the development of products and technologies that are similar to, or may compete with, certain of our products and technologies.

We sell products into competitive markets. Within our primary markets, we compete with a range of companies that offer certain individual components of our full system solutions. The components of our overall systems most commonly include displays, panels, sensors, valves, and other end-devices. These competitors include, but are not limited to, LOFA Industries, Inc., Controls, Inc., Medallion Instrumentation Systems LLC, and Faria Beede Instruments, Inc.

We also face competition from customers developing products internally. Customers for our products generally have substantial technological capabilities and financial resources. Some customers have traditionally used these resources to develop their own products internally. The future prospects for our products are dependent upon our customers' acceptance of our products as an alternative to their internally developed products. Future sales prospects also are dependent upon acceptance of third-party sourcing for products as an alternative to in-house development. Customers may in the future continue to use internally developed components. They also may decide to develop or acquire products that are similar to, or that may be substituted for, our products. If our customers fail to accept our products as an alternative, if they develop or acquire the technology to develop such products internally rather than purchase our products, or if we are otherwise unable to develop or maintain strong relationships with them, our business, financial condition and results of operations would be materially and adversely affected.

Competitive actions, such as price reductions, consolidation in the industry, improved delivery and other actions, could adversely affect our revenue and earnings. We could experience a material adverse effect to the extent that our competitors are successful in reducing our customers' purchases of products and services from us. Competition could also cause us to lower our prices, which could reduce our margins and profitability.

We are subject to risks relating to international sales. International sales represent a significant proportion of our consolidated sales. Approximately 47% and 59% of our net sales were outside of the United States during 2017 and 2016, respectively. 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.

Our future results could be harmed by a variety of factors, including:

- changes in the political and economic conditions in the countries in which we operate, including civil uprisings and terrorist acts;
- unexpected changes in regulatory requirements;
- the imposition of duties and tariffs and other trade barriers;
- import and export controls;
- potentially negative consequences from changes in United States and international tax laws;
- fluctuations in currency exchange rates and the value of the U.S. dollar;
- exchange controls and currency restrictions;
- expropriation of property without fair compensation;
- governmental actions that result in the deprivation of contract or proprietary rights;
- the acceptance of business practices that are not consistent with or are antithetical to prevailing business practices we are accustomed to in the United States, including bribery and corruption;
- difficulty in staffing and managing geographically widespread operations;
- the unionization of, or increased union activity, such as strikes or work stoppages, with respect to, our workforce outside the United States;
- differing labor regulations;
- requirements relating to withholding taxes on remittances and other payments by subsidiaries;
- different regulatory regimes controlling the protection of our intellectual property;
- difficulty in enforcement of contractual obligations under non-U.S. law;
- refusal or inability of foreign banks to make payment on letters of credit in connection with foreign sales, and our inability to collect from our foreign customers in such circumstances;
- restrictions on our ability to own or operate subsidiaries, repatriate dividends or earnings from our foreign subsidiaries, or to make investments or acquire new businesses in these jurisdictions; and
- the burden of complying with multiple and potentially conflicting laws.

Our international operations and sales also expose us to different local political, regulatory, and business risks and challenges. For example, we are faced with potential difficulties in staffing and managing local operations and we have to design local solutions to manage credit and legal risks of local customers and channel partners, which may not be effective. In addition, because some of our international sales are to suppliers that perform work for foreign governments, we are subject to the political and legal risks associated with foreign government projects. For example, certain foreign governments may require suppliers for a project to obtain products solely from local manufacturers or may prohibit the use of products manufactured in certain countries.

International growth and expansion into markets such as Europe, Asia, and Latin America may cause us difficulty due to greater regulatory barriers than in the United States, the necessity of adapting to new regulatory systems, problems related to entering new markets with different economic, social and political systems and conditions, and significant competition from the primary participants in these markets, some of which may have substantially greater resources and political influence than we do. For example, unstable political conditions or civil unrest could negatively impact our order levels and sales in a region or our ability to collect receivables from customers or operate or execute projects in a region.

Our international operations and transactions also depend upon favorable trade relations between the United States and those foreign countries in which our customers and suppliers have operations. A protectionist trade environment in either the United States or those foreign countries in which we do business or sell products, such as a change in the current tariff structures, export compliance laws, government subsidies, or other trade policies, may adversely affect our ability to sell our products or do business in foreign markets. Our overall success as a global business depends, in part, upon our ability to succeed in differing economic, social, and political conditions. We may not succeed in developing and implementing

policies and strategies to counter the foregoing factors effectively in each location where we do business, and the foregoing factors may cause a reduction in our sales, profitability, or cash flows, or cause an increase in our liabilities.

Failure to comply with laws, regulations and policies, including the U.S. Foreign Corrupt Practices Act or other applicable anti-corruption legislation, could result in fines, criminal penalties and an adverse effect on our business. We are subject to regulation under a wide variety of U.S. federal and state and non-U.S. laws, regulations and policies, including anti-corruption laws and export-import compliance and trade laws, due to our global operations. In particular, the U.S. Foreign Corrupt Practices Act, or FCPA, the U.K. Bribery Act of 2010 and similar anti-bribery laws in other jurisdictions generally prohibit companies, their agents, consultants and other business partners from making improper payments to government officials or other persons (*i.e.,* commercial bribery) for the purpose of obtaining or retaining business or other improper advantage. They also impose recordkeeping and internal control provisions on companies such as ours. We operate and/or conduct business, and any acquisition target may operate and/or conduct business, in some parts of the world, such as China, India and Russia, that are recognized as having governmental and commercial corruption and in such countries, strict compliance with anti-bribery laws may conflict with local customs and practices. Under some circumstances, a parent company may be civilly and criminally liable for bribes paid by a subsidiary. We cannot assure you that our or any acquisition target's internal control policies and procedures have protected us, or will protect us, from unlawful conduct of our employees, agents, consultants and other business partners. In the event that we believe or have reason to believe that violations may have occurred, including without limitation violations of anti-corruption laws, we may be required to investigate and/or have outside counsel investigate the relevant facts and circumstances, which can be expensive and require significant time and attention from senior management. Violation may result in substantial civil and/or criminal fines, disgorgement of profits, sanctions and penalties, debarment from future work with governments, curtailment of operations in certain jurisdictions, and imprisonment of the individuals involved. As a result, any such violations may materially and adversely affect our business, results of operations or financial condition. In addition, actual or alleged violations could damage our reputation and ability to do business. Any of these impacts could have a material, adverse effect on our business, results of operations or financial condition.

Fluctuations in exchange and interest rates may affect our operating results and impact our financial condition. Fluctuations in the value of the U.S. dollar may increase or decrease our sales or earnings. Because our consolidated financial results are reported in U.S. dollars, when we generate sales or earnings in other currencies, or we pay expenses in other currencies, the translation of those results into U.S. dollars can result in a significant increase or decrease in the amount of those sales or earnings. If the U.S. dollar strengthens relative to the value of the local currency, we may be less competitive. In addition, our debt service requirements are in U.S. dollars and a portion of our cash flow is generated in British Pounds, Euros or other foreign currencies. Significant changes in the value of the foreign currencies relative to the U.S. dollar could impair our cash flow, results of operations, and financial condition.

In addition, fluctuations in currencies relative to the U.S. dollar may make it more difficult to perform period-to-period comparisons of our reported results of operations. For purposes of accounting, the assets and liabilities of our foreign operations, where the local currency is the functional currency, are translated using period-end exchange rates, and the revenues and expenses of our foreign operations are translated using average exchange rates during each period.

In addition to currency translation risks, we incur currency transaction risk whenever we enter into either a purchase or a sales transaction using a currency other than U.S. dollars. Given the volatility of exchange rates, we may not be able to effectively manage our currency or translation risks. Volatility in currency exchange rates may decrease our sales and profitability and impair our financial condition. Though we periodically evaluate our need to hedge our exposures to foreign currencies, we have not hedged any such exposures to date.

Our existing indebtedness could adversely affect our business and growth prospects. As of December 30, 2017, we had total indebtedness (including the current portion) of approximately $116 million. Our indebtedness, or any additional indebtedness we may incur, could require us to divert funds identified for other purposes for debt service and impair our liquidity position. If we cannot generate sufficient cash flow from operations to service our debt, we may need to refinance our debt, dispose of assets or issue equity to obtain necessary funds. We do not know whether we will be able to take any of these actions on a timely basis, on terms satisfactory to us or at all.

Our indebtedness, the cash flow needed to satisfy our debt and the covenants contained in our senior credit facility have important consequences, including:

- limiting funds otherwise available for financing our capital expenditures by requiring us to dedicate a portion of our cash flows from operations to the repayment of debt and the interest on this debt;
- limiting our ability to incur additional indebtedness;
- limiting our ability to capitalize on significant business opportunities;
- placing us at a competitive disadvantage to those of our competitors that are less indebted than we are;
- making us more vulnerable to rising interest rates; and
- making us more vulnerable in the event of a downturn in our business.

More specifically, under the terms of our senior credit facility, we have agreed to certain financial covenants. In addition, our senior credit facility places limitations on our ability to make capital expenditures and to acquire other companies. Any failure by us to comply with the financial or other covenants set forth in our senior credit facility in the future, if not cured or waived, could result in our senior lender accelerating the maturity of our indebtedness or preventing us from accessing availability under our senior credit facility. If the maturity of our indebtedness is accelerated, we may not have sufficient cash resources to satisfy our debt obligations and we may not be able to continue our operations as planned.

We may need additional capital in the future, and it may not be available on acceptable terms, or at all. We may require additional capital in the future to:

- fund our operations;
- finance investments in equipment and infrastructure needed to maintain and expand our manufacturing and distribution capabilities;
- finance investments in equipment and infrastructure needed to maintain and expand our manufacturing and distribution capabilities;
- enhance and expand the range of products we offer; and
- respond to potential strategic opportunities, such as investments, acquisitions, and international expansion.

We can give no assurance that additional financing will be available on terms favorable to us, or at all. The terms of available financing may place limits on our financial and operating flexibility. If adequate funds are not available on acceptable terms, we may be forced to reduce our operations or to delay, limit or abandon expansion opportunities. Moreover, even if we are able to continue our operations, the failure to obtain additional financing could reduce our competitiveness. Our senior credit facility limits our ability to incur additional debt and therefore we likely would have to issue additional equity to raise additional capital. If we issue additional equity, your interest in us will be diluted.

We are subject to various risks relating to our growth strategy. In pursuing our growth strategy and Vision 2025, we intend to expand our presence in existing markets, enter new markets, and 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 you that we will be able to improve our market share or profitability, recover our expenditures, or successfully implement our growth strategy.

The expansion strategy also may require substantial capital investment for the construction of new facilities and their effective operation. We can give no assurance that additional financing will be available on terms favorable to us, or at all.

Our culture, by encouraging initiative, and both individual and collaborative responsibility, has substantially contributed to our success and operating results. Because our employees are able to readily shift their job functions to accommodate the demands of the business and changes in the market, we are a nimble, creative and innovative organization. As we increase the number of our employees and grow into new geographic markets, our culture will likely shift and evolve in new ways. Because our culture promotes the drivers of our success, our inability to protect and align our core values and culture with the evolving needs of the business could adversely affect our continued success.

We may fail to successfully acquire or integrate companies that provide complementary products or technologies. A key component of our growth strategy and Vision 2025 depends upon our ability to successfully identify and integrate acquisition targets that complement our existing products and services. Our recently released agreement to acquire Faster is part of this strategy. Such a strategy involves the potential risks inherent in assessing the value, strengths, weaknesses, contingent or other liabilities, and potential profitability of acquisition candidates and in integrating the operations of acquired companies, including Faster. In addition, any acquisitions of businesses with foreign operations or sales may increase our exposure to risks inherent in doing business outside the United States. From time to time, we may have acquisition discussions with potential target companies both domestically and internationally. Any acquisition may or may not occur and, if an acquisition does occur, it may not be successful in enhancing our business for one or more of the following reasons:

- Any business acquired may not be integrated successfully and may not prove profitable;
- The price we pay for any business acquired may overstate the value of that business or otherwise be too high;
- Liabilities we take on through the acquisition may prove to be higher than we expected;
- Impairment of relationships with employees and customers of the business acquired as a result of the change in ownership;
- We may fail to achieve acquisition synergies; or
- The focus on the integration of operations of acquired entities may divert management's attention from the day-to-day operation of our businesses.

Inherent in any future acquisition is the risk of transitioning company cultures and facilities. The failure to efficiently and effectively achieve such transitions could increase our costs and decrease our profitability.

We also may incur significant costs such as transaction fees, professional service fees, and other costs related to future acquisitions, as well as integration costs following the completion of any such acquisitions. Although we expect that the realization of efficiencies related to the integration of any acquired businesses will offset the incremental transaction and acquisition-related costs over time, this net financial benefit may not be achieved in the near term, or at all.

If we are unable to continue our technological innovation and successful introduction of new commercial products, our business will be adversely affected. The industries we serve in the Electronics segment experience ongoing technological change and product improvement. Manufacturers periodically introduce new generations of products or require new technological capacity to develop customized products or to respond to industry developments or needs. Our future growth will depend on our ability to gauge the direction of the commercial and technological progress in our markets, as well as our ability to acquire new product technologies or to fund and successfully develop, manufacture and market products in this constantly changing environment. We must continue to identify, develop, manufacture and market innovative products on a timely basis to replace existing products in order to maintain our profit margins and competitive position. We may not be successful in acquiring and developing new products or technologies and any of our new products may not be accepted by our customers. If we fail to keep pace with evolving technological innovations in the markets we serve, our business will be adversely affected. Technology does not advance as quickly in the Hydraulics segment and therefore has a lower threat than the Electronics segment relative to continued technological innovation.

Our product development activities may not be successful or may be more costly than currently anticipated, or we may not be able to produce newly developed products at a competitive cost. Our business involves a significant level of product development activities, generally in connection with our customers' development activities. Industry standards, customer expectations, or other products may emerge that could render one or more of our products or services less desirable or obsolete. Maintaining our market position requires continued investment in research and development. During an economic downturn or a subsequent recovery, we may need to maintain our investment in research and development, which may limit our ability to reduce these expenses in proportion to a sales shortfall. In addition, increased investments in research and development may divert resources from other potential investments in our business, such as acquisitions or investments in our facilities, processes and operations. If these activities are not as successful as currently anticipated, are not completed on a timely basis, or are more costly than currently anticipated, or if we are not able to produce newly developed products at a cost that meets the anticipated product cost structure, then our future sales, margins and/or earnings could be lower than expected, which could have a material adverse effect on our business, financial condition, results of operations, and cash flows.

If we are unable to protect the confidentiality of our trade secrets, our business and competitive position would be harmed. In the Electronics segment particularly, we rely significantly on trade secrets, including unpatented software algorithms, know-how, technology, and other proprietary information, to maintain our competitive position. We seek to protect software algorithms through encryption mechanisms in the distribution of our binary files used in programming our engine control products. However, we cannot guarantee that these encryption techniques can protect all or any portion of these binary files. In practice, we seek to protect our trade secrets by entering into non-disclosure and confidentiality agreements with parties who have access to them, such as our employees, corporate collaborators, outside scientific collaborators, contract manufacturers, consultants, advisors and other third parties. In practice, we also enter into confidentiality and noncompetition agreements with certain of our employees and consultants that obligate them to assign to us any inventions developed in the course of their work for us. However, we cannot guarantee that we have executed these agreements with each party that may have or have had access to our trade secrets or that the agreements we have executed will provide adequate protection. Despite these efforts, any of these parties may breach the agreements and disclose our proprietary information, including our trade secrets, and we may not be able to obtain adequate remedies for such breaches. As a result, we may be forced to bring claims against third parties, or defend claims that they bring against us, to determine ownership of what we regard as our intellectual property. Monitoring unauthorized disclosure is difficult and we do not know whether the procedures we have followed to prevent such disclosure are, or will be, adequate. Enforcing a claim that a party illegally disclosed or misappropriated a trade secret is difficult, expensive and time-consuming, and the outcome is unpredictable. In addition, some courts inside and outside the United States may be less willing or unwilling to protect trade secrets. If any of our trade secrets were to be disclosed to, or independently developed by, a competitor, our competitive position would be harmed, which could have an adverse effect on our business and financial condition.

The inability to protect our intellectual property could reduce or eliminate any competitive advantage and reduce our sales and profitability, and the cost of protecting our intellectual property may be significant. In the Electronics segment particularly, we have obtained and applied for some U.S. and foreign trademark and patent registrations and will continue to evaluate the registration of additional trademarks and patents, as appropriate. The key issued patents in our patent portfolio are scheduled to expire between 2025 and 2033. We cannot guarantee that any of our pending patent and trademark applications will be approved. Moreover, even if the applications are approved, third parties may seek to oppose or otherwise challenge them. An inability to obtain registrations in the United States or elsewhere could limit our ability to protect our trademarks and technologies and could impede our business. Further, the protection of our intellectual property rights may require expensive investment in protracted litigation and substantial management time, and there is no assurance we ultimately would prevail or that a successful outcome would lead to an economic benefit that is greater than the investment in the litigation. Recent patent reform legislation could increase the uncertainties and costs surrounding the prosecution of patent applications and the enforcement or defense of our issued patents. On September 16, 2011, the Leahy-Smith America Invents Act, or the Leahy-Smith Act, was signed into law. The Leahy-Smith Act includes a number of significant changes to U.S. patent law. These include provisions that affect the way patent applications are prosecuted and may also affect patent litigation. The United States Patent and Trademark Office recently developed new regulations and procedures to govern administration of the Leahy-Smith Act, and many of the substantive changes to patent law associated with the Leahy-Smith Act, and in particular, the first to file provisions, only became effective on March 16, 2013. Accordingly, it is not clear what, if any, impact the Leahy-Smith Act will have on the operation of our business. However, the Leahy-Smith Act and its implementation could increase the uncertainties and costs surrounding the prosecution of our patent applications and the enforcement or defense of our issued patents, all of which could have a material adverse effect on our business and financial condition.

We may also face difficulties protecting our intellectual property rights in foreign countries. The laws of foreign countries in which our products are sold or manufactured may not protect our intellectual property rights to the same extent as the laws of the United States. For example, we are increasing our technical capabilities and sales in China, where laws may not afford the same intellectual property protections.

Our use of open source software may expose us to additional risks. In the Electronics segment particularly, we use open source software in our business, including in some of our products. While we try to monitor all use of open source software in our business to ensure that no open source software is used in such a way as to require us to disclose the source code to critical or fundamental elements of our software or technology, we cannot be certain that such use may not have inadvertently occurred in deploying our solutions. Furthermore, the terms of many open source licenses have not been interpreted by U.S. courts. As a result, there is a risk that these licenses could be construed in a way that could impose unanticipated conditions or restrictions on our ability to commercialize our products. The risks associated with usage of open source software cannot be eliminated and could potentially have a material adverse effect on our business, financial condition, and results of operations.

If we are alleged to have infringed upon the intellectual property rights owned by others, our business and results of operations could be materially adversely affected. In the Electronics segment, competitors or other third parties may allege that we, or consultants or other third parties retained or indemnified by us, infringe on their intellectual property rights. We also may face allegations that our employees have misappropriated intellectual property rights of their former employers or other third parties. From time to time, we receive notices from other companies that allege we may be infringing certain of their patents or other rights. If we are unable to resolve these matters satisfactorily, or to obtain licenses on acceptable terms, we may face litigation. Given the potential risks and uncertainties of intellectual property-related litigation, the assertion of an infringement claim against us may cause us to spend significant amounts to defend the claim (even if we ultimately prevail), pay significant money damages, lose significant revenues, be prohibited from using the relevant technologies or other intellectual property rights, cease offering certain products or services, or incur significant license, royalty, or technology development expenses. Even in instances where we believe that claims and allegations of intellectual property infringement against us are without merit, defending against such claims is time consuming and expensive and could result in the diversion of time and attention of our management and employees. In addition, although in some cases a third party may have agreed to indemnify us for such costs, such indemnifying party may refuse or be unable to uphold its contractual obligations.

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 management, technical personnel and the skilled labor force. As the Company continues to expand internationally, additional management and other key personnel will be needed. 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, and Tulsa, Oklahoma. Our continued success is dependent on our ability to attract and retain a skilled labor force at these locations. 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.

We are subject to fluctuations in the prices of parts and raw materials, and dependent on our suppliers of these parts. We are dependent upon suppliers for parts and raw materials used in the manufacture of components that we sell to our customers, and some of our raw material costs are subject to commodity market price fluctuations. We may experience an increase in costs for parts or raw materials that we source from our suppliers, or we may experience a shortage of parts or raw materials for various reasons, such as the loss of a significant supplier, high overall demand creating shortages in parts and supplies we use, financial distress, work stoppages, natural disasters, fluctuations in commodity prices, or production difficulties that may affect one or more of our suppliers. In particular, current or future global economic uncertainty may affect our key suppliers in terms of their operating cash flow and access to financing. This may, in turn, affect their ability to perform their obligations to us. In addition, quality and sourcing issues that our suppliers may experience can also adversely affect the quality and effectiveness of our products and services and may result in liability or reputational harm to us. Our customers rely on us to provide on-time delivery and have certain rights if our delivery standards are not maintained. A significant increase in our supply costs, including for raw materials that are subject to commodity price fluctuations, or a protracted interruption of supplies for any reason, could result in the delay of one or more of our customer contracts, or could damage our reputation and relationships with our customers. Any of these events could have a material adverse effect on our business, financial condition, results of operations, and cash flows.

Some of our products contain magnets that use rare earth metals, and unavailability or limited supply of these metals could delay production of our products or increase our production costs. In the Electronics segment, some of our products contain magnets that use rare earth metals sourced from China. Although such rare earth metals are available from other sources, these alternative sources may be more costly. Reduced availability of such rare earth metals from China through additional export regulations or restrictions, export quotas, tariffs, or for other reasons could impact our ability to obtain magnets that use the required rare earth metals in sufficient quantities, in a timely manner, or at a commercially reasonable cost. In the event that China's actions cause our suppliers to seek alternate sources of supply for rare earth metals, it could cause a delay in the production of our products that contain magnets using rare earth metals and increase the cost to us of such magnets, thereby reducing or eliminating our profit margin on certain of our products if we are unable to pass the increase in our production costs on to our customers. Increasing prices to our customers due to escalating costs of rare earth metals may reduce demand for our products and negatively affect our results of operations.

Increased IT security threats and more sophisticated and targeted computer crime could pose a risk to our systems, networks, products, solutions and services. We are dependent on various information technologies throughout our Company to administer, store and support multiple business activities. Increased global IT security threats and more sophisticated and targeted computer crime pose a risk to the security of our systems and networks and the confidentiality, availability and integrity of our data. While we attempt to mitigate these risks by employing a number of measures, including employee training, comprehensive monitoring of our networks and systems, and maintenance of backup and protective systems, our systems, networks, products, solutions, and services remain potentially vulnerable to advanced persistent threats. Depending on their nature and scope, such threats could potentially lead to the compromising of confidential information, improper use of our systems and networks, manipulation and destruction of data, defective products, production downtimes, and operational disruptions, which in turn could adversely affect our reputation, competitiveness, and results of operations.

Unforeseen or recurring operational problems at any of our facilities, or other catastrophic loss of one of our key manufacturing facilities, may cause significant lost production and adversely affect our results of operations. Our manufacturing process could be affected by operational problems that could impair our production capability. Many of our manufacturing facilities contain high cost and sophisticated machines that are used in our manufacturing process. Disruptions or shut downs at any of our facilities could be caused by:

- maintenance outages to conduct maintenance activities that cannot be performed safely during operations;
- prolonged power failures or reductions;
- breakdown, failure or substandard performance of any of our machines or other equipment;
- noncompliance with, and liabilities related to, environmental requirements or permits;
- disruptions in the transportation infrastructure, including railroad tracks, bridges, tunnels or roads;
- fires, floods, earthquakes, tornadoes, hurricanes, microbursts or other catastrophic disasters, national emergencies, political unrest, war or terrorist activities; or
- other operational problems.

If some of our facilities are shut down, they may experience prolonged startup periods, regardless of the reason for the shutdown. Those startup periods could range from several days to several weeks or longer, depending on the reason for the shutdown and other factors. Any prolonged disruption in operations at any of our facilities could cause a significant loss of production and adversely affect our results of operations and negatively impact our customers and dealers.

A significant portion of our operations are located in Florida, a region that is susceptible to hurricanes. A catastrophic event, whether resulting from a hurricane or otherwise, could result in the loss of the use of all or a portion of one of our manufacturing facilities. Although we carry property and business interruption insurance, our coverage may not be adequate to compensate us for all losses that may occur. Any of these events individually or in the aggregate could have a material adverse effect on our business, financial condition and operating results.

We are subject to risks relating to changes in our tax rates, unfavorable resolution of tax contingencies, or exposure to additional income tax liabilities. We are subject to income taxes in the United States and various non-U.S. jurisdictions. Domestic and international tax liabilities are subject to the allocation of income among various tax jurisdictions. Our effective tax rate could be affected by changes in the mix among earnings in countries with differing statutory tax rates or changes in tax laws. We are subject to on-going tax audits in various jurisdictions. If these audits result in assessments different from amounts reserved, future financial results may include unfavorable adjustments to our tax liabilities, which could have a material adverse effect on our results of operations.

U.S. federal income tax reform could adversely affect us and our shareholders. On December 22, 2017, President Trump signed into law the Tax Cuts and Jobs Act, or the TCJA, which significantly reforms the Internal Revenue Code of 1986, as amended, or the Code. The TCJA, among other things, includes changes to U.S. federal tax rates, imposes significant additional limitations on the deductibility of interest, allows for the expensing of capital expenditures, and puts into effect the migration from a “worldwide” system of taxation to a territorial system. Our net deferred tax assets and liabilities have been revalued at the newly-enacted U.S. corporate rate, and the impact was recognized in our tax expense for the 2017 year. We continue to examine the impact that this tax reform legislation may have on our business. The impact of this tax reform on holders of our common stock is uncertain and could be adverse. We urge our shareholders to consult with their legal and tax advisors with respect to such legislation and the potential tax consequences of investing in our common stock.

Our operations are subject to environmental, health and safety laws and regulations, and we may face significant costs or liabilities associated with environmental, health and safety matters. We are subject to a variety of federal, state, local and foreign environmental, health, and safety laws and regulations concerning, among other things, the discharge of pollutants into the soil, air, and water, the generation, storage, handling, use, release, disposal and transportation of hazardous materials and wastes, environmental cleanup, and the health and safety of our employees. Environmental, health, and safety laws and regulations continue to evolve, and we may become subject to increasingly stringent environmental standards in the future, particularly related to air quality and water quality, which could require us to make changes to our operations or incur significant costs relating to compliance. We are also required to obtain and maintain environmental, health and safety permits and approvals for our facilities and operations. Our failure to comply with such laws, regulations, permits and approvals could subject us to increased employee healthcare and workers' compensation costs, liabilities, fines and other penalties or compliance costs, and could have a material adverse effect on our business, financial condition and results of operations.

Our business is subject to a variety of governmental regulations that may restrict our business and may result in costs and penalties. We are subject to a variety of federal, state, and local laws and regulations relating to foreign business practices, labor and employment, construction, land use, and taxation, among others. These laws and regulations are complex, change frequently and have tended to become more stringent over time. Failure to comply with these laws and regulations may result in a variety of administrative, civil and criminal enforcement measures, including assessment of monetary penalties and the imposition of corrective requirements. From time to time, as part of the regular overall evaluation of our operations, including newly acquired operations, we may be subject to compliance audits by regulatory authorities. In addition, any failure to comply with regulations related to the government procurement process at the federal, state, or local level or restrictions on political activities and lobbying may result in administrative or financial penalties including being barred from providing services to governmental entities, which could have a material adverse effect on our results of operations.

Our operations expose us to risks of non-compliance with numerous countries' import and export laws and regulations. Due to our significant foreign sales, we are subject to trade and import and export regulations in multiple jurisdictions, including the U.S. Treasury Department's Office of Foreign Assets Control's regulations. As a result, compliance with multiple trade sanctions and embargoes and import and export laws and regulations pose a constant challenge and risk to us. Furthermore, the laws and regulations concerning import activity, export recordkeeping and reporting, export control and economic sanctions are complex and constantly changing. Any failure to comply with applicable legal and regulatory trading obligations could result in criminal and civil penalties and sanctions, such as fines, imprisonment, debarment from governmental contracts, seizure of shipments, loss of import and export privileges, reputational damage, and a reduction in the value of our common stock.

Regulations related to "conflict minerals" may force us to incur additional expenses and may result in damage to our reputation. We are subject to the Securities and Exchange Commission's (the "SEC") regulations applicable to companies that use certain minerals and metals, known as conflict minerals, in their products or in the production of their products, whether or not these products are manufactured by third parties. These requirements require us to conduct an inquiry into the country of origin of the conflict minerals used, and if it is determined that the conflict minerals used may have originated in the Democratic Republic of Congo or other covered countries, conduct due diligence on the source and chain of custody of the conflict minerals. These requirements could adversely affect the sourcing, availability and pricing of minerals used in the manufacture of our products. In addition, we incur additional costs to comply with the disclosure requirements, including costs related to determining the source of any of the relevant minerals and metals used in our products or in the manufacturing process. Since our supply chain is complex, we may not be able to sufficiently verify the origins for these minerals and metals used in our products through the due diligence procedures that we implement, which may harm our reputation. In such event, we may also face difficulties in satisfying customers who require that all of the components of our products be conflict mineral free.

Due to the nature of our business and products, we may be liable for damages based on product liability, other tort, and warranty claims. We face an inherent risk of exposure to claims in the event that the failure, use or misuse of our products results, or is alleged to result, in death, bodily injury, property damage, or economic loss. In the past we have been subject to product liability claims relating to our products, and we may be subject to additional product liability claims in the future for both past and current products.

Although we currently maintain product liability coverage, which we believe to be adequate for the continued operation of our business, such insurance may become difficult or impossible to obtain in the future on terms acceptable to us. Moreover, our insurance coverage includes customary exclusions and conditions, may not cover certain specialized applications, and generally does not cover warranty claims. A successful product liability claim or series of claims against us, including one or more consumer claims purporting to constitute class actions or claims resulting from extraordinary loss events, in excess of or outside our insurance coverage, or a significant warranty claim or series of claims against us, could materially decrease our liquidity, impair our financial condition and adversely affect our results of operations. Furthermore, regardless of the outcome, product liability claims can be expensive to defend, can divert the attention of management and other personnel for significant periods of time, and can cause reputational damage.

Risks Relating to Our Common Stock

Future sales of our common stock in the public market or the issuance of securities senior to our common stock could adversely affect the trading price of our common stock and our ability to raise funds in new stock offerings. Sales by us or our shareholders of a substantial number of shares of our common stock in the public markets, or the perception that these sales might occur, could cause the market price of our common stock to decline or could impair our ability to raise capital through a future sale of, or pay for acquisitions using, our equity securities.

In connection with our recent 2018 underwritten public offering, subject to certain exceptions, our directors, officers, and certain significant holders of our common stock have agreed not to offer, sell or agree to sell, directly or indirectly, any shares of our common stock without the permission of the underwriter for a period of 90 days from February 1, 2018. Sales of a substantial number of such shares upon expiration of such period, or the perception that such sales may occur, could cause our share price to fall or make it more difficult for you to sell your shares of our common stock at a time and price that you deem appropriate.

We may issue common stock or equity securities senior to our common stock in the future for a number of reasons, including to finance our operations and business strategy, as consideration in acquisitions or for other reasons. We cannot predict the effect, if any, that future sales or issuances of shares of our common stock or other equity securities, or the availability of shares of our common stock or any other equity securities for future sale or issuance, will have on the trading price of our common stock.

The price of our common stock may fluctuate significantly, which could negatively affect us and holders of our common stock. The trading price of our common stock may fluctuate significantly in response to a number of factors, many of which are beyond our control. For instance, if our financial results are below the expectations of securities analysts and investors, the market price of our common stock could decrease, perhaps significantly. Other factors that may affect the market price of our common stock include announcements relating to significant corporate transactions; operating and stock price performance of companies that investors deem comparable to us; future sales by us or our subsidiaries of equity, equity-related or debt securities; the amount, if any, of dividends that we pay on our common stock; anticipated or pending investigations, proceedings or litigation that involve or affect us; changes in regional, national or global financial markets and economies and general market conditions, such as interest or foreign exchange rates, stock, commodity, credit or asset valuations or volatility; and changes in government regulation or proposals relating to us. In addition, the U.S. and global securities markets have experienced significant price and volume fluctuations. These fluctuations often have been unrelated to the operating performance of companies in these markets. Market fluctuations and broad market, economic and industry factors may negatively affect the price of our common stock, regardless of our operating performance. You may not be able to sell your shares of our common stock. Any volatility of or a significant decrease in the market price of our common stock could also negatively affect our ability to make acquisitions using our common stock.

Additional issuances of equity securities would dilute the ownership of existing shareholders and could reduce our earnings per share. We may issue equity securities in the future in connection with capital raising activities, acquisitions, strategic transactions or for other purposes. To the extent we issue additional equity securities, the ownership of our existing shareholders would be diluted and our earnings per share could be reduced.

Provisions in our amended and restated articles of incorporation and amended and restated bylaws, as well as certain provisions of Florida law, may discourage a takeover attempt. Provisions contained in our amended and restated articles of incorporation and amended and restated bylaws, as well as certain provisions of Florida law, could make it more difficult for a third party to acquire us, even if doing so might be beneficial to our shareholders. Provisions of our amended and restated articles of incorporation and amended and restated bylaws impose various procedural and other requirements

which could make it more difficult for shareholders to effect certain corporate actions. For example, our amended and restated articles of incorporation authorizes our board of directors to determine the rights, preferences, privileges and restrictions of unissued series of preferred stock, without any vote or action by our shareholders. Thus, our board of directors can authorize and issue shares of preferred stock with voting or conversion rights that could adversely affect the voting or other rights of holders of our common stock. In addition, a change of control of our Company may be delayed or deterred as a result of our having three classes of directors serving staggered three-year terms. These provisions could limit the price that certain investors might be willing to pay in the future for shares of our common stock.

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 11% 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 9% of the outstanding shares of our common stock.

You may not receive dividends on our common stock. Holders of our common stock are only entitled to receive such dividends as our board of directors may declare out of funds legally available for such payments and as permitted by our debt agreements. Although historically we have paid a continuous quarterly dividend and a periodic special dividend, we are not required to declare cash dividends on our common stock and the payment of future quarterly and special dividends is subject to the discretion of our board of directors. In determining the amount of any future quarterly or special dividends, our board of directors will consider economic and market conditions, our financial condition and operating results. Any change in our historical dividend practice could adversely affect the market price of our common stock. If our board of directors decides not to pay dividends in the future, then a return on your investment in our common stock will only occur if our stock price appreciates.

Securities analysts may issue negative reports or cease to cover our common stock, which may have a negative impact on the market price of our common stock. The trading market for our common stock may be affected in part by the research and reports that industry or financial analysts publish about us or our business. If one or more of the analysts who elects to cover us downgrades our stock, then our stock price would likely decline rapidly. If one or more of these analysts ceases coverage of Sun, we could lose visibility in the market, which in turn could cause our stock price to decline. This could have a negative effect on the market price of our common stock.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Hydraulics

We own property consisting of three buildings, totaling 240,000 square feet, and vacant land adjacent to these facilities in Sarasota, FL. The buildings are used for manufacturing, design, marketing and other administrative functions. In total, we own 27 acres of contiguous property.

We own a 37,000 square foot facility in Coventry, England. This operation, while primarily acting as a distributor, is also involved in manifold design and manufacturing.

We own a 45,000 square foot distribution and manufacturing facility in Erkelenz, Germany. This facility houses equipment used for manufacturing and testing of our products. Currently, a small portion of the manufacturing area is utilized and the remainder is leased on an annual basis to an outside company.

We lease an 11,500 square foot distribution and manufacturing facility in Incheon, South Korea. During 2017 we began construction of a new production facility in South Korea.

We also lease office space in Bangalore, India, primarily used for sales and administrative activities.

Electronics

In 2017 we purchased property, which was previously leased, consisting of two buildings totaling 174,000 square feet in Tulsa, OK. One building is used primarily for manufacturing and distribution while the other is utilized for design and application engineering and corporate functions such as sales, customer service and other administrative functions.

We own an 18,000 square foot facility in Salisbury, England. This location is primarily involved in sales, application engineering, distribution and assembly.

We also lease office space in San Antonio, TX, Shanghai, China and Pune, India, primarily used for sales, engineering and administrative activities.

We believe that our properties have been adequately maintained, are generally in good condition, and are suitable and adequate for our business as presently conducted. The extent of utilization of our properties varies from time to time and among our facilities.

ITEM 3. LEGAL PROCEEDINGS

From time to time we are involved in routine litigation incidental to the conduct of our business. We do not believe that any pending litigation will have a material adverse effect on our consolidated financial position or results of operations.

ITEM 4. MINE SAFETY DISCLOSURE

Not applicable.

PART II

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

Market Information

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

	High	Low	Dividends declared
2017			
First quarter	$ 39.60	$ 35.09	$ 0.11
Second quarter	44.53	34.34	0.09
Third quarter	54.11	41.36	0.09
Fourth quarter	65.09	54.37	0.09
2016			
First quarter	$ 34.38	$ 24.70	$ 0.13
Second quarter	35.86	28.20	0.09
Third quarter	32.27	28.49	0.09
Fourth quarter	41.78	29.07	0.09

Holders

There were 170 shareholders of record of Common Stock on February 16, 2018. The number of record holders was determined from the records of our 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.

Dividends

Quarterly dividends of $0.09 per share were paid on the 15th or 20th day of each month following the date of declaration.

In addition to the regular quarterly dividends, we declared shared distribution cash dividends in 2017 equal to $0.02 per share, and in 2016 equal to $0.04 per share. The 2017 dividend was paid on March 31, 2017, to shareholders of record on March 15, 2017 and the 2016 dividend was paid on March 31, 2016, to shareholders of record on March 15, 2016.

Our board of directors currently intends to continue to pay a quarterly dividend of $0.09 per share during 2018. 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 our profitability, financial condition, capital needs, acquisition opportunities, future prospects and other factors deemed pertinent by the board of directors.

Equity Compensation Plans

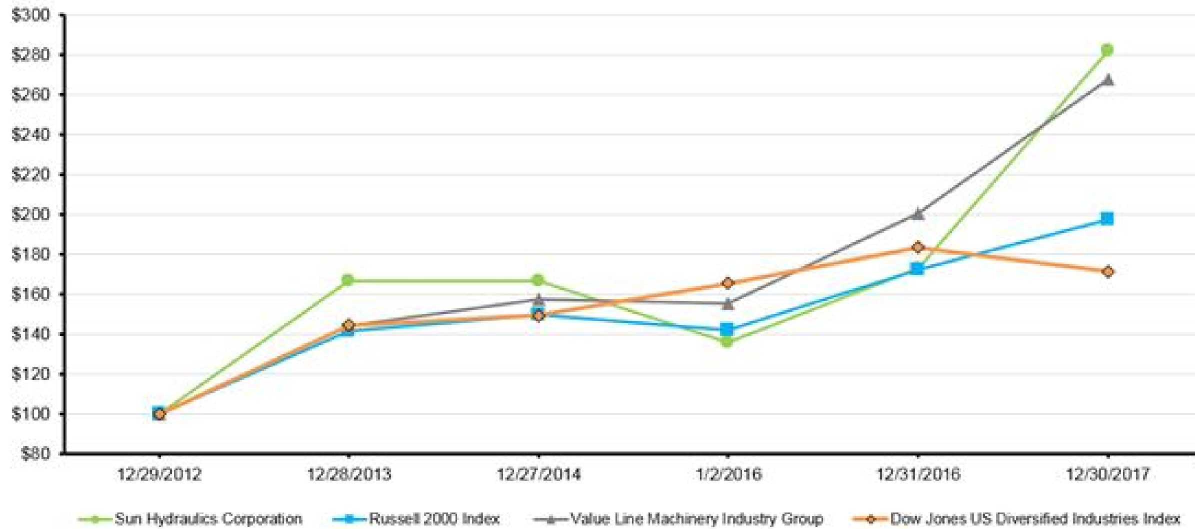
Information called for by Item 5 is provided in Note 12 of our 2017 Audited Financial Statements (Item 8 of this report).

Issuer Purchases of Equity Securities

We did not repurchase any of our stock during the years ended December 30, 2017 and December 31, 2016.

Five-Year Stock Performance Graph

The following graph compares cumulative total return among Sun, the Russell 2000 Index, the Value Line Machinery Industry Group and the Dow Jones US Diversified Industries Index, from December 29, 2012, to December 30, 2017, assuming $100 invested in each on December 29, 2012. Total return assumes reinvestment of any dividends for all companies considered within the comparison. In 2017 we revised our stock performance graph indices to remove the Value Line Machinery Industry Group and add the Dow Jones US Diversified Industries Index. For comparison, the Value Line Machinery Industry Group is also presented. The stock price performance shown in the graph is not necessarily indicative of future price performance.



	12/29/2012	12/28/2013	12/27/2014	1/2/2016	12/31/2016	12/30/2017
Sun Hydraulics Corporation	100.00	166.60	166.63	135.74	173.07	282.01
Russell 2000 Index	100.00	141.38	149.86	142.08	172.35	197.60
Value Line Machinery Industry Group	100.00	144.34	157.26	155.25	200.78	267.92
Dow Jones US Diversified Industries Index	100.00	144.43	149.29	165.51	183.64	171.54

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."

We report on a fiscal year that ends on the Saturday closest to December 31st. Each quarter generally consists of thirteen weeks. The 2017 and 2016 fiscal years ended December 30, 2017 and December 31, 2016, respectively. The 2015 fiscal year ended January 2, 2016; as a result the quarter ended January 2, 2016 consisted of fourteen weeks, resulting in a 53-week year.

	Year ended				
	Dec 30, 2017	Dec 31, 2016	Jan 2, 2016	Dec 27, 2014	Dec 28, 2013
	(in thousands except per share data)				
Statement of Operations:					
Net sales	$ 342,839	$ 196,934	$ 200,727	$ 227,673	$ 205,267
Gross profit	136,525	71,349	77,093	93,892	82,961
Operating income	61,491	34,459	46,891	64,071	56,171
Income before income taxes	47,544	34,901	49,230	65,742	57,172
Net income	31,558	23,304	33,138	43,775	37,984
Basic and diluted net income per common share	1.17	0.87	1.24	1.65	1.45
Dividends per common share	0.38	0.40	0.45	1.45	0.45
Other Financial Data:					
Depreciation and amortization	$ 19,190	$ 11,318	$ 9,557	$ 8,718	$ 7,227
Capital expenditures	22,205	6,187	6,106	10,667	17,935
Balance Sheet Data:					
Cash and cash equivalents	$ 63,882	$ 74,221	$ 81,932	$ 56,843	$ 54,912
Working capital	100,913	110,192	145,336	119,815	115,038
Total assets	459,766	444,777	241,540	222,764	213,478
Total debt	116,000	140,000	—	—	—
Shareholders' equity	272,673	236,397	222,187	198,259	191,428

On December 5, 2016 we acquired Enovation Controls, LLC. The acquisition impacts the comparability of the selected financial data. The results of operations and estimated fair value of assets acquired and liabilities assumed are included in our financial statements for all periods subsequent to the acquisition date.

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

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, our beliefs, and assumptions made by us, including (i) our strategies regarding growth, including our intention to develop new products and undertake acquisitions; (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 (iv) the risk factors contained in this Annual Report on Form 10-K.

OVERVIEW

We are an industrial technology leader that develops and manufactures solutions for both the hydraulics and electronics markets, each of which serves as a reportable segment. The Hydraulics segment, which consists of the historical Sun Hydraulics companies, 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 Electronics segment, which consists of Enovation Controls, is a global provider of innovative electronic control, display and instrumentation solutions for both recreational and off-highway vehicles, as well as stationary and power generation equipment.

We sell our products globally through wholly owned subsidiaries, independent channel partners and directly to OEMs. Sales outside the United States for the year ended December 30, 2017, were approximately 47% of total net sales.

Vision 2025

In 2016, we introduced our vision for the Company for the next decade. We believe it is important to reach a critical mass of $1 billion in sales by 2025 while remaining a technology leader in the industrial goods sector. To achieve our goal, we target organic sales of our Hydraulics segment of $450 million, our Electronics segment of $200 million and future acquisitions of $350 million in revenue. Through this growth, our decision-making process will consider our desire to maintain superior profitability and financial strength.

The December 2016 acquisition of Enovation Controls was a significant step toward realizing our vision. Enovation Controls improves and expands our technology offering, allows us to develop and market integrated solutions of electronics and hydraulics, and, most importantly, advances our electrification and digitization initiatives across our product portfolio. The acquisition brings Sun new end markets, diversification of our technology platform, and provides entry into highly sophisticated, specialized markets. Enovation Controls provides us with a large team of approximately 100 electronic and software engineers with a track record of new product development and technical innovation. In addition, the sales team has developed strong customer relationships from which market insight can be drawn.

Product development is a key factor to organic growth in both the Hydraulics and Electronics segments, as well as joint development between the two segments. In the Hydraulics segment, our most recent new product introductions have been electro-hydraulics products: the FleX Series Solenoid Valves and the XMD Bluetooth-configurable electro-hydraulics driver. We expect the trend for development of similar types of products to continue as capital goods markets move toward

further electrification and digitalization of machines. Product development in the Electronics segment is generally completed in conjunction with the customer, specifically in the Vehicle Technologies line of business. The technology is then transferred to Power Controls products after implementation in VT.

Acquisitions of companies that advance our technology capabilities will be critical to achieving our Vision 2025. Target product offerings include additional cartridge valve technology ("CVT"), CVT-adjacent hydraulic products, electronic controls and implementation and linked technologies such as electro-mechanical actuators, factory automation, software or products relevant to the Internet of Things. Cultivating target lists and relationships with potential acquisition targets can often be a lengthy process, but we believe it is key to creating successful acquisitions with sustainable business results. We have an established list of potential targets at any given time and entertain reviewing other opportunities for acquisition as they become known to us.

Management utilizes financial and operational results by segment and at the consolidated level for decision-making purposes as well as evaluation. Within each segment, global leaders are responsible for the coordination of their functional area as well as cross-functional initiatives. Small teams have been identified to work across both segments in areas of product management, sales, operations and finance. Key performance indicators are utilized by each global functional area, segment and at the consolidated level.

2017 Restructure

On December 29, 2017 we merged the operations of two of our wholly owned subsidiaries in our Electronics segment, HCT and Enovation Controls. Enovation Controls was the surviving legal entity and will continue to sell HCT products under the HCT brand. HCT historically operated from their facility in Nevada City, California. The HCT operations were relocated to Enovation Controls' Tulsa manufacturing facility. Costs of the restructuring totaled $1.4 million and were related primarily to severance costs. These costs are included in the cost of sales and restructuring charges line items in the Consolidated Statements of Operations.

Industry Conditions

Demand for our products is dependent on demand for the industrial goods markets into which the products are incorporated. The capital goods industries in general, and the Hydraulics and Electronics segments 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 11% in 2017, after decreasing 9% in 2016 and decreasing 11% in 2015. The Institute of Printed Circuits Association reports that North American electronics business growth continues. Based on three month rolling averages, year-on-year growth in North American sales of semi-conductors and printed circuit boards continued to climb as of November 2017. Sales growth for electronics manufacturing services held steady and remained strong. Indicators suggest the likelihood of continued sales growth in the industry in early 2018, but with some volatility.

We utilize industry trend reports from various sources, as well as feedback from customers and distributors, to evaluate economic trends. We also rely on global government statistics such as Gross Domestic Product and Purchasing Managers Index to understand higher level economic conditions.

2017 Results and Comparison of Years Ended December 30, 2017 and December 31, 2016

(in millions except net income per share)	For the year ended December 30, 2017	For the year ended December 31, 2016	% Change
Net sales	$ 342.8	$ 196.9	74.1 %
Gross profit	$ 136.5	$ 71.3	91.4 %
Gross profit %	39.8 %	36.2 %	
Operating income	$ 61.5	$ 34.5	78.3 %
Operating income %	17.9 %	17.5 %	
Net income	$ 31.6	$ 23.3	35.6 %
Basic and diluted net income per common share	$ 1.17	$ 0.87	34.5 %

Consolidated sales for the 2017 year improved to $342.8 million, compared to $196.9 million in 2016, an increase of $145.9 million. Our acquisition of Enovation Controls in December of 2016 contributed largely to the increase. Organic growth from our historical business totaled 21% and was responsible for $41 million of the year-over-year improvement.

We continue to see an increase in global demand driving the growth in sales in all of our geographic regions. Additionally, we are realizing returns on investments made in global sales and marketing initiatives.

Gross profit margins improved 3.6 percentage points during 2017. Contributing factors include increased sales volume, our ability to leverage our fixed costs, continuous improvement initiatives and the acquisition of Enovation Controls, whose products typically have higher gross profit margins than our historic hydraulic business. Gross profit was also unfavorably impacted by $5.7 million of operational items during the fourth quarter of 2017 which are discussed later in the segment results section.

Operating income margins saw slight improvement, 0.4 percentage points, compared to the prior year. 2017 was impacted by an increase in amortization expense totaling $6.9 million and one-time expenses such as restructuring charges incurred for the merger of HCT and Enovation Controls and a rise in corporate related costs for activities such as our 2018 recent public equity offering and our continued efforts to locate acquisition opportunities.

Enovation Controls outperformed our forecast for 2017. The strong performance was driven by higher demand in the power controls and recreational vehicle end markets, leading to an increase in the fair value of the acquisition-related contingent consideration liability during the year. The contingent consideration is based on defined revenue and EBITDA targets through early 2019. The change in fair value during the year, in excess of the acquisition date fair value, was recognized in earnings and negatively impacted net income and EPS, net of tax, by $6.1 million and $0.22, respectively.

In addition to the negative impact of the change in fair value of contingent consideration discussed above, net income was impacted by a change in tax laws resulting from the Tax Cuts and Jobs Act, commonly referred to as “US tax reform,” which was signed into law in December of 2017. The total impact on our 2017 financial statements was $0.5 million of one-time tax expense.

Changes in foreign currency exchange rates unfavorably impacted sales and earnings per share (“EPS”) for the year ended December 30, 2017 by $0.6 million and $0.02, respectively.

2018 Outlook

Consolidated revenue for the full year 2018 is expected to be between $370 million and $385 million, with the Hydraulics segment contributing between $250 million and $258 million and the Electronics segment contributing between $120 million and $127 million. Consolidated adjusted operating margin, prior to acquisition-related amortization expense and one-time costs, is expected to be 22.7% to 24.0% for the full year 2018. Consolidated net interest expense is expected to be between $0.1 million and $0.2 million. The full year effective tax rate is anticipated to be 24.5% to 26.5%. Capital expenditures are estimated to be between $15 million and $20 million. Depreciation and amortization are estimated to be between $11.5 million to $12.5 million and between $8 million and $9 million, respectively.

SEGMENT RESULTS

Hydraulics

The Hydraulics segment provides global capital goods industries with hydraulic components and systems used to transmit power and control force, speed and motion. On a component level, the Hydraulics segment designs and manufactures screw-in hydraulic cartridge valves, manifolds, and integrated fluid power packages and subsystems used in hydraulic systems. The following table sets forth the results of operations for the Hydraulics segment (in millions):

	For the year ended		
	December 30, 2017	December 31, 2016	% Change
Net sales	$ 230.7	$ 189.5	21.7 %
Gross profit	$ 91.7	$ 69.9	31.2 %
Gross profit %	39.7 %	36.9 %	
Operating income	$ 54.9	$ 39.1	40.4 %
Operating income %	23.8 %	20.6 %	

Net sales for the Hydraulics segment totaled $230.7 million in 2017, representing growth of $41.2 million, 21.7%, over the prior year. The growth was driven by increased demand in all geographic and end markets and was also impacted by global

sales and marketing initiatives. No significant price increases occurred during 2017. Changes in exchange rates had a favorable impact on sales of $0.2 million for the year ended December 30, 2017.

The following table presents net sales based on the geographic region of the sale for the Hydraulics segment (in millions):

	For the year ended		
	December 30, 2017	December 31, 2016	% Change
Americas	$ 103.9	$ 88.1	17.9 %
Europe/Middle East/Africa	66.2	58.2	13.7 %
Asia/Pacific	60.6	43.2	40.3 %
Total	$ 230.7	$ 189.5	

Increased demand in the U.S. and Canada resulted in sales to the Americas growing by $15.8 million, 17.9%, during 2017.

Sales to Europe, the Middle East and Africa ("EMEA") were up $8.0 million, 13.7%, in 2017. Increased demand, primarily in the United Kingdom and Germany led to the growth. Exchange rates had an unfavorable impact on sales to EMEA of approximately $0.2 million for the year.

Sales to the Asia/Pacific region were up $17.4 million, 40.3%, in 2017. Increased demand in China and South Korea as well as sales and marketing initiatives in the region led to the growth. Exchange rates had a favorable impact on Asia/Pacific sales of $0.4 million for the year.

Gross profit grew $21.8 million, 31.2%, in 2017, and gross profit as a percentage of net sales improved to 39.7%. Increased sales volume impacted gross profit by approximately $15.2 million. Gross profit was also unfavorably impacted by $2.7 million of operational items during the fourth quarter of 2017 including standard costing adjustments resulting from improved productivity, higher than normal freight costs for expediting products to keep up with the increase in order demand and costs related to our temporary workforce and material outsourcing incurred during our recovery from downtime caused by hurricane Irma. The remainder of the growth in gross profit was a result of our ability to leverage our fixed costs, combined with continuous improvement initiatives during the period.

Operating income grew $15.8 million, 40.4%, in 2017, and operating income as a percentage of net sales improved to 23.8%. The improvement in operating income during 2017 was primarily due to sales volume and improved gross profit. Selling, engineering and administrative costs as a percentage of sales decreased to 15.8% in 2017 compared to 16.1% in 2016.

Selling, engineering and administrative expenses ("SEA") grew $6.1 million, 20.1%, to $36.5 million in 2017, compared to $30.4 million in the prior year. The fluctuations were due to the following: increased compensation costs primarily related to investments in strong talent necessary to support our initiatives to drive future revenue growth and profitability, increased professional fees for legal and advisory services related to special strategic projects and initiatives, increased investments in research and development, and lower CEO transition costs in 2017 compared to 2016.

Electronics

The Electronics segment designs and manufactures electronic control, display and instrumentation solutions for recreational and off-highway vehicles and stationary and power generation equipment. End markets within the Electronics segment are divided into two lines of business: Power Controls and Vehicle Technologies. Power Controls serves a variety of end markets with products such as displays, panels, gauges, controllers, battery chargers and various end devices. Vehicle Technologies serves the recreational vehicles end market with products such as electronic controls, displays and instrumentation. The following table sets forth the results of operations for the Electronics segment (in millions):

	For the year ended	
	December 30, 2017	December 31, 2016
Net sales	$ 112.2	$ 7.4
Gross profit	$ 46.6	$ 2.5
Gross profit %	41.5 %	33.8 %
Operating income	$ 17.9	$ (0.6)
Operating income %	16.0 %	-8.1 %

Net sales for our Electronics segment totaled $112.2 million in 2017, of which $109.4 million were contributed by Enovation Controls. On a pro forma basis, this represented a $26.9 million, 32.6%, increase over the net sales of the PC and VT lines of business of Enovation Controls during 2016, 11 months of which was prior to our acquisition of Enovation Controls which occurred on December 5, 2016.

The sales growth was driven by demand in the power controls and recreational vehicle end markets and our proactive sales initiatives as well as increased demand for new products developed in the past year. Changes in exchange rates had an unfavorable impact on 2017 sales of $0.8 million.

The following table presents net sales based on the geographic region of the sale for the Electronics segment (in millions):

	For the year ended	
	December 30, 2017	December 31, 2016
Americas	$ 95.0	$ 6.7
Europe/Middle East/Africa	10.9	0.5
Asia/Pacific	6.3	0.2
Total	$ 112.2	$ 7.4

Sales to the Americas totaled $95.0 million during 2017. Sales to the EMEA region totaled $10.9 million during 2017. Exchange rates had a negative impact on sales to EMEA of $0.7 million for the year. Sales to the Asia/Pacific region totaled $6.3 million during 2017. Exchange rates had a minimal impact on Asia/Pacific sales during 2017.

Gross profit totaled $46.6 million during 2017, and gross profit as a percentage of net sales totaled 41.5%. Gross profit was unfavorably impacted by $3.0 million of operational items during the fourth quarter of 2017 including excess scrap adjustments and inventory write offs resulting from new product manufacturing and the addition of a new manufacturing process for surface mount technology production. These issues were directly related to the complex carve-out of the two Enovation Controls lines of business that we acquired in December of 2016. Additional contributors to the unfavorable fourth quarter impact from operational items were related to product mix, warranty expense and higher than expected temporary labor to support the increase in demand for our products.

Selling, engineering and administrative expenses totaled $27.6 million in 2017. Included in cost of sales and restructuring charges for 2017 is $0.4 million and $1.0 million, respectively, of charges related to the merger of Enovation Controls and HCT. The charges primarily related to severance costs. Operating income for the Electronics segment totaled $17.9 million in 2017, with an operating margin of 16.0%.

Corporate and Other

Certain costs are excluded from business segment results as they are not used in evaluating the results of, or in allocating resources to, our operating segments. For the year ended December 30, 2017, these costs included corporate costs not deemed to be allocable to our business segments of $1.4 million, acquisition-related costs including charges related to inventory step-up to fair value of $1.8 million, and amortization of acquisition-related intangible assets of $8.2 million.

Interest Expense, net

Net interest expense was $3.8 million for 2017 compared to net interest income of $0.8 million for 2016. Interest expense was $4.1 million compared to $0.5 million for 2016.

Total average cash and investments for the year ended December 30, 2017, totaled $72.5 million compared to $103.6 million for the year ended December 31, 2016. The funding of the acquisition of Enovation Controls during the fourth quarter of 2016, the payment made on contingent consideration during Q4 2017, capital expenditures and repayments of borrowings during the year were the drivers for the increases in interest expense and decreases in average cash and short-term investments.

Change in Fair Value of Contingent Consideration

The fair value of our acquisition-related contingent consideration liability is revalued each quarter to its estimated fair value, and changes are recorded in earnings of the period. Changes in fair value are primarily a result of actual sales volume

and EBITDA results of Enovation Controls for the period as well as changes in the probabilities of estimated future sales volume and EBITDA results of Enovation Controls. During 2017 the fair value of the liability increased by $9.5 million over the final acquisition date fair value estimate.

Income Taxes

The provision for income taxes for the year ended December 30, 2017, was 33.6% of pretax income compared to 33.2% for the year ended December 31, 2016. These effective rates typically fluctuate relative to the levels of income and different tax rates in effect among the countries in which we sell our products. The 2017 rate was also impacted by the US tax reform.

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (the “Act”) was signed into law making significant changes to the Internal Revenue Code. Changes include, but are not limited to, a corporate tax rate decrease from 35% to 21% effective for tax years beginning after December 31, 2017, the transition of U.S international taxation from a worldwide tax system to a territorial system, and a one-time transition tax on the mandatory deemed repatriation of cumulative foreign earnings as of December 31, 2017. We have calculated our best estimate of the impact of the Act in our year-end income tax provision in accordance with our understanding of the Act and guidance available as of the date of this filing and as a result have recorded $0.5 million as additional income tax expense in the fourth quarter of 2017, the period in which the legislation was enacted. The provisional estimate recorded related to the remeasurement of certain deferred tax assets and liabilities, based on the rates at which they are expected to reverse in the future, was a benefit of $1.5 million. The provisional estimate recorded related to the one-time transition tax on the mandatory deemed repatriation of foreign earnings was $2.0 million of expense, based on cumulative foreign earnings of $87.3 million. We will elect to pay the estimated $2.0 million over an eight year period, as proscribed by the legislation.

On December 22, 2017, Staff Accounting Bulletin No. 118 ("SAB 118") was issued to address the application of US GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed in reasonable detail to complete the accounting for certain income tax effects of the Act. In accordance with SAB 118, we have determined that the $1.5 million of deferred tax benefit recorded in connection with the remeasurement of certain deferred tax assets and liabilities and the $2.0 million of current tax expense recorded in connection with the transition tax on the mandatory deemed repatriation of foreign earnings were provisional amounts and reasonable estimates at December 30, 2017. Additional work is necessary to complete a more detailed analysis of our deferred tax assets and liabilities, our historical attributes giving rise to the transition tax calculation inputs as well as potential correlative adjustments of each of these items. Any subsequent adjustment to these amounts will be recorded to current tax expense in the quarter of 2018 when the analysis is complete. We anticipate completing the accounting analysis at the time our 2017 tax returns are filed, typically in the fourth quarter of our financial reporting year.

Further, in accordance with SAB 118, we are continuing to evaluate our permanent reinvestment assertion as further consideration is given to how the Act impacts the future cash flow position of the Company. As of December 30, 2017, we have not recorded a deferred tax liability on the future repatriation tax impacts of bringing cash back from overseas but will continue to analyze the various impacts of the Act and determine, during the measurement period, if the assertion should change.

In January 2018, the FASB released guidance on the accounting for tax on the global intangible low-taxed income (“GILTI”) provisions of the Act. The GILTI provisions impose a tax on foreign income in excess of a deemed return on tangible assets of foreign corporations. The guidance indicates that either accounting for deferred taxes related to GILTI inclusions or treating any taxes on GILTI inclusions as a period cost are acceptable methods subject to an accounting policy election. We are still evaluating this policy election under SAB 118 and will disclose the final election once we have analyzed all relevant information pertaining to the directly- and indirectly-correlated effects.

We have also recorded provisional estimates in accordance with SAB 118 for certain directly- and indirectly-correlated effects in our year end income tax provision including, but not limited to, state and local income taxes, domestic production activities deduction, and fixed asset depreciation. These effects are still being evaluated and will be impacted by our final determinations of the appropriate accounting for the Act.

We are still analyzing the Act in its entirety and refining our calculations, which could potentially impact the measurement of our tax balances. Given the significant complexity of the Act and anticipated additional implementation guidance from the Internal Revenue Service, further implications of the Act may be identified in future periods.

2016 Results and Comparison of Years Ended December 31, 2016 and January 2, 2016

(in millions except net income per share)	For the year ended				
	December 31, 2016		January 2, 2016		% Change
Net sales	$	196.9	$	200.7	-1.9 %
Gross profit	$	71.3	$	77.1	(7.5)%
Gross profit %		36.2 %		38.4 %	
Operating income	$	34.5	$	46.9	(26.4)%
Operating income %		17.5 %		23.4 %	
Net income	$	23.3	$	33.1	-29.6 %
Basic and diluted net income per common share	$	0.87	$	1.24	-29.8 %

Enovation Controls was acquired on December 5, 2016. Due to the acquisition occurring late in the year in 2016, our consolidated operating results for the year ended December 31, 2016 were minimally affected, a 2.1% impact on net sales and an 8.4% impact on net income.

Net sales were $196.9 million, a decrease of $3.8 million, compared to $200.7 million in 2015. Demand for our products in 2016 decreased in most major global end markets, which primarily include capital goods equipment. Exchange rates had a negative impact on sales in 2016 of approximately $2.7 million.

The following table presents consolidated net sales based on the geographic region of the sale (in millions):

	For the year ended				
	December 31, 2016		January 2, 2016		% Change
Americas	$	94.8	$	97.7	(3.0)%
Europe/Middle East/Africa		58.7		61.3	(4.2)%
Asia/Pacific		43.4		41.7	4.1 %
Total	$	196.9	$	200.7	

Sales to the Americas decreased 3.0% or $2.9 million, to $94.8 million in 2016, driven by weakened U.S. demand.

Sales to EMEA decreased 4.2% or $2.6 million, to $58.7 million in 2016, primarily related to decreased demand in the United Kingdom, Germany, Finland and Norway. Exchange rates had a negative impact on EMEA sales of approximately $2.2 million in 2016.

Sales to the Asian/Pacific region increased 4.1% or $1.7 million, to $43.4 million in 2016, primarily related to increased demand in China. Exchange rates had a $0.5 million negative impact on Asia/Pacific sales in 2016.

Gross profit decreased $5.8 million or 7.5% to $71.3 million in 2016, compared to $77.1 million in 2015. Gross profit as a percentage of net sales decreased to 36.2% in 2016, compared to 38.4% in 2015. The decrease was primarily attributable to reduced sales volume in the Hydraulics segment negatively impacting gross profit by approximately $3.0 million and increased overhead costs of $2.3 million related to increased compensation and employee benefits.

Selling, engineering and administrative expenses in 2016 were $35.3 million, a $5.5 million, or 18.5%, increase, compared to $29.8 million in 2015. The change for 2016 included transaction costs for the acquisition of Enovation Controls totaling $1.5 million, $3.0 million related to increased professional fees, CEO transition costs and compensation costs and Enovation Controls' selling, engineering and administrative costs of $1.5 million. Amortization expense for the 2016 year increased $1.2 million over the 2015 year primarily from the intangible assets acquired with Enovation Controls.

Operating income decreased $12.4 million or 26.4% to $34.5 million in 2016, compared to $46.9 million in 2015, with operating margins of 17.5% and 23.4% for 2016 and 2015, respectively.

Interest Income, Net

Net interest income for 2016 was $0.8 million compared to net interest income of $1.4 million for 2015. Interest expense in 2016 totaled $0.5 million compared to minimal interest expense in 2015.

Total average cash and short-term investments for 2016 was $103.6 million compared to total average cash and short-term investments for 2015 of $113.3 million. Interest derived from investments in corporate and municipal bonds, mutual funds, certificates of deposit, and money market funds decreased approximately $0.1 million in 2016. Financing the Enovation Controls acquisition was the driver for the increase in interest expense and decrease in cash and short-term investments over 2016.

Foreign Currency Transaction (Gain) Loss, Net

Net foreign currency transaction gain was $0.4 million in 2016 compared to $1.1 million in 2015. The 2016 gain was primarily derived from a strengthening U.S. Dollar against the British Pound. The lower 2016 gain is due to fewer assets held in U.S. Dollars at our German subsidiary.

Miscellaneous (Income) Expense, Net

Net miscellaneous expense was $0.7 million in 2016 compared to net miscellaneous expense of $0.2 million in 2015. The 2016 expense was primarily related to net losses on short term investments of $0.4 million. The 2015 amount included a gain on the sale of our South Korean facility of approximately $1.3 million, partially offset by impairment of marketable securities of $0.8 million.

Income Taxes

The provision for income taxes for the year ended December 31, 2016, was 33.2% of pretax income compared to a provision of 32.7% for the year ended January 2, 2016. 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 provisions were affected by discrete items related to a reserve for uncertain tax positions from previous years. Excluding these discrete items, the effective rate would have been approximately 34.0% and 32.3% for the years ended December 31, 2016, and January 2, 2016, respectively.

LIQUIDITY AND CAPITAL RESOURCES

Historically, our primary source of capital has been cash generated from operations. Funding of acquisition activity and short-term fluctuations in working capital requirements have been met through borrowings under revolving lines of credit as needed. Our principal uses of cash have been paying operating expenses, paying dividends to shareholders, making capital expenditures, making acquisitions and servicing debt. During 2017, we were very focused on reducing our debt which resulted from the Enovation Controls acquisition.

The following table summarizes our cash flows for the periods (in millions):

	For the year ended		
	December 30, 2017	December 31, 2016	$ Change
Net cash provided by operating activities	$ 49.4	$ 38.5	$ 10.9
Net cash used in investing activities	(16.0)	(169.8)	153.8
Net cash (used in) provided by financing activities	(50.0)	128.2	(178.2)
Effect of exchange rates on cash	6.3	(4.6)	10.9
Net decrease in cash and cash equivalents	$ (10.3)	$ (7.7)	$ (2.6)

Cash on hand decreased $10.3 million from $74.2 million at the end of 2016 to $63.9 million at the end of 2017. Cash and cash equivalents were favorably impacted by changes in exchange rates during the year ended December 30, 2017 totaling $6.3 million, and negatively impacted by $4.6 million in 2016.

Cash from operations increased $10.9 million, 28.3%, compared to the prior-year. Net income for 2017 increased approximately $8.3 million compared to 2016. The non-cash change in fair value of the acquisition-related contingent consideration liability during the year ended December 30, 2017 reduced net income by $6.1 million, net of tax. Changes in inventory and accounts receivable reduced cash by $24.1 million in 2017 compared to a use of cash of $4.5 million during 2016. Days sales outstanding went up to 40 days as of December 30, 2017 compared to 34 days as of December 31, 2016. Days of inventory on hand went up to 64 as of December 30, 2017 from 36 as of December 31, 2016. These increases were primarily related to the addition of Enovation Controls during the fourth quarter of 2016 and business model differences

compared with our historical operations as well as additional inventory to support customer demand during the carve out of Enovation Controls businesses from its prior structure. Accounts receivable, net balances grew $11.8 million as of December 30, 2017 compared to December 31, 2016, which is a direct result of the increase in net sales during 2017 compared to 2016, as well as differences in payment patterns of the Enovation Controls business compared to the historical business.

Capital expenditures were $22.2 million for the year ended December 30, 2017, primarily made up of purchases of machinery and equipment to improve productivity, the initial costs for the construction of a new production facility for our South Korean subsidiary, which will be completed in 2018, and the purchase of the Enovation Controls manufacturing facility and corporate offices in Tulsa, OK.

During October 2017, we paid approximately $17.0 million to the former owners of Enovation Controls in connection with the first payment due on the contingent consideration liability.

In 2016, we entered into a credit agreement with PNC Bank, National Association, as administrative agent, and the lenders party thereto. The credit agreement provides us with a revolving line of credit of up to $300 million that is available through November 22, 2021. The credit agreement includes an accordion feature to increase the line of credit by up to an additional $100 million in the form of additional revolving credit loans or in the form of term loans. The loans under the line of credit will bear interest at the Euro Rate (as defined) or the Base Rate (as defined), at our option, plus the Applicable Margin (as defined) based on the Borrower's Leverage Ratio (as defined). The Applicable Margin ranges from 1.25% to 2.25% for the Euro Rate and ranges from 0.25% to 1.25% for the Base Rate.

The credit agreement requires the Company (together with its subsidiaries) to comply with certain financial tests, including a minimum Interest Coverage Ratio (as defined) of 3.0 to 1.0 and a maximum Leverage Ratio (as defined) of 3.75 to 1.0 for the first year and 3.5 to 1.0 thereafter. As of the date of this filing, the Company was in compliance with all debt covenants related to the line of credit.

The credit agreement also requires the Company to comply with a number of restrictive covenants. These covenants limit, in certain circumstances, the Company's ability to take a variety of actions, including but not limited to: incur indebtedness; create or maintain liens on its property or assets; make investments, loans and advances; repurchase shares of its Common Stock; engage in acquisitions, mergers, joint ventures, consolidations and asset sales; and pay dividends and distributions.

During 2016 we borrowed $140 million on the line of credit to complete the acquisition of Enovation Controls. We repaid $24 million of the borrowings during 2017. At December 30, 2017 the balance on the line of credit was $116 million with $184 million of additional credit available, subject to pro forma compliance with debt covenants.

On February 6, 2018, the Company issued and sold 4,400,000 shares of its common stock at $57.50 per share in a registered public offering ("Offering"). The net increase to shareholders' equity and cash proceeds from the Offering was approximately $240 million. The Company used $116 million of the proceeds to repay the debt under its credit facility. The Company intends to use the remaining proceeds to fund the Faster acquisition and for working capital and general corporate purposes.

See Note 9 of the Notes to the Consolidated Financial Statements included in this Annual Report for additional information regarding our credit facility.

We declared the following regular quarterly dividends to shareholders during 2017, 2016 and 2015. We have historically declared the regular quarterly dividends to shareholders of record on the last day of the respective quarter, paid on the 15th day of each month following the date of declaration. Beginning in the third quarter of 2017, we declared the regular quarterly dividends to shareholders of record on the 5th day following the respective quarter, paid on the 20th day of each month following the date of declaration.

	2017	2016	2015
First quarter	$ 0.09	$ 0.09	$ 0.09
Second quarter	0.09	0.09	0.09
Third quarter	0.09	0.09	0.09
Fourth quarter	0.09	0.09	0.09

In addition to the regular quarterly dividends, we declared shared distribution cash dividends in 2017, 2016 and 2015, equal to $0.02, $0.04 and $0.09, respectively. The 2017 dividend was paid on March 31, 2017, to shareholders of record on March 15, 2017, the 2016 dividend was paid on March 31, 2016, to shareholders of record on March 15, 2016, and the 2015 dividend was paid on March 31, 2015, to shareholders of record on March 15, 2015.

We paid dividends totaling $10.3 million, $10.8 million, and $12.0 million for the years ended December 30, 2017, December 31, 2016, and January 2, 2016, respectively.

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 our profitability, financial condition, capital needs, acquisition opportunities, future prospects and other factors deemed pertinent by the Board of Directors.

We believe that cash generated from operations and our borrowing availability under the revolving line of credit will be sufficient to satisfy our 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, we 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 December 30, 2017, are summarized in the table below (in thousands):

	Payments due by Period				
CONTRACTUAL OBLIGATIONS	**TOTAL**	**2018**	**2019-2020**	**2021-2022**	**Thereafter**
Operating leases	$ 629	$ 229	$ 210	$ 169	$ 21
Revolving line of credit (1)	116,000	—	—	116,000	—
Interest on revolving line of credit (2)	17,966	3,654	7,308	7,004	—
Contingent consideration (3)	33,882	17,102	16,780	—	—
Total contractual obligations	**$ 168,477**	**$ 20,985**	**$ 24,298**	**$ 123,173**	**$ 21**

(1) Our revolving credit facility expires in November 2021. Although we may make earlier principal payments, we have reflected the principal balance due at expiration.

(2) Interest on the revolving line of credit assumes the current interest rate environment and revolver borrowings consistent with December 30, 2017 debt levels.

(3) Represents the fair value estimate of contractual earnout payments for our acquisition of Enovation Controls.

Critical Accounting Policies and Estimates

We prepare our consolidated financial statements in conformity with U.S. generally accepted accounting principles which requires management to make certain estimates and assumptions that affect reported amounts and related disclosures. Actual results could differ from those estimates. Based on facts and circumstances inherent in developing estimates and assumptions, we believe it is unlikely that applying other such estimates and assumptions would have caused materially different amounts to have been reported. The following policies are considered by management to be the most critical in understanding the judgements, estimates and assumptions that are involved in the preparation of our consolidated financial statements.

Inventory Valuation

Inventories are valued at the lower of cost and net realizable value, on a first-in, first-out basis. On an ongoing basis, component parts found to be obsolete through design or process changes are disposed of and charged to material cost. We review on-hand balances of products and component parts against specific criteria such as assumptions about future demand. 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. If actual future demand is less favorable than management projections, additional inventory write-downs may be required. See Note 5 to the Financial Statements for inventory reserve amounts.

Fair Value Measurements

We apply fair value accounting guidelines for all financial assets and liabilities and non-financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). Under these guidelines, fair value is defined as the price that would be received for the sale of an asset or paid to transfer a liability (i.e. an exit price) in an orderly transaction between market participants at the measurement date. The guidance establishes a three-tier fair value hierarchy which prioritizes the inputs used in measuring fair value as follows:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets or liabilities in active markets or quoted prices for identical assets or liabilities in inactive markets.

Level 3 - Unobservable inputs that are supported by little, infrequent, or no market activity and reflect the Company's own assumptions about inputs used in pricing the asset or liability.

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The fair value of cash and cash equivalents, accounts receivable, other current assets, accounts payable and accrued expenses and other liabilities approximates their carrying value, due to their short-term nature. Our valuation techniques used to measure the fair value of marketable equity securities were derived from quoted prices in active markets for identical assets or liabilities. Contingent consideration and newly acquired intangible assets are measured at fair value using level 3 inputs. The valuation techniques used to measure the fair value of all other financial instruments were valued based on quoted market prices or model driven valuations using significant inputs derived from or corroborated by observable market data. See Note 4 for detail on the level of inputs used in determining the fair value of assets and liabilities.

The fair value of the contingent consideration arrangement was estimated using a risk-adjusted probability analysis. The primary inputs used in the analysis included revenue and earnings forecasts and estimates of probabilities of varying outcomes. As of December 30, 2017, the contingent consideration is valued at approximately 100% of the present value of the total possible payout. If actual results are less favorable than management projections, write-downs of the liability could occur. See Note 4 to the Financial Statements for changes in the estimated fair value during the year.

Business Combinations

Business combinations are accounted for under the acquisition method of accounting, which requires recognition separately from goodwill, the assets acquired and the liabilities assumed at their acquisition date fair values. Assigning fair market values to the assets acquired and liabilities assumed at the date of an acquisition requires knowledge of current market values, and the values of assets in use, and often requires the application of judgment regarding estimates and assumptions. While the ultimate responsibility resides with management, for certain acquisitions we retain the services of certified valuation specialists to assist with assigning estimated values to certain acquired assets and assumed liabilities, including intangible assets and tangible long-lived assets. Acquired intangible assets, excluding goodwill, are valued using various methodologies such as the discounted cash flow method which is based on future cash flows specific to the type of intangible asset purchased and the relief from royalty method which is based on the present value of savings resulting from the right to manufacture or sell products that incorporate the intangible asset without having to pay a license for its use. These methodologies incorporate various estimates and assumptions, the most significant being estimated royalty rates, projected revenue growth rates, profit margins and forecasted cash flows based on the discount rate.

Goodwill

Goodwill, which represents the excess of the purchase price of an acquisition over the fair value of the net assets acquired, is carried at cost. Goodwill is tested for impairment annually or more often if events or circumstances indicate a reduction in the fair value below the carrying value. The carrying value of assets is calculated at the reporting unit level. An impairment loss is recorded to the extent that the fair value of the goodwill within the reporting unit is less than its carrying value.

We primarily use an income approach methodology based on a discounted forecasted cash flow analysis to value reporting units. Assumptions used in the analysis include estimated future revenues and expenses, weighted average cost of capital, capital expenditures and other variables. Assumptions made for future cash flows are developed based on consideration of current and future economic conditions, recent sales trends, planned timing of product launches, or other relevant variables.

The assessment of fair value for impairment purposes requires significant judgment by management. The estimated fair value could be impacted by changes in market conditions, growth rates, costs and other variables.

We completed our annual goodwill impairment testing and determined that the carrying amount of goodwill was not impaired. See Note 7 to the Financial Statements for goodwill amounts.

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 undiscounted future net cash flows that 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. For the year ended December 30, 2017, there were no impairments recorded based on our analysis. If the cash flow estimates or the significant operating assumptions upon which they are based change in the future, we may be required to record impairment charges.

Accrued Expenses and Other Liabilities

We make 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 our retirement plan. Estimates for miscellaneous accruals are based on our assessment of estimated liabilities for costs incurred.

We accrue for health care benefit costs under two self-funded plans, one for Sun Hydraulics US employees and one for Enovation Controls US employees. We purchase re-insurance for both specific and aggregate stop losses on claims. The individual stop loss basis is $225 thousand and $200 thousand for Sun and Enovation, respectively, and the aggregate stop loss limit for the Sun plan is approximately $6.6 million. The Enovation Controls plan has no aggregate stop loss limit.

The Company accrues for the estimated cost of product warranties at the time revenue is recognized. The estimates are based upon current and historical warranty trends and other related information known to the Company.

Income Taxes

Our 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.

We report a liability for unrecognized tax benefits resulting from uncertain tax positions taken or expected to be taken in a tax return. We recognize potential interest and penalties related to our unrecognized tax benefits in income tax expense. We file U.S. federal income tax returns as well as income tax returns in various states and foreign jurisdictions. We are no longer subject to income tax examinations by tax authorities for years prior to 2007 for the majority of tax jurisdictions.

Our U.S. federal returns are currently under examination by the Internal Revenue Service (IRS) for the periods 2007 through 2012. Audit outcomes and the timing of audit settlements are subject to significant uncertainty. It is reasonably possible that within the next twelve months we will resolve some or all of the matters presently under consideration for 2007 through 2012 with the IRS and that there could be significant increases or decreases to unrecognized tax benefits. See Note 11 to the Financial Statements for income tax amounts, including reserves.

Off Balance Sheet Arrangements

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

Inflation

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our exposure to interest rate risk results from variable debt outstanding under our revolving credit facility. We pay interest on outstanding borrowings at interest rates that fluctuate based upon changes in various base rates. As of December 30, 2017 we had $116 million in borrowings outstanding under the revolving credit facility. Based on our level of variable rate debt outstanding during the year ended December 30, 2017, a one percentage point increase in the weighted average interest rate, which generally equals 2.70%, would have resulted in an approximate $1.3 million increase in financing costs for the year ended December 30, 2017. We have not historically used derivative instruments to manage exposure to changes in interest rates.

Our exposure to foreign currency exchange fluctuations relates primarily to the direct investment in our facilities in the United Kingdom, Germany, South Korea and China. The Company does not use financial instruments to hedge foreign currency exchange rate changes. A 10% decrease in the 2017 average exchange rate of the Pound, Euro, Won and Renminbi collectively would have caused a decrease in EPS of approximately 2%, which we do not consider to be material.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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Report of Independent Registered Public Accounting Firm – Grant Thornton LLP

Board of Directors and Shareholders
Sun Hydraulics Corporation

Opinion on the financial statements

We have audited the accompanying consolidated balance sheets of Sun Hydraulics Corporation (a Florida Corporation) and subsidiaries (the "Company") as of December 30, 2017 and December 31, 2016, the related consolidated statements of operations, comprehensive income, statement of shareholders' equity, and cash flows for each of the years in the periods ended December 30, 2017 and December 31, 2016, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 30, 2017 and December 31, 2016, and the results of its operations and its cash flows for each of the years in the periods ended December 30, 2017 and December 31, 2016, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the Company's internal control over financial reporting as of December 30, 2017, based on criteria established in the 2013 Internal Control —Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), and our report dated February 27, 2018 expressed an unqualified opinion.

Basis for opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ GRANT THORNTON LLP

We have served as the Company's auditor since 2016.

Tampa, Florida
February 27, 2018

Report of Independent Registered Public Accounting Firm – Grant Thornton LLP

Board of Directors and Shareholders
Sun Hydraulics Corporation

Opinion on internal control over financial reporting

We have audited the internal control over financial reporting of Sun Hydraulics Corporation (a Florida Corporation) and subsidiaries (the "Company") as of December 30, 2017, based on criteria established in the 2013 *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 30, 2017, based on criteria established in the 2013 Internal Control—Integrated Framework issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated financial statements of the Company as of and for the year ended December 30, 2017, and our report dated February 27, 2018 expressed an unqualified opinion on those financial statements.

Basis for opinion

The Company's management is responsible 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 the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and limitations of internal control over financial reporting

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 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 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 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.

/s/ GRANT THORNTON LLP

Tampa, Florida
February 27, 2018

Report of Independent Registered Public Accounting Firm - Mayer Hoffman McCann P.C.

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

We have audited the consolidated statements of operations, comprehensive income, shareholders' equity, and cash flows of Sun Hydraulics Corporation (a Florida Corporation) and subsidiaries (collectively, the "Company") for the period ended January 2, 2016. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such consolidated financial statements referred to above, present fairly, in all material respects, the results of operations and cash flows of Sun Hydraulics Corporation (a Florida Corporation) and subsidiaries for the period ended January 2, 2016, in conformity with accounting principles generally accepted in the United States of America.

/s/ Mayer Hoffman McCann P.C.

March 1, 2016
Clearwater, Florida

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

	December 30, 2017	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	$ 63,882	$ 74,221
Restricted cash	40	37
Accounts receivable, net of allowance for doubtful accounts of $358 and $101	37,503	25,730
Inventories, net	41,545	30,000
Income taxes receivable	—	512
Short-term investments	—	6,825
Other current assets	3,806	3,943
Total current assets	146,776	141,268
Property, plant and equipment, net	91,931	80,515
Deferred income taxes	4,654	3,705
Goodwill	108,869	103,583
Other intangibles, net	104,131	112,565
Other assets	3,405	3,141
Total assets	**$ 459,766**	**$ 444,777**
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable	$ 15,469	$ 10,166
Accrued expenses and other liabilities	8,977	7,456
Current portion of contingent consideration	17,102	10,765
Dividends payable	2,437	2,424
Income taxes payable	1,878	265
Total current liabilities	45,863	31,076
Revolving line of credit	116,000	140,000
Contingent consideration, less current portion	16,780	24,312
Deferred income taxes	2,068	9,501
Other noncurrent liabilities	6,382	3,491
Total liabilities	187,093	208,380
Commitments and contingencies	—	—
Shareholders' equity:		
Preferred stock, 2,000,000 shares authorized, par value $0.001, no shares outstanding	—	—
Common stock, 50,000,000 shares authorized, par value $0.001, 27,077,145 and 26,936,021 shares outstanding	27	27
Capital in excess of par value	95,354	89,718
Retained earnings	183,770	162,485
Accumulated other comprehensive loss	(6,478)	(15,833)
Total shareholders' equity	272,673	236,397
Total liabilities and shareholders' equity	**$ 459,766**	**$ 444,777**

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		
	December 30, 2017	December 31, 2016	January 2, 2016
Net sales	$ **342,839**	$ **196,934**	$ **200,727**
Cost of sales	206,314	125,585	123,634
Gross profit	**136,525**	**71,349**	**77,093**
Selling, engineering and administrative expenses	65,580	35,345	29,817
Restructuring charges	1,031	—	—
Amortization of intangible assets	8,423	1,545	385
Operating income	**61,491**	**34,459**	**46,891**
Interest expense (income), net	3,781	(790)	(1,422)
Foreign currency transaction gain, net	(52)	(395)	(1,104)
Miscellaneous expense, net	742	743	187
Change in fair value of contingent consideration	9,476	—	—
Income before income taxes	**47,544**	**34,901**	**49,230**
Income tax provision	15,986	11,597	16,092
Net income	$ **31,558**	$ **23,304**	$ **33,138**
Basic and diluted net income per common share	$ **1.17**	$ **0.87**	$ **1.24**
Basic and diluted weighted average shares outstanding	**27,031**	**26,892**	**26,687**
Dividends declared per share	$ **0.38**	$ **0.40**	$ **0.45**

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

Sun Hydraulics Corporation
Consolidated Statements of Comprehensive Income
(in thousands)

	For the year ended		
	December 30, 2017	December 31, 2016	January 2, 2016
Net income	$ 31,558	$ 23,304	$ 33,138
Other comprehensive income (loss)			
Foreign currency translation adjustments	8,964	(6,661)	(5,555)
Unrealized gain (loss) on available-for-sale securities	391	871	(403)
Total other comprehensive income (loss)	9,355	(5,790)	(5,958)
Comprehensive income	$ 40,913	$ 17,514	$ 27,180

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

Sun Hydraulics Corporation
Consolidated Statements of Shareholders' Equity
(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 27, 2014	—	$ —	26,573	$ 27	$ 73,499	$ 128,818	$ (4,085)	$ 198,259
Shares issued, restricted stock			61					—
Shares issued, other comp			25					—
Shares issued, ESPP			33		1,019			1,019
Shares issued, shared distribution			94		3,535			3,535
Stock-based compensation					4,324			4,324
Tax expense of stock-based compensation					(112)			(112)
Dividends declared						(12,018)		(12,018)
Net income						33,138		33,138
Other comprehensive loss							(5,958)	(5,958)
Balance, January 2, 2016	—	$ —	26,786	$ 27	$ 82,265	$ 149,938	$ (10,043)	$ 222,187
Shares issued, restricted stock			40					—
Shares issued, other comp			25					—
Shares issued, ESPP			34		1,039			1,039
Shares issued, shared distribution			51		1,679			1,679
Stock-based compensation					4,848			4,848
Tax expense of stock-based compensation					(113)			(113)
Dividends declared						(10,757)		(10,757)
Net income						23,304		23,304
Other comprehensive loss							(5,790)	(5,790)
Balance, December 31, 2016	—	$ —	26,936	$ 27	$ 89,718	$ 162,485	$ (15,833)	$ 236,397
Shares issued, restricted stock			67					—
Shares issued, other comp			26					—
Shares issued, ESPP			31		1,156			1,156
Shares issued, shared distribution			17		628			628
Stock-based compensation					3,852			3,852
Dividends declared						(10,273)		(10,273)
Net income						31,558		31,558
Other comprehensive income							9,355	9,355
Balance, December 30, 2017	—	$ —	27,077	$ 27	$ 95,354	$ 183,770	$ (6,478)	$ 272,673

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		
	December 30, 2017	December 31, 2016	January 2, 2016
Cash flows from operating activities:			
Net income	$ 31,558	$ 23,304	$ 33,138
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	19,190	11,318	9,557
Loss (gain) on disposal of assets	1,539	329	(171)
Stock-based compensation expense	4,042	4,848	4,324
Deferred director and phantom stock unit expense	—	10	17
Stock compensation income tax expense	—	113	112
Amortization of debt issuance costs	334	47	—
Allowance for doubtful accounts	159	(61)	12
Provision for slow moving inventory	159	117	(193)
(Benefit) provision for deferred income taxes	(6,791)	77	(846)
Amortization of acquisition-related inventory step-up	1,774	1,021	—
Change in fair value of contingent consideration	9,476	—	—
Non-cash restructuring and related charges	390	—	—
(Increase) decrease in, net of acquisition:			
Accounts receivable	(11,063)	(3,158)	3,958
Inventories	(13,063)	(1,380)	1,244
Income taxes receivable	512	(1,628)	(235)
Other current assets	254	(153)	(741)
Other assets	(820)	(106)	289
Increase (decrease) in, net of acquisition:			
Accounts payable	5,780	2,566	(451)
Accrued expenses and other liabilities	1,497	656	476
Income taxes payable	3,404	838	(559)
Other noncurrent liabilities	1,051	(252)	(29)
Net cash provided by operating activities	49,382	38,506	49,902
Cash flows from investing activities:			
Acquisition of business, net of cash acquired	(500)	(200,056)	—
Investment in licensed technology	—	(1,227)	(1,425)
Capital expenditures	(22,205)	(6,187)	(6,106)
Proceeds from dispositions of equipment	47	7	1,645
Purchases of short-term investments	—	(24,699)	(30,125)
Proceeds from sale of short-term investments	6,684	62,374	26,698
Net cash used in investing activities	(15,974)	(169,788)	(9,313)
Cash flows from financing activities:			
Borrowings on revolving line of credit	—	140,000	—
Repayment of borrowings on revolving credit facility	(24,000)	—	—
Stock compensation income tax expense	—	(113)	(112)
Proceeds from stock issued	1,156	1,039	1,019
Dividends to shareholders	(10,260)	(10,744)	(11,999)
Change in restricted cash	88	—	275
Debt issuance costs	—	(1,959)	—
Payment of contingent consideration liability	(16,985)	—	—
Net cash (used in) provided by financing activities	(50,001)	128,223	(10,817)
Effect of exchange rate changes on cash and cash equivalents	6,254	(4,652)	(4,683)
Net (decrease) increase in cash and cash equivalents	(10,339)	(7,711)	25,089
Cash and cash equivalents, beginning of period	74,221	81,932	56,843
Cash and cash equivalents, end of period	$ 63,882	$ 74,221	$ 81,932
Supplemental disclosure of cash flow information:			
Cash paid:			
Income taxes	$ 17,470	$ 12,785	$ 17,857
Interest	$ 3,723	$ 364	$ —
Supplemental disclosure of noncash transactions:			
Common stock issued for shared distribution through accrued expenses and other liabilities	$ 628	$ 1,679	$ 3,535
Contingent consideration incurred in connection with acquisition	$ —	$ 35,077	$ —
Unrealized gain (loss) on available for sale securities	$ 391	$ 871	$ (403)
Measurement period adjustment to goodwill and contingent consideration	$ 4,504	$ —	$ —

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

1. COMPANY BACKGROUND

Sun Hydraulics Corporation ("Sun" or the "Company"), and its wholly-owned subsidiaries, is an industrial technology leader that develops and manufactures solutions for both the hydraulics and electronics markets. Sun operates in two business segments: Hydraulics and Electronics. The Hydraulics segment consists of all of the global, historical Sun Hydraulics companies and serves the hydraulics market as a leading manufacturer of high-performance screw-in hydraulic cartridge valves, electro-hydraulics, manifolds, and integrated package solutions for the worldwide industrial and mobile hydraulics markets. On December 29, 2017 the Company merged the operations of two of its wholly owned subsidiaries in the Electronics segment, HCT and Enovation Controls. Enovation Controls was the surviving legal entity and will continue to sell HCT products under the HCT brand. Enovation Controls is a global provider of innovative electronic control, display and instrumentation solutions for both recreational and off-highway vehicles, as well as stationary and power generation equipment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts and operations of Sun Hydraulics and its direct subsidiaries. All significant intercompany accounts and transactions are eliminated in consolidation.

Use of Estimates

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, Cash Equivalents and Short-term Investments

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents are maintained at financial institutions and, at times, balances may exceed federally insured limits. The Company has never experienced any losses related to these balances.

The Company's short-term investments have been classified and accounted for as available-for-sale. Management determines the appropriate classification of its investments at the time of purchase and reevaluates the designation at each balance sheet date. The Company may or may not hold securities with stated maturities greater than 12 months until maturity. As management views these securities as available to support current operations, the Company classifies securities with maturities beyond 12 months as current assets under the caption short-term investments in the accompanying Consolidated Balance Sheets. The Company's short-term investments are carried at fair value, with the unrealized gains and losses, net of tax, reported as a component of shareholder's equity. Realized gains and losses on sales of short-term investments are generally determined using the specific identification method, and are included in miscellaneous expense, net in the Consolidated Statements of Operations.

Short-term investments are subject to a periodic impairment review. And impairment charge is recognized when a decline in the fair value of an investment below its cost basis is judged to be other than temporary. When evaluating an investment for other-than-temporary impairment, the Company reviews factors such as the length of time and extent to which fair value has been below its cost basis, the financial condition of the issuer and any changes thereto, and the Company's intent to sell, or whether it is more likely than not it will be required to sell, the investment before recovery of the investment's cost basis.

Accounts Receivable

The Company sells to most of its customers on a recurring basis, primarily through distributors and customers with which the Company maintains long-term relationships. As a result, bad debt expense 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. Account balances are charged against the allowance when it is probable the rece ivable will not be recovered. See the consolidated balance sheets for allowance amounts.

Inventory

Inventories are valued at the lower of cost and net realizable value, on a first-in, first-out basis. 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 that have excess quantities on hand are evaluated. An inventory reserve is then established for the appropriate inventory 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.

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:

	Years
Computer Equipment	3 - 5
Machinery and equipment	4 - 12
Furniture and fixtures	3 - 10
Building and land improvements	7 - 40
Buildings	25 - 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.

Fair Value Measurements

The Company applies fair value accounting guidelines for all financial assets and liabilities and non-financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). Under these guidelines, fair value is defined as the price that would be received for the sale of an asset or paid to transfer a liability (i.e. an exit price) in an orderly transaction between market participants at the measurement date. The guidance establishes a three-tier fair value hierarchy which prioritizes the inputs used in measuring fair value as follows:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets or liabilities in active markets or quoted prices for identical assets or liabilities in inactive markets.

Level 3 - Unobservable inputs that are supported by little, infrequent, or no market activity and reflect the Company's own assumptions about inputs used in pricing the asset or liability.

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The fair value of the Company's cash and cash equivalents, accounts receivable, other current assets, accounts payable and accrued expenses and other liabilities approximate their carrying value, due to their short-term nature. The Company's valuation techniques used to measure the fair value of marketable equity securities were derived from quoted prices in active markets for identical assets or liabilities. Contingent consideration and newly acquired intangible assets are measured at fair value using level 3 inputs. The valuation techniques used to measure the fair value of all other financial instruments were valued based on quoted market prices or model driven valuations using significant inputs derived from or corroborated by observable market data. See Note 4 for detail on the level of inputs used in determining the fair value of assets and liabilities.

Business Combinations

Business combinations are accounted for under the acquisition method of accounting, which requires recognition separately from goodwill, the assets acquired and the liabilities assumed at their acquisition date fair values. While best estimates and

assumptions are used to accurately value assets acquired and liabilities assumed at the acquisition date as well as contingent consideration, where applicable, the estimates are inherently uncertain and subject to refinement. As a result, during the measurement period, which may be up to one year from the acquisition date, adjustments are recorded to the assets acquired and liabilities assumed with the corresponding offset to goodwill. Upon the conclusion of the measurement period or final determination of the values of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recognized in the consolidated statements of operations.

Goodwill and Other Intangible Assets

Goodwill, which represents the excess of the purchase price of an acquisition over the fair value of the net assets acquired, is carried at cost. Goodwill is tested for impairment annually or more often if events or circumstances indicate a reduction in the fair value below the carrying value. The carrying value of assets is calculated at the reporting unit level. An impairment loss is recorded to the extent that the fair value of the goodwill within the reporting unit is less than its carrying value.

The Company completed its annual goodwill impairment testing and determined that the carrying amount of goodwill was not impaired. See Note 7 to the Financial Statements for goodwill amounts.

Other intangible assets with definite lives consist primarily of technology, customer relationships, brands and a favorable supply agreement, and are amortized over their respective estimated useful lives, ranging from one to twenty years.

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.

Accrued Expenses and Other Liabilities

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 two self-funded plans, one for Sun Hydraulics US employees and one for Enovation Controls US employees. The Company purchases re-insurance for both specific and aggregate stop losses on claims. The individual stop loss basis is $225 and $200 for Sun and Enovation, respectively, and the aggregate stop loss limit for the Sun plan is approximately $6,600. The Enovation plan has no aggregate stop loss limit.

The Company accrues for the estimated cost of product warranties at the time revenue is recognized. The estimates are based upon current and historical warranty trends and other related information known to the Company.

Revenue Recognition

The Company recognizes revenue, net of sales incentives, when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable and collectability of the sales price is reasonably assured. Delivery does not occur until title passes and risk of loss transfers to the customer, which is generally at the time the product is shipped.

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 financial statements of Sun's foreign subsidiaries are translated into U.S. dollars using period-end exchange rates for assets and liabilities and average exchange rates for operating results. Unrealized translation gains and losses are included in accumulated other comprehensive income (loss) in shareholders' equity. When a transaction is denominated in a currency other than the subsidiary's functional currency, Sun recognizes a transaction gain or loss in foreign currency transaction (gain) loss, net when the transaction is settled.

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 uncertain tax positions 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.

Research and Development

The Company conducts research and development to create new products and to make improvements to products currently in use. Research and development costs are charged to expense as incurred.

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 or deficiencies of tax deductions in excess of recognized compensation costs are reported within operating cash flows.

Reclassifications

Certain reclassifications have been made to the prior period consolidated financial statements to conform to the current year presentation.

Recently Adopted Accounting Standards

In July 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-11, *Inventory*: *Simplifying the Measurement of Inventory*. ASU 2015-11 requires that inventory be measured at the lower of cost and net realizable value. Additionally, the guidance defines net realizable value as estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The guidance became effective, and was adopted prospectively, for the first quarter of fiscal year 2017. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, *Compensation – Stock Compensation: Improvements to Employee Share-Based Payment Accounting.* ASU 2016-09 is intended to simplify several aspects of accounting for share-based payment awards. The new guidance became effective and was adopted for the first quarter of fiscal year 2017. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

Recently Issued Accounting Standards

In January 2017, the FASB issued ASU 2017-04, *Intangibles – Goodwill and Other: Simplifying the Test for Goodwill Impairment.* ASU 2017-04 eliminates the second step in the goodwill impairment test which requires an entity to determine the implied fair value of the reporting unit's goodwill. Instead, an entity should recognize an impairment loss if the carrying value of the net assets assigned to the reporting unit exceeds the fair value of the reporting unit, with the impairment loss not to exceed the amount of goodwill allocated to the reporting unit. The standard is effective for annual and interim goodwill impairment tests conducted in fiscal years beginning after December 15, 2019, with early adoption permitted. The Company does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments,* which reduces existing diversity in the classification of certain transactions in the statements of cash flows. The guidance is effective for annual and interim periods beginning after December 15, 2017. Early adoption is permitted. The Company does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases*. ASU 2016-02 requires an entity to recognize both assets and liabilities arising from financing and operating leases, along with additional qualitative and quantitative disclosures. The guidance is effective for reporting periods beginning after December 15, 2018 with early adoption permitted. The Company is currently evaluating the effects, if any, adoption of this guidance will have on the Company's consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. Subsequent updates to the guidance were issued in 2016. The core principle of the new guidance is that an entity will recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. The standard provides a five-step analysis of transactions to determine when and how revenue is recognized. Additionally, the guidance requires disaggregated disclosures related to the nature, amount, timing, and uncertainty of revenue that is recognized. The guidance is effective for annual and interim periods beginning on or after December 15, 2017.

The guidance permits two methods of adoption: retrospectively to each prior reporting period presented (full retrospective method), or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (the cumulative catch-up transition method). The Company will adopt the standard for the annual and interim periods beginning on December 31, 2017, using the cumulative catch-up transition method. The Company has completed its evaluation of the impacts of adopting the new standard and determined the adoption of this new guidance will not have a material effect on the way in which revenue is recognized. The substantial majority of the Company's contracts with its customers have a single performance obligation for the transfer of manufactured products, do not contain significant components of variable consideration and are payable within one year. Therefore revenue is recognized based on the invoice price at the point in time when the product is transferred, which is typically upon shipment to the customer.

3. BUSINESS ACQUISITION

On December 5, 2016 (the "Acquisition Date"), the Company completed the acquisition of Enovation Controls, LLC, a global provider of electronic control, display and instrumentation solutions. Historically Enovation Controls sold products to four customer markets: natural gas production controls (NGPC), engine controls and fuel systems (ECFS), power controls (PC) and vehicle technologies (VT). Prior to the closing date, and pursuant to an Asset Transfer Agreement, Enovation Controls transferred the assets and liabilities of their lines of business associated with the NGPC and ECFS customer markets to a separate legal entity, leaving Enovation Controls with only the lines of business associated with the PC and VT customer markets and the related agreed upon assets and liabilities to be acquired by Sun.

The acquisition of Enovation enables the Company to expand the current complete system solution portfolio and develop product and end market diversification. The results of Enovation's operations have been included in the consolidated financial statements since the Acquisition Date.

Pursuant to a Unit Purchase Agreement, Sun acquired all of the outstanding membership units of Enovation Controls for initial cash consideration of $201,020 and additional cash earn-out potential of $50,000. Total consideration for the acquisition was subject to a post-closing adjustment for working capital in accordance with the terms of the Purchase Agreement. During the first quarter of 2017 the Company recognized an additional $500 of consideration for the post-closing working capital adjustment. The consideration paid for the acquisition was funded with cash on hand and proceeds from the existing revolving line of credit.

The contingent consideration arrangement requires the Company to pay up to $50,000 of additional consideration to Enovation Controls' former owners based on defined revenue and EBITDA targets. The potential payments are due in three installments, to be paid immediately following the 9, 18 and 27 month periods after closing, of which the first payment was made in October 2017. See Note 4 to the Financial Statements for a summary of the changes in estimated fair value of the contingent consideration liability.

The purchase price was allocated to tangible and intangible assets acquired and liabilities assumed based on their estimated fair values. The fair value of identifiable intangible assets acquired was based on estimates and assumptions made by management at the time of the acquisition. During 2017 management completed the valuation resulting in an increase to the fair value of contingent consideration of $6,314, a decrease to deferred income tax liabilities of $1,810 and an increase to goodwill of $4,504, incorporated below.

The fair value of total purchase consideration consisted of the following:

Cash	$	201,020
Fair value of contingent consideration		41,391
Post-closing adjustment for working capital		500
Total purchase consideration		242,911
Less: cash acquired		(964)
Total purchase consideration, net of cash acquired	$	241,947

The allocation of the total purchase price, net of cash acquired, is as follows:

Accounts receivable	$	9,502
Inventories		16,979
Other current assets		176
Property, plant and equipment		10,546
Goodwill		103,671
Intangible assets		108,070
Other assets		8
Total assets acquired		248,952
Accounts payable		(3,260)
Accrued expenses and other liabilities		(3,745)
Total liabilities assumed		(7,005)
Fair value of net assets acquired	$	241,947

Goodwill is primarily attributable to the assembled workforce, new product development capabilities and anticipated synergies and economies of scale expected from the operations of the combined company. The synergies include certain cost savings, operating efficiencies, and other strategic benefits projected to be achieved as a result of the acquisition. All goodwill is expected to be deductible for tax purposes.

Transaction costs of $1,537 incurred in connection with the acquisition are included in selling, engineering and administrative expenses in the Consolidated Statement of Operations for the year ended December 31, 2016.

The net sales and loss before income taxes of Enovation Controls, included in the Consolidated Statement of Operations for the period from December 5, 2016 through December 31, 2016 totaled approximately $4,136 and $2,151, respectively. Included in Enovation Controls' loss for the period are $2,006 of charges related to the purchase accounting effects of inventory step-up to fair value and amortization of acquisition-related intangible assets.

Intangible Assets

The fair value of identified intangible assets and their respective useful lives are as follows:

	Fair Value	Weighted-Average Amortization Periods (Yrs)
Brands	$ 30,000	20
Non-compete Agreements	950	5
Technology	17,500	9
Supply Agreement	21,000	10
Sales Order Backlog	620	1
Customer Relationships	38,000	20
Identified intangible assets	$ 108,070	16

Enovation Controls sells products under the following brands: Enovation Controls, Murphy and Zero Off. The fair value of brands acquired was determined by using the relief from royalty income approach methodology. This method reflects the present value of savings resulting from the right to manufacture or sell products under the brand names without having to pay a license fee for their use. This valuation method is based on the application of a royalty rate to forecasted revenue of the brands. The economic useful life was determined based on the expected life of the trade name and the cash flows anticipated over the forecasted periods.

Technology relates to two technology platforms, Vehicle Technologies and Power Controls. The VT platform designs and manufactures recreational vehicle and recreational marine technologies including displays, GPS devices, gages and controls. The PC platform designs and manufactures industrial controls, instrumentations, panels and related software for engines, pumps and other industrial applications. The technology was valued using the relief from royalty income approach methodology. This method reflects the present value of savings resulting from the right to manufacture or sell products that incorporate the technology without having to pay a license fee for its use and is based on the application of a royalty rate to forecasted revenue from the technology. The economic useful life was determined based on the technology cycle related to each technology platform.

The supply agreement intangible asset relates to favorable terms for inventory purchases that provide a competitive advantage over other market participants. At the Acquisition Date, Enovation Controls entered into a supply agreement with the separate legal entity that holds the lines of business associated with Enovation Controls' NGPC and ECFs customer markets, which were not acquired by Sun, to purchase and sell certain products at discounted pricing. The supply agreement was valued using an income approach methodology which estimated the fair value of the supply agreement by applying a discounted cash flow analysis whereby the value is the present value of applicable forecasted cash flows. The economic useful life is in line with the terms of the agreement.

Customer relationships are based upon the fair value of future projected operational results that will be derived from sales of products to existing customers of Enovation Controls. Customer relationships were valued using the excess earnings income approach methodology. Under this approach the fair value was measured as the present value of forecasted cash flows net of pro-forma charges for tangible and intangible assets employed. The economic useful life was determined based on historical customer turnover rates.

Unaudited Pro Forma Information

The following unaudited pro forma financial information presents combined results of operations for each of the periods presented, as if Enovation Controls had been acquired as of the beginning of 2015. The financial results of Enovation Controls included in the pro forma information provided below reflect net sales and direct costs and operating expenses related to the acquired lines of business only.

The PC and VT lines of business are not separate legal entities and were never operated as stand-alone businesses, divisions or subsidiaries and Enovation Controls has never maintained the distinct and separate accounts necessary to prepare full carve out financial statements. Due to the impracticability of obtaining full financial information for the carve-out operations, certain costs of Enovation Controls, primarily related to corporate overhead, foreign currency translation gains and losses and interest expense are not included in the pro forma results prior to the Acquisition Date.

The pro forma information includes adjustments to amortization and depreciation for intangible assets and property, plant and equipment acquired and net sales and cost of sales for the effects of the supply agreement entered into at the Acquisition Date. Non-recurring pro forma adjustments directly attributable to the acquisition were not included in the pro forma financial information presented below. These adjustments included the purchase accounting effect of inventory step-up to fair value of $1,021 and acquisition costs of $1,537. The pro forma information does not reflect any operating efficiencies or potential cost savings that may result from the acquisition. Accordingly, the pro forma information is for illustrative purposes only and is not intended to present or be indicative of the actual results of operations of the combined company that may have been achieved had the acquisition actually occurred at the beginning of 2015, nor is it intended to represent or be indicative of future results of operations of the combined business. Consequently, actual results will differ from the unaudited pro forma information presented below:

	2016	2015
Net sales	$ 277,706	$ 283,525
Operating income	47,673	57,193
Net income	31,064	37,083
Basic and diluted net income per common share	1.16	1.39

4. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following tables provide information regarding the Company’s assets and liabilities measured at fair value on a recurring basis at December 30, 2017, and December 31, 2016. The fair value of cash and cash equivalents, accounts receivable, other current assets, accounts payable and accrued expenses and other liabilities approximates their carrying value, due to their short-term nature.

	December 30, 2017			
	Total	Quoted Market Prices (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Liabilities				
Contingent consideration	$ 33,882	$ —	$ —	$ 33,882
Total	$ 33,882	$ —	$ —	$ 33,882

	December 31, 2016			
	Adjusted Cost	Unrealized Gains	Unrealized Losses	Fair Value
Assets				
Level 1:				
Equity securities	$ —	$ 31	$ —	$ 31
Mutual funds	1,483	—	(159)	1,324
Subtotal	1,483	31	(159)	1,355
Level 2:				
Corporate fixed income	4,288	9	(408)	3,889
Municipal bonds	1,675	—	(94)	1,581
Subtotal	5,963	9	(502)	5,470
Total	$ 7,446	$ 40	$ (661)	$ 6,825
Liabilities				
Level 3:				
Contingent consideration				$ 35,077
Total				$ 35,077

The Company recognized a net realized loss on investments during the twelve months ended December 30, 2017 of $679 and a net realized loss of $395 during the twelve months ended December 31, 2016. When evaluating an investment for other-than-temporary impairment, the Company reviews factors such as the length of time and extent to which fair value has been below its cost basis, the financial condition of the issuer and any changes thereto, and the Company’s intent to sell, or whether it is more likely than not it will be required to sell, the investment before recovery of the investment’s cost basis. During the twelve months ended December 30, 2017 and December 31, 2016, the Company recognized impairment charges of $220 and $276, respectively, which are included in the net realized loss for the periods.

A summary of changes in the estimated fair value of contingent consideration at December 30, 2017 is as follows:

Balance at December 31, 2016	$	35,077
Measurement period adjustment		6,314
Change in estimated fair value		8,299
Accretion in value		1,177
Payment on liability		(16,985)
Balance at December 30, 2017	$	33,882

The fair value of the contingent consideration arrangement was estimated using a risk-adjusted probability analysis. During the second quarter of 2017 management completed the valuation of the Acquisition Date fair value of contingent consideration resulting in a measurement period adjustment which increased the fair value of the liability and goodwill by $6,314. During the year ended December 30, 2017, adjustments to the fair value of contingent consideration were recorded based on Enovation Controls' results of operation during the period and managements' revision of revenue and EBITDA forecasts. The adjustments were not considered measurement period adjustments and were therefore recognized in earnings for the period. During the fourth quarter of 2017, the Company made the first payment on the contingent consideration liability.

5. INVENTORIES

		December 30, 2017		December 31, 2016
Raw materials	$	26,426	$	16,864
Work in process		6,910		5,641
Finished goods		9,920		8,069
Provision for slow moving inventory		(1,711)		(574)
Total	$	41,545	$	30,000

6. PROPERTY, PLANT, AND EQUIPMENT

		December 30, 2017		December 31, 2016
Machinery and equipment	$	103,024	$	100,695
Office furniture and equipment		15,160		12,886
Buildings		48,977		39,641
Building and land improvements		9,513		9,270
Land		16,977		10,453
	$	193,651	$	172,945
Less: Accumulated depreciation		(107,251)		(96,489)
Construction in progress		5,531		4,059
Total	$	91,931	$	80,515

Depreciation expense for the years ended December 30, 2017, December 31, 2016, and January 2, 2016 totaled $10,767, $9,184, and $8,442, respectively.

7. GOODWILL AND INTANGIBLE ASSETS

Goodwill

A summary of changes in goodwill by segment for the years ended December 30, 2017 and December 31, 2016 is as follows:

	Hydraulics	Electronics	Total
Balance as January 2, 2016	$ 2,286	$ 2,702	$ 4,988
Acquisitions	—	98,667	98,667
Currency translation	(72)	—	(72)
Balance as December 31, 2016	$ 2,214	$ 101,369	$ 103,583
Working capital adjustment	—	500	500
Measure period adjustment	—	4,504	4,504
Currency translation	282	—	282
Balance as December 30, 2017	$ 2,496	$ 106,373	$ 108,869

Goodwill is tested for impairment annually, in the third and fourth quarters, or more frequently if events or changes in circumstances indicate that goodwill might be impaired. Valuation models reflecting the expected future cash flow projections are used to value reporting units. A valuation of the reporting unit at December 30, 2017, indicated that there was no impairment of the carrying value of the Company's goodwill associated with its Hydraulics segment. A valuation of the reporting units that comprise the Company's Electronics segment at September 30, 2017, indicated that the fair value of the reporting unit was in excess of the carrying value. As of December 30, 2017, no factors were identified that indicated impairment of the carrying value of the Company's goodwill associated with its Electronics segment.

Intangibles

At December 30, 2017, and December 31, 2016, intangible assets consisted of the following:

		December 30, 2017			December 31, 2016		
	Useful life (years)	Gross carrying amount	Accumulated amortization	Net carrying amount	Gross carrying amount	Accumulated amortization	Net carrying amount
Definite-lived intangibles:							
Trade Name and Brands	1 - 20	$ 30,774	$ (2,115)	$ 28,659	$ 30,774	$ (541)	$ 30,233
Non-compete Agreements	2 - 5	950	(206)	744	950	(16)	934
Technology	7 - 10	18,435	(2,671)	15,764	18,435	(620)	17,815
Supply Agreement	10	21,000	(2,275)	18,725	21,000	(175)	20,825
Sales Order Backlog	1	620	(620)	—	620	(347)	273
Customer Relationships	15 - 20	39,751	(2,607)	37,144	39,751	(614)	39,137
Licensing Agreement	15	3,716	(621)	3,095	3,727	(379)	3,348
		$ 115,246	$ (11,115)	$ 104,131	$ 115,257	$ (2,692)	$ 112,565

Total amortization expense for the years ended 2017, 2016 and 2015 was approximately $8,423, $1,545 and $385, respectively. Total estimated amortization expense for the years 2018 through 2022 is presented below.

Year:	
2018	$ 8,148
2019	8,148
2020	8,148
2021	8,113
2022	7,842
Total	$ 40,399

8. ACCRUED EXPENSES AND OTHER LIABILITIES

	December 30, 2017	December 31, 2016
Compensation and benefits	$ 3,932	$ 3,084
Self-insurance liability	1,048	1,833
Warranties	1,079	457
Other	2,918	2,082
Total	$ 8,977	$ 7,456

9. LONG-TERM DEBT

The Company has a credit agreement that provides a revolving line of credit of up to $300,000 that is available through November 22, 2021. The credit agreement includes an accordion feature to increase the line of credit by up to an additional $100,000 in the form of additional revolving credit loans or in the form of term loans. Borrowings under the line of credit bear interest at defined rates plus an applicable margin based on the Company's leverage ratio. At December 30, 2017 and December 31, 2016 the balance on the revolving line was $116,000 and $140,000, respectively. The interest rate in effect at December 30, 2017 was 3.15%.

The credit agreement requires the Company (together with its subsidiaries) to comply with certain financial tests, including a minimum interest coverage ratio (as defined) of 3.0 to 1.0 and a maximum leverage ratio of 3.5 to 1.0. As of the date of this filing, the Company was in compliance with all debt covenants related to the line of credit.

The credit agreement also requires the Company to comply with a number of restrictive covenants. These covenants limit, in certain circumstances, the Company's ability to take a variety of actions, including but not limited to: incur indebtedness; create or maintain liens on its property or assets; make investments, loans and advances; repurchase shares of its Common Stock; engage in acquisitions, mergers, joint ventures, consolidations and asset sales; and pay dividends and distributions.

The line of credit is guaranteed by the Company's U.S. domestic subsidiaries and requires any future U.S. domestic subsidiaries to join as guarantors. In addition, the line of credit is required to be secured by substantially all of the assets of the Company and its current and any future U.S. domestic subsidiaries of the Company. Accordingly, (i) the Company entered into a security agreement granting a security interest in substantially all of its respective assets, (ii) the Company entered into a pledge agreement granting a security interest in certain equity ownership in certain of its subsidiaries, and (iii) the Company and/or certain of its subsidiaries entered into certain other additional agreements further granting security interests in certain specific assets, including intellectual property rights, in each case to secure amounts borrowed under the credit agreement.

The credit agreement incorporates sub-facilities for swing loans up to $20,000 and issuances of letters of credit up to $10,000. Swing loans and letters of credit issued under the credit agreement decrease availability under the $300,000 revolving line of credit on a dollar for dollar basis.

Total interest expense recognized on the credit agreement during 2017 and 2016 totaled $4,082 and $483, respectively.

10. DIVIDENDS TO SHAREHOLDERS

The Company declared dividends of $10,273, $10,757, and $12,018 to shareholders in 2017, 2016, and 2015, respectively.

The Company declared the following regular quarterly dividends to shareholders during 2017, 2016 and 2015. The Company has historically declared the regular quarterly dividends to shareholders of record on the last day of the respective quarter, paid on the 15th day of each month following the date of declaration. Beginning in the third quarter of 2017, the Company declared the regular quarterly dividends to shareholders of record on the 5th day following the respective quarter, paid on the 20th day of each month following the date of declaration.

	2017	2016	2015
First quarter	$ 0.09	$ 0.09	$ 0.09
Second quarter	0.09	0.09	0.09
Third quarter	0.09	0.09	0.09
Fourth quarter	0.09	0.09	0.09

In addition to the regular quarterly dividends, the Company declared shared distribution cash dividends in 2017, 2016 and 2015, equal to $0.02, $0.04 and $0.09, respectively. The 2017 dividend was paid on March 31, 2017, to shareholders of record on March 15, 2017, the 2016 dividend was paid on March 31, 2016, to shareholders of record on March 15, 2016, and the 2015 dividend was paid on March 31, 2015, to shareholders of record as of March 15, 2015. The shared distribution was introduced in 2008 as a way to reward both shareholders and employees when the Company has a successful year.

11. 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		
	December 30, 2017	December 31, 2016	January 2, 2016
United States	$ 37,005	$ 30,562	$ 45,964
Foreign	10,539	4,339	3,266
Total	$ 47,544	$ 34,901	$ 49,230

The Company derives its pretax income based on the consolidated results of its legal entities. The Company has made the decision to consolidate engineering and manufacturing for the most part in the U.S. The Company's foreign subsidiaries primarily act as part of Sun's sales and distribution channel, resulting in different pretax income levels. Products manufactured in the U.S. are sold worldwide and are the primary reason that pretax income in the U.S. is higher than foreign pretax income. The U.S. legal entities had third party export sales of $85,479, $62,661, and $58,207 for the years 2017, 2016, and 2015, respectively. Foreign pretax income is impacted by the level of foreign manufacturing, sales at varying market levels, as well as direct sales to large OEM customers.

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

	For the year ended		
	December 30, 2017	December 31, 2016	January 2, 2016
Current tax expense (benefit):			
United States	$ 17,165	$ 9,740	$ 14,538
State and local	3,095	923	948
Foreign	2,496	1,377	1,359
Total current	22,756	12,040	16,845
Deferred tax expense (benefit):			
United States	(4,922)	(341)	(781)
State and local	(986)	387	(58)
Foreign	(862)	(489)	86
Total deferred	(6,770)	(443)	(753)
Total income tax provision	$ 15,986	$ 11,597	$ 16,092

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (the "Act") was signed into law making significant changes to the Internal Revenue Code. Changes include, but are not limited to, a corporate tax rate decrease from 35% to 21% effective for tax years beginning after December 31, 2017, the transition of U.S international taxation from a worldwide tax system to a territorial system, and a one-time transition tax on the mandatory deemed repatriation of cumulative foreign earnings as of December 31, 2017. Management calculated their best estimate of the impact of the Act in the 2017 year-end income tax provision in accordance with their understanding of the Act and guidance available as of the date of this filing and as a result have recorded $459 as additional income tax expense in the fourth quarter of 2017, the period in which the legislation was enacted. The provisional estimate recorded related to the remeasurement of certain deferred tax assets and liabilities, based on the rates at which they are expected to reverse in the future, was a benefit of $1,541. The provisional estimate recorded related to the one-time transition tax on the mandatory deemed repatriation of foreign earnings was $2,000 of expense, based on cumulative foreign earnings of $87,300. The Company will elect to pay the estimated $2,000 over an eight year period, as prescribed by the legislation.

On December 22, 2017, Staff Accounting Bulletin No. 118 ("SAB 118") was issued to address the application of US GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed in reasonable detail to complete the accounting for certain income tax effects of the Act. In accordance with SAB 118, the Company determined that the $1,541 of deferred tax benefit recorded in connection with the remeasurement of certain deferred tax assets and liabilities and the $2,000 of current tax expense recorded in connection with the transition tax on the mandatory deemed repatriation of foreign earnings were provisional amounts and reasonable estimates at December 30, 2017. Additional work is necessary to complete a more detailed analysis of deferred tax assets and liabilities, historical attributes giving rise to the transition tax calculation inputs as well as potential correlative adjustments of each of these items. Any subsequent adjustment to these amounts will be recorded to current tax expense in the quarter of 2018 when the analysis is complete. Management anticipates completing the accounting analysis at the time the 2017 tax returns are filed, typically in the fourth quarter of the financial reporting year.

Further, in accordance with SAB 118, the Company is continuing to evaluate its permanent reinvestment assertion as further consideration is given to how the Act impacts the future cash flow position of the business. As of December 30, 2017, the Company has not recorded a deferred tax liability on the future repatriation tax impacts of bringing cash back from overseas but will continue to analyze the various impacts of the Act and determine during the measurement period if this assertion should change.

In January 2018, the FASB released guidance on the accounting for tax on the global intangible low-taxed income (“GILTI”) provisions of the Act. The GILTI provisions impose a tax on foreign income in excess of a deemed return on tangible assets of foreign corporations. The guidance indicates that either accounting for deferred taxes related to GILTI inclusions or treating any taxes on GILTI inclusions as a period cost are acceptable methods subject to an accounting policy election. The Company is still evaluating this policy election under SAB 118 and will disclose the final election once it has analyzed all relevant information pertaining to the directly- and indirectly-correlated effects.

The Company has also recorded provisional estimates in accordance with SAB 118 for certain directly- and indirectly-correlated effects in the 2017 year end income tax provision including, but not limited to, state and local income taxes, domestic production activities deduction, and fixed asset depreciation. These effects are still being evaluated and will be impacted by the Company’s final determinations of the appropriate accounting for the Act.

The Company is still analyzing the Act in its entirety and refining its calculations, which could potentially impact the measurement of tax balances. Given the significant complexity of the Act and anticipated additional implementation guidance from the Internal Revenue Service, further implications of the Act may be identified in future periods.

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

	For the year ended		
	December 30, 2017	**December 31, 2016**	**January 2, 2016**
U.S. federal taxes at statutory rate	$ 16,640	$ 12,245	$ 17,231
Increase (decrease)			
Foreign tax credit	—	—	(310)
Domestic production activity deduction	(1,909)	(1,032)	(1,699)
Foreign income taxed at lower rate	(1,177)	(381)	(420)
US income tax reform	459	—	—
State and local taxes, net	1,208	586	890
Change in reserve	829	(284)	304
Other	(64)	463	96
Income tax provision	$ 15,986	$ 11,597	$ 16,092

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 December 30, 2017, and December 31, 2016 are presented below:

	December 30, 2017	December 31, 2016
Deferred tax assets:		
Noncurrent:		
Foreign tax benefit of U.S. reserves	$ 3,741	$ 3,518
Net operating losses	529	793
Inventory	860	—
Intangible assets and goodwill	2,354	—
Accrued expenses and other	1,418	2,561
Total noncurrent deferred tax assets	8,902	6,872
Less: Valuation Allowance	(346)	(292)
Net noncurrent deferred tax assets	8,556	6,580
Deferred tax liabilities:		
Noncurrent:		
Depreciation	(5,948)	(9,916)
Intangible assets and goodwill	—	(2,199)
Other	(22)	(261)
Total noncurrent deferred tax liabilities	(5,970)	(12,376)
Net noncurrent deferred tax assets (liabilities)	$ 2,586	$ (5,796)

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 2017 and 2016, management has determined that no material valuation allowances were 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 December 30, 2017, cumulative earnings were approximately $87,300. 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 for U.S. income taxes upon repatriation of such earnings, which will be offset by applicable foreign tax credits, subject to certain limitations.

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 27, 2014	$ 1,156
Increases from positions taken during prior periods	110
Settled positions	783
Lapse of statute of limitations	—
Unrecognized tax benefits - January 2, 2016	$ 2,049
Increases from positions taken during prior periods	157
Settled positions and reclassifications	1,295
Lapse of statute of limitations	—
Unrecognized tax benefits - December 31, 2016	$ 3,501
Increases from positions taken during prior periods	1,525
Increases from positions taken during current period	558
Settled positions	—
Lapse of statute of limitations	(1,042)
Unrecognized tax benefits - December 30, 2017	$ 4,542

At December 30, 2017, the Company had an unrecognized tax benefit of $4,542 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 December 30, 2017, 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 2007 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 2007 through 2012. To date, there have not been any significant proposed adjustments that have not been accounted for in the Company's consolidated 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 2007 through 2012 with the IRS and that there could be significant increases or decreases to unrecognized tax benefits.

12. STOCK-BASED COMPENSATION

The Company's 2011 Equity Incentive Plan ("2011 Plan") provides for the grant of up to an aggregate of 1,000,000 shares of restricted stock, restricted share units, stock appreciation rights, dividend or dividend equivalent rights, stock awards and other awards valued in whole or in part by reference to or otherwise based on the Company's common stock, to officers, employees and directors of the Company. The 2011 Plan was approved by the Company's shareholders at the 2012 Annual Meeting. At December 30, 2017, 457,567 shares remained available to be issued through the 2011 Plan. Compensation cost is measured at the date of the grant and is recognized in earnings over the period in which the shares vest. Restricted stock expense for the twelve months ended December 30, 2017, December 31, 2016, and January 2, 2016 totaled $2,376, $3,676 and $3,254, respectively.

The following table summarizes restricted stock activity for the years ended December 30, 2017, December 31, 2016, and January 2, 2016:

	Number of shares (in thousands)	Weighted average grant-date fair value
Nonvested balance at December 27, 2014	191	$ 34.81
Granted	70	29.89
Vested	(88)	33.19
Forfeitures	(9)	34.06
Nonvested balance at January 2, 2016	164	$ 33.54
Granted	45	33.22
Vested	(100)	34.63
Forfeitures	(5)	33.10
Nonvested balance at December 31, 2016	104	$ 32.42
Granted	74	35.45
Vested	(84)	32.97
Forfeitures	(6)	32.60
Nonvested balance at December 30, 2017	88	$ 34.44

The Company had $1,988 of total unrecognized compensation cost related to restricted stock awards granted under the 2011 Plan as of December 30, 2017. That cost is expected to be recognized over a weighted average period of 1.35 years.

The Company maintains an Employee Stock Purchase Plan ("ESPP"), in which only Sun Hydraulics US employees are eligible to participate. Employees in the United States who choose to participate are granted an opportunity to purchase common stock at 85 percent of market value on the first or last day of the quarterly purchase period, whichever is lower. Employees in the United Kingdom, under a separate plan, 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 1,096,875 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 31,983 shares at a weighted average price of $36.20, and 33,956 shares at a weighted average price of $25.95, under the ESPP during the twelve months ended December 30, 2017, and December 31, 2016, respectively. The Company recognized $429, $312 and $199 of compensation expense during the twelve months ended December 30, 2017, December 31, 2016, and January 2, 2016, respectively. At December 30, 2017, 546,309 shares remained available to be issued through the ESPP and the U.K. plan.

In March 2012, the Board of Directors adopted the Sun Hydraulics Corporation 2012 Nonemployee Director Fees Plan (the "2012 Directors Plan"), which was approved by the shareholders of the Company at its 2012 annual meeting. Under the 2012 Directors Plan, Nonemployee Directors are compensated for their Board service solely in shares of common stock. In February 2015, the Board adopted amendments to the 2012 Directors Plan, which revised the compensation for Nonemployee Directors. Each Nonemployee Director now receives an annual retainer of 2,000 shares of Common Stock. The Chairman's retainer is twice that of a regular director, and the retainer for the chairs of each Board Committee is 150% that of a regular director. In addition, each Nonemployee Director receives 250 shares of Common Stock for attendance at each Board meeting and each meeting of each committee of the Board on which he or she serves when the committee meeting is not held within one day of a meeting of the Board. In June 2015, the Company's shareholders approved the amendments to the 2012 Directors Plan.

The Board has the authority to change from time to time, in any manner it deems desirable or appropriate, the share compensation to be awarded to all or any one or more Nonemployee Directors, provided that, with limited exceptions, such changes are subject to prior shareholder approval. The aggregate number of shares which may be issued during any single calendar year is limited to 35,000 Shares. The 2012 Directors Plan authorizes the issuance of up to 270,000 shares of common stock. At December 30, 2017, 148,874 shares remained available for issuance under the 2012 Directors Plan. Directors were granted 26,000 and 24,500 shares for the twelve months ended December 30, 2017, and December 31, 2016, respectively. The Company recognized director stock compensation expense of $1,240, $831, and $829 for the twelve months ended December 30, 2017, December 31, 2016, and January 2, 2016, respectively.

13. EARNINGS PER SHARE

The following table represents the computation of basic and diluted net income per common share:

	December 30, 2017	December 31, 2016	January 2, 2016
Net income	**$ 31,558**	**$ 23,304**	**$ 33,138**
Basic and diluted weighted average shares outstanding	27,031	26,892	26,687
Basic and diluted net income per common share	**$ 1.17**	**$ 0.87**	**$ 1.24**

14. EMPLOYEE BENEFITS

The Company has two defined contribution retirement plans covering substantially all of its eligible United States employees. Employer contribution costs recognized under the retirement plan amounted to approximately $3,290, $1,938, and $2,757 during 2017, 2016, and 2015, 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 $328, $369, and $416 during 2017, 2016, and 2015, respectively.

Sun Hydraulics US uses an Employee Stock Ownership Plan ("ESOP") as the discretionary match portion of its 401(k) retirement plan for all eligible United States employees. Under the ESOP, which is 100% company funded, the Company allocates common stock to each participant's account. The allocation is generally a percentage of a participant's compensation as determined by the Board of Directors on an annual basis as part of the shared distribution. The shared distribution rewards employees through a contribution into their retirement accounts and concurrently rewards shareholders with a special cash dividend. Non-US Sun Hydraulics group employees participate in the shared distribution through contributions into local retirement plans.

The Company contributed 16,241 and 44,509 shares into the ESOP in March 2017 and March 2016, respectively. The Company incurred retirement benefit expense under the ESOP of approximately $1,016, $567, and $1,432 during 2017, 2016 and 2015, 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 $166, $199, and $336 in 2017, 2016, and 2015, respectively, relating to shared distributions. The Company's U.K. employees received 775 and 3,547 shares in March 2017 and March 2016, respectively, into a share incentive plan. In Korea, employees received their shared distribution in the form of cash, which was deposited into a Company retirement plan. In Germany, employees received their shared distribution in the form of cash in March 2017, and in March 2016 a portion was paid in cash and for the remainder the employees received 2,561 shares.

15. ACCUMULATED OTHER COMPREHENSIVE LOSS

Changes in Accumulated Other Comprehensive Loss by Component

	Unrealized Gains and Losses on Available-for-Sale Securities	Foreign Currency Items	Total
Balance at December 27, 2014	$ (859)	$ (3,226)	$ (4,085)
Other comprehensive loss before reclassifications	(1,097)	(5,555)	(6,652)
Amounts reclassified from accumulated other comprehensive income	694	—	694
Net current period other comprehensive loss	(403)	(5,555)	(5,958)
Balance at January 2, 2016	(1,262)	(8,781)	(10,043)
Other comprehensive income (loss) before reclassifications	621	(6,661)	(6,040)
Amounts reclassified from accumulated other comprehensive income	250	—	250
Net current period other comprehensive income (loss)	871	(6,661)	(5,790)
Balance at December 31, 2016	(391)	(15,442)	(15,833)
Other comprehensive (loss) income before reclassifications	(37)	8,964	8,927
Amounts reclassified from accumulated other comprehensive income	428	—	428
Net current period other comprehensive income	391	8,964	9,355
Balance at December 30, 2017	$ —	$ (6,478)	$ (6,478)

Reclassifications out of Accumulated Other Comprehensive Loss

Details about Accumulated Other Comprehensive Income Components	Affected Line Item in the Consolidated Statements of Operations	For the year Ended December 30, 2017	December 31, 2016	January 2, 2016
Unrealized gains and losses on available-for-sale securities				
Realized gain/(loss) on sale of securities	Miscellaneous expense, net	$ (459)	$ (119)	$ (227)
Other than temporary impairment	Miscellaneous expense, net	(220)	(276)	(875)
	Total before tax	(679)	(395)	(1,102)
	Tax benefit	251	145	408
	Net of tax	(428)	(250)	(694)
Total reclassifications for the period		$ (428)	$ (250)	$ (694)

16. SEGMENT REPORTING

For the year ended January 2, 2016, the Company's individual subsidiaries operated predominantly in a single industry as manufacturers and distributors of hydraulic components. Given the similar nature of products offered for sale, the type of customers, the methods of distribution and how the Company was managed, the Company determined that it had only one operating and reporting segment for both internal and external reporting purposes. With the acquisition of Enovation Controls on December 5, 2016, the Company re-evaluated the reportable operating segment presentation. As of the date of the acquisition, the Company has two reportable segments: Hydraulics and Electronics. These segments are organized primarily based on the similar nature of products offered for sale, the types of customers served and the methods of distribution and are consistent with how the segments are managed, how resources are allocated and how information is used by the chief operating decision makers. As a result of the re-evaluation of reportable operating segments, financial information for HCT is included in the Electronics segment as of the beginning of the 2015 fiscal year.

The Hydraulics segment designs and manufactures screw-in hydraulic cartridge valves, manifolds, and integrated fluid power packages and subsystems used in hydraulic systems. Screw-in hydraulic cartridge valves are offered in five size ranges and include both electrically actuated and non-electrically actuated products. Manifolds are solid blocks of metal which are machined to create threaded cavities and channels into which screw-in cartridge valves can be installed and through which the hydraulic fluid flows. These products allow customers to easily integrate the Company's screw-in cartridge valves into their machinery and equipment. An integrated package consists of multiple cartridge valves assembled into a custom designed manifold for a specific customer to provide the desired operating characteristics of a customer's circuit.

The Electronics segment designs and manufactures electronic control, display and instrumentation solutions for recreational and off-highway vehicles and stationary and power generation equipment. End markets within the Electronics segment are divided into two lines of business: Power Controls and Vehicle Technologies. Power Controls serves a variety of end markets with products such as displays, panels, gauges, controllers, battery chargers and various end devices. Vehicle Technologies serves the recreational vehicles end market with products such as electronic controls, displays and instrumentation.

The Company evaluates performance and allocates resources based primarily on segment operating income. Certain costs were not allocated to the business segments as they are not used in evaluating the results of, or in allocating resources to Sun's segments. These costs are presented in the Corporate and other line item below. For the year ended December 30, 2017, the unallocated costs included certain corporate costs not deemed to be allocable to either business segment of $1,430, acquisition related costs including charges related to inventory step-up to fair value of $1,774, and amortization of acquisition-related intangible assets of $8,182. The accounting policies of Sun's operating segments are the same as those used to prepare the accompanying consolidated financial statements.

The following table presents financial information by reportable segment:

	2017	2016	2015
Net sales:			
Hydraulics	$ 230,662	$ 189,523	$ 197,319
Electronics	112,177	7,411	3,408
	$ 342,839	$ 196,934	$ 200,727
Operating Income:			
Hydraulics	$ 54,934	$ 39,134	$ 47,103
Electronics	17,943	(627)	(212)
Corporate and other	(11,386)	(4,048)	—
	$ 61,491	$ 34,459	$ 46,891
Depreciation and Amortization:			
Hydraulics	$ 8,791	$ 9,616	$ 9,094
Electronics	10,399	1,702	463
	$ 19,190	$ 11,318	$ 9,557
Capital Expenditures:			
Hydraulics	$ 8,140	$ 5,898	$ 5,801
Electronics	14,065	289	305
	$ 22,205	$ 6,187	$ 6,106
Total Assets:			
Hydraulics	$ 185,300	$ 193,722	$ 233,873
Electronics	274,466	251,055	7,667
	$ 459,766	$ 444,777	$ 241,540

Geographic Region Information:

Net sales are measured based on the geographic destination of sales. Tangible long-lived assets are shown based on the physical location of the assets and primarily include net property, plant and equipment:

	2017	2016	2015
Net sales			
Americas	$ 198,922	$ 94,816	$ 97,741
Europe/Middle East/Africa	76,988	58,720	61,307
Asia/Pacific	66,929	43,398	41,679
Total	$ 342,839	$ 196,934	$ 200,727
Tangible long-lived assets			
Americas	$ 78,429	$ 71,802	$ 64,781
Europe/Middle East/Africa	7,803	7,116	7,923
Asia/Pacific	5,699	1,597	1,417
Total	$ 91,931	$ 80,515	$ 74,121

17. RELATED PARTY TRANSACTIONS

Enovation Controls purchases and sells inventory to an entity partially owned by one of its officers. For the years ended December 30, 2017 and December 31, 2016, inventory sales to the entity totaled $2,507 and $214, respectively, and inventory purchases from the entity totaled $11,050 and $533, respectively.

In addition to these inventory transactions, Enovation Controls entered into a transition service agreement with the related party to provide, and receive, certain transition services for a period of up to one year for specified services. For the year ended December 30, 2017, sales, and related costs incurred, recognized by Enovation Controls under the agreement both totaled $1,757 and are included in miscellaneous expense, net in the Consolidated Statement of Operations. For the year ended December 30, 2017, purchases from the related party under the agreement totaled $1,160.

At December 30, 2017 and December 31, 2016, total amounts due from the entity totaled $186 and $203, respectively, and total amounts due to the entity totaled $727 and $140, respectively.

18. 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 manufacturing facilities, production support facilities and office space in various locations around the world. Total rental expense under these leases for the years ended 2017, 2016 and 2015 was approximately $1,197, $584 and $470, respectively. The following table summarizes the future minimum lease payments under operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of December 30, 2017:

2018	$	229
2019		128
2020		82
2021		84
2022		85
Thereafter		21
Total minimum lease payments	$	629

INSURANCE - The Company accrues for health care benefit costs under a self-funded plan and 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.

19. UNAUDITED QUARTERLY FINANCIAL INFORMATION

Quarterly Results of Operations

	For the quarter ended			
	Dec 30, 2017	**Sept 30 2017**	**Jul 1, 2017**	**Apr 1, 2017**
Net sales	$ 84,150	$ 88,001	$ 89,335	$ 81,353
Gross profit	28,854	36,294	38,583	32,794
Operating income	7,604	17,402	20,701	15,784
Income before income taxes	5,523	15,978	10,904	15,139
Net income	$ 2,768	$ 11,295	$ 7,284	$ 10,211
Basic and diluted net income per common share	$ 0.10	$ 0.42	$ 0.27	$ 0.38

	For the quarter ended			
	Dec 31, 2016	**Oct 1, 2016**	**Jul 2, 2016**	**Apr 2, 2016**
Net sales	$ 49,865	$ 45,232	$ 50,809	$ 51,028
Gross profit	17,315	15,540	18,953	19,541
Operating income	4,886	7,243	10,444	11,886
Income before income taxes	4,555	7,557	10,594	12,196
Net income	$ 3,118	$ 4,989	$ 6,990	$ 8,208
Basic and diluted net income per common share	$ 0.12	$ 0.19	$ 0.26	$ 0.31

20. SUBSEQUENT EVENTS

On February 6, 2018, the Company issued and sold 4,400,000 shares of its common stock at $57.50 per share in a registered public offering ("Offering"). The net increase to shareholders' equity and cash proceeds from the Offering was

approximately $239,824, after deducting underwriting discounts and commissions and estimated offering costs. The Company used the net proceeds for the repayment of debt under its credit facility and intends to use the balance of the funds to fund the Faster acquisition and for working capital and general corporate purposes.

On February 19, 2018, the Company announced that it has entered into a definitive agreement to acquire the shares of Polyusus Lux IV S.à r.l., a Luxembourg limited liability company, which owns Faster S.p.A., an Italian joint stock company ("Faster"), from Capvis Equity IV LP, a fund advised by the Swiss private equity firm Capvis Equity Partners AG, and other co-investors, for €430,000 (approximately $531,000) in cash, less outstanding debt and unpaid transaction costs and other deductions from the purchase price as agreed to by the parties. The acquisition will be funded with approximately $161,000 of cash on hand and $370,000 drawn against the Company's revolving credit facility, including exercise of the revolver's accordion.

Faster is a leading global manufacturer of quick-release hydraulic coupling solutions and is engaged in the business of designing, engineering and distributing hydraulic coupling solutions focused in the agriculture, construction equipment and industrial markets. Its primary markets include agriculture, construction equipment and general industrial applications. Headquartered in Milan, Italy, Faster has manufacturing operations co-located with its headquarters as well as in Toledo, Ohio and Pune, India. Additionally, the company has sales offices in Shanghai, China; São Paulo, Brazil; and Langenfeld, Germany.

The Company believes the acquisition of Faster is in alignment with its Vision 2025 goals, advancing the Company as a global technology leader in the industrial goods sector while maintaining superior profitability and financial strength. Faster further diversifies the Company more deeply into the growing global agriculture market and broadens the Company's global footprint, advancing its 'in the region, for the region' initiative."

Faster recorded 2017 sales of €105,000 (approximately $130,000) and an adjusted 2017 EBITDA margin of 27.5%. The acquisition is expected to be accretive to GAAP earnings in 2018 and beyond.

The closing of the transaction, which is expected to occur in the second quarter of 2018, is subject to the satisfaction of customary closing conditions, including, among others, the preparation and delivery of certain audited financial statements of Faster, all as determined in accordance with the Purchase Agreement.

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, is 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 (2013) 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 December 30, 2017. On December 5, 2016, we acquired Enovation Controls, LLC. Management included Enovation Controls in its assessment of the effectiveness of our internal control over financial reporting as of December 30, 2017, as we completed the integration of policies, processes, people and technology for the combined companies.

Changes in Internal Control Over Financial Reporting

There were no changes in the Company's internal control over financial reporting during the year ended December 30, 2017, 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

Grant Thornton LLP, our independent registered public accounting firm, has issued an attestation report on our internal control over financial reporting. This report appears on page 40.

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 2018 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 2018 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 2018 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 2018 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 2017 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 2018 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 2018 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 2018 Proxy Statement and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this item is set forth under the caption “Independent Registered Public Accounting Firm" in our 2018 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:

	Page
Reports of Independent Registered Public Accounting Firm – Grant Thornton LLP	41
Report of Independent Registered Public Accounting Firm – Mayer Hoffman McCann P.C	43
Consolidated Balance Sheets as of December 30, 2017 and December 31, 2016	44
Consolidated Statements of Operations for the Years Ended December 30, 2017, December 31, 2016, and January 2, 2016	45
Consolidated Statements of Comprehensive Income for the Years Ended December 30, 2017, December 31, 2016, and January 2, 2016	46
Consolidated Statements of Shareholders' Equity for the Years Ended December 30, 2017, December 31, 2016, and January 2, 2016	47
Consolidated Statements of Cash Flows for the Years Ended December 30, 2017, December 31, 2016, and January 2, 2016	48
Notes to the Consolidated Financial Statements	49

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.

ITEM 16. FORM 10-K SUMMARY

None.

2. Exhibits:

Exhibit Number	Exhibit Description
2.1	Unit Purchase Agreement, dated as of November 7, 2016, by and among Sun Hydraulics Corporation, Murphy Group, Inc., and EControls Group, Inc. (previously filed as Exhibit 2.1 to the Company's Report on Form 8-K filed on November 8, 2016, and incorporated herein by reference).
2.2	Amendment No. 1 to Unit Purchase Agreement, dated as of December 4, 2016, amending the Unit Purchase Agreement dated as of November 7, 2016, by and among Sun Hydraulics Corporation, Murphy Group, Inc. and EControls Group, Inc. (previously filed as Exhibit 2.1 to the Company's Report on Form 8-K filed on December 7, 2016, and incorporated herein by reference).
2.3	Asset Transfer Agreement, dated as of December 5, 2016, by and between Enovation Controls, LLC and Genisys Controls, LLC (previously filed as Exhibit 2.2 to the Company's Report on Form 8-K filed on December 7, 2016, and incorporated herein by reference).
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	Articles of Amendment to Articles of Incorporation effective June 8, 2011 (previously filed as Exhibit 3.1 to the Company's Form 8-K filed on June 9, 2011, and incorporated herein by reference).
3.3	Articles of Amendment to Amended and Restated Articles of Incorporation as filed with the Secretary of State of Florida on June 4, 2014 (previously filed as Exhibit 3.1 to the Company's Report on Form 8-K filed on June 4, 2014, and incorporated herein by reference).
3.4	Amended and Restated Bylaws of the Company (previously filed as Exhibit 3.2 to the Company's Annual Report on Form 10-K filed on March 9, 2011, and incorporated herein by reference).
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).
10.4+	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).
10.5+	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 filed on March 15, 2010, and incorporated herein by reference).
10.6+	Sun Hydraulics Corporation Employee Stock Purchase Plan (previously filed as Exhibit 10.14+ to the Company's Annual Report on Form 10-K filed on March 9, 2011, and incorporated herein by reference).
10.7+	Amendment No. 1 to Sun Hydraulics Corporation Employee Stock Purchase Plan dated July 1, 2017 (filed herewith).
10.8+	2011 Equity Incentive Plan (previously filed as Appendix A to the Company's Definitive Proxy Statement on Schedule 14A for the 2012 Annual Meeting of Shareholders filed on April 20, 2012, and incorporated herein by reference).
10.9+	Form of agreement for grants of restricted shares under the Sun Hydraulics 2011 Equity Incentive Plan (previously filed as Exhibit 10.24+ to the Company's Annual Report on Form 10-K filed on March 13, 2012, and incorporated herein by reference).
10.10+	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).
10.11+	Amendment to Sun Hydraulics Corporation Amended and Restated 2004 Nonemployee Director Equity and Deferred Compensation Plan (previously filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended July 2, 2011, and incorporated herein by reference).

10.12+	Sun Hydraulics Corporation 2012 Nonemployee Director Fee Plan (previously filed as Appendix B to the Company's Definitive Proxy Statement on Schedule 14A for the 2012 Annual Meeting of Shareholders filed on April 20, 2012, and incorporated herein by reference)
10.13+	Sun Hydraulics Corporation Amendment No. 1 to 2012 Nonemployee Director Fees Plan (previously filed as Appendix "A" to the Company's Definitive Proxy Statement on Schedule 14A for the 2015 Annual Meeting of Shareholders filed on April 20, 2015, and incorporated herein by reference)
10.14+	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).
10.15+	Amended and Restated Sun Hydraulics Corporation 401(k) and ESOP Retirement Plan dated January 1, 2012 (Filed herewith).
10.16+	First and Second Amendments to Amended and Restated Sun Hydraulics Corporation 401(k) and ESOP Retirement Plan dated April 1, 2016 and September 4, 2017, respectively (Filed herewith).
10.17+	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).
10.18+	Steven Hancox Employment Agreement dated January 1, 1994 (previously filed as Exhibit 10.1+ to the Company's Quarterly Report on Form 10-Q for the quarter ended April 2, 2011, and incorporated herein by reference).
10.19+	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).
10.20+	Executive Continuity Agreement, dated May 24, 2016, between Sun Hydraulics Corporation and Wolfgang H. Dangel (previously filed as Exhibit 99.1 to the Company's Form 8-K filed on May 26, 2016, and incorporated herein by reference).
10.21+	Expatriate Agreement dated June 2, 2014, between Sun Hydraulics Corporation and Tim A. Twitty (previously filed as Exhibit 10.1 to the Company's Report on Form 8-K filed on June 4, 2014, and incorporated herein by reference).

Exhibit Number	Exhibit Description
10.22+	Transition Agreement dated March 14, 2016, between Sun Hydraulics Corporation and Allen J. Carlson (previously filed as Exhibit 10.1 to the Company's Report on Form 8-K filed on March 17, 2016, and incorporated herein by reference).
10.23	Revolving Credit Facility Credit Agreement, dated July 29, 2016, between Sun Hydraulics Corporation and PNC Capital Markets LLC, SunTrust Robinson Humphrey, Inc. and JPMorgan Chase Bank, N.A. (previously filed as Exhibit 99.1 to the Company's Report on Form 8-K filed on August 3, 2016, and incorporated herein by reference).
10.24	Pledge Agreement dated July 29, 2016 (previously filed as Exhibit 99.2 to the Company's Report on Form 8-K filed on August 3, 2016, and incorporated herein by reference).
10.25	Revolving Credit Note dated July 29, 2016 (previously filed as Exhibit 99.3 to the Company's Report on Form 8-K filed on August 3, 2016, and incorporated herein by reference).
10.26	Amended and Restated Revolving Credit Facility Agreement, dated November 22, 2016, between Sun Hydraulics Corporation and PNC Capital Markets LLC, SunTrust Robinson Humphrey, Inc., JPMorgan Chase Bank, N.A., BMO Harris Bank N.A. and other lenders party thereto (previously filed as Exhibit 99.1 to the Company's Report on Form 8-K filed on November 29, 2016, and incorporated herein by reference).
10.27	Amended and Restated Pledge Agreement dated November 22, 2016 (previously filed as Exhibit 99.2 to the Company's Report on Form 8-K filed on November 29, 2016, and incorporated herein by reference).
10.28	Form of Revolving Credit Note dated November 22, 2016 (previously filed as Exhibit 99.3 to the Company's Report on Form 8-K filed on November 29, 2016, and incorporated herein by reference).
10.29	Security Agreement dated November 22, 2016 (previously filed as Exhibit 99.4 to the Company's Report on Form 8-K filed on November 29, 2016, and incorporated herein by reference).
10.30	Real Estate Contract dated October 30, 2017, between Enovation Controls, LLC and Legacy Capital Group (previously filed as Exhibit 99.1 to the Company's Report on Form 8-K filed on November 1, 2017 and incorporated herein by reference).
10.31	Amendment to Real Estate Contract dated December 28, 2017, between Enovation Controls, LLC and Legacy Capital Group A Limited Partnership (previously filed as Exhibit 99.1 to the Company's Report on Form 8-K filed on December 29, 2017, and incorporated herein by reference).
10.32	Underwriting Agreement, dated February 1, 2018, between the Company and Morgan Stanley & Co. LLC., as representative of several underwriters (previously filed as Exhibit 1.1 to the Company's Report on Form 8-K filed on February 6, 2018 and incorporated herein by reference).
10.33	Share Purchase Agreement dated February 18, 2018 among the Company, Capvis IV Co-Investors Faster L.P. and certain Co-Investors (previously filed as Exhibit 2.1 to the Company's Report on Form 8-K filed on February 20, 2018 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 25, 2004 and incorporated herein by reference).
16	Letter from Mayer Hoffman McCann P.C. to the U.S. Securities and Exchange Commission dated March 15, 2016 (previously filed as Exhibit 16.1 to the Company's Report on Form 8-K filed on March 17, 2016, and incorporated herein by reference).
21	Subsidiaries of the Registrant.
23.1	Grant Thornton LLP Consent of Independent Registered Public Accounting Firm.
23.2	Mayer Hoffman McCann P.C. Consent of Independent Registered 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.
101.INS	XBRL Instance Document

101.SCH XBRL Schema Document

101.CAL XBRL Calculation Linkbase Document

101.DEF XBRL Definition Linkbase Document

101.LAB XBRL Label Linkbase Document

101.PRE XBRL Presentation Linkbase Document

+ 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 February 27, 2018.

SUN HYDRAULICS CORPORATION

By: /s/ Wolfgang H. Dangel
Wolfgang H. Dangel, 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 February 27, 2018.

Signature	Title
/s/ Wolfgang H. Dangel Wolfgang H. Dangel	President, Chief Executive Officer and Director
/s/ Tricia L. Fulton Tricia L. Fulton	Chief Financial Officer (Principal Financial and Accounting Officer)
/s/ Marc Bertoneche Marc Bertoneche	Director
/s/ Allen J. Carlson Allen. J. Carlson	Director
/s/ David W. Grzelak David Grzelak	Director
/s/ Christine L. Koski Christine L. Koski	Director
/s/ Philippe Lemaitre Philippe Lemaitre	Director, Chairman of the Board of Directors
/s/ Alexander Schuetz Alexander Schuetz	Director
/s/ Douglas M. Britt Douglas M. Britt	Director

Exhibit 10.7

AMENDMENT NO. 1 TO
SUN HYDRAULICS CORPORATION
EMPLOYEE STOCK PURCHASE PLAN

WHEREAS, SUN HYDRAULICS CORPORATION, a Florida corporation (the "Company"), sponsors the Sun Hydraulics Corporation Employee Stock Purchase Plan (the "Plan"); and

WHEREAS, with certain exceptions not pertinent here, Section 15 of the Plan provides that the Plan may be amended by the Board of Directors of the Company; and

WHEREAS, the Company desires to revise the Plan to delete the definition of "Enrollment Date" and modify the definition of "Subsidiary"; and

WHEREAS, the Board of Directors has determined that it is in the best interest of the Company to amend the aforesaid definitions contained in the Plan;

NOW, THEREFORE, be it resolved that Section 2.G. of the Plan is hereby deleted and the words "Offering Date" be substituted for the words "Enrollment Date" in the Plan;

FURTHER RESOLVED, that Section 2.N. of the Plan is hereby amended to read as follows:

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 and High Country Tek, Inc. shall not participate in the Plan unless designated by the Board of Directors to participate.

FURTHER RESOLVED, that the foregoing amendments shall become effective on and as of July 1, 2017.

All capitalized terms used herein and not defined herein shall have the meanings given to them under the Plan.

IN WITNESS WHEREOF, this Amendment No. 1 to the Sun Hydraulics Corporation Employee Stock Purchase Plan has been adopted by the Board of Directors of the Company as of June 6, 2017.

SUN HYDRAULICS CORPORATION

ATTEST:

____________________________ ____________________________________

Gregory C. Yadley, Secretary Wolfgang H. Dangel, President and CEO

Exhibit 10.15

Includes Amendments Through
Dec. 2012

THE SUN HYDRAULICS CORPORATION 401(K) AND ESOP RETIREMENT PLAN

1/15/2013

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THE SUN HYDRAULICS CORPORATION 401(K) AND ESOP RETIREMENT PLAN

THIS SUN HYDRAULICS CORPORATION 401(K) AND ESOP RETIREMENT PLAN is hereby amended and restated by Sun Hydraulics Corporation (herein referred to as the "Employer"). The Sun Hydraulics Corporation 401(k) and ESOP Retirement Plan (hereinafter referred to as the "Plan") and its related Trust are intended to qualify as a profit-sharing plan and trust under Code Sections 401(a) and 501(a); the cash or deferred arrangement forming part of the Plan is intended to qualify under Code Section 401(k); and the ESOP component forming part of the Plan is intended to be an employee stock ownership plan as defined in Code Section 4975(e)(7). The Plan is intended also to comply with Title I of the Act. Contribution in Employer Stock to the ESOP portion of the Plan shall be made as determined by the Board. The provisions of the Plan and Trust shall be construed and applied consistent with the foregoing.

WITNESSETH:

WHEREAS, the Employer heretofore established the Plan effective January 1, 1979, (hereinafter called the "Effective Date"), then known as Sun Hydraulics Corporation Retirement Plan, in recognition of the contribution made to its successful operation by its employees and for the exclusive benefit of its eligible employees; and

WHEREAS, under the terms of the Plan, the Employer has the ability to amend the Plan, provided the Trustee joins in such amendment if the provisions of the Plan affecting the Trustee are amended;

WHEREAS, effective January 1, 2004, except as otherwise provided, the Employer in accordance with the provisions of the Plan pertaining to amendments thereof, amended and restated the Plan to establish as a part thereof, an employee stock ownership plan as defined by Code Section 4975(e)(7) within the Plan, and to rename the Plan as "The Sun Hydraulics Corporation 401(k) and ESOP Retirement Plan";

WHEREAS, the Employer has subsequently adopted several amendments modifying the terms of the Plan in certain respects, including to comply with the requirements added by the Pension Protection Act and subsequent federal legislation;

WHEREAS, the Employer now wishes to restate the Plan to incorporate the changes made in all prior plan amendments;

NOW, THEREFORE, the Employer, in accordance with the provisions of the Plan pertaining to amendments thereto, hereby further amends and restates the Plan in its entirety, effective January 1, 2012, except as expressly provided otherwise herein, to provide as follows:

ARTICLE I
DEFINITIONS

1.1 "Act" means the Employee Retirement Income Security Act of 1974, as it may be amended from time to time.

1.2 "Acquisition Loan" means a loan made to the Plan or an installment obligation incurred by the Trustee in connection with the purchase of Employer Stock, either made by or guaranteed by the Employer or another disqualified person, and which satisfies the requirements for an exempt loan under Treasury Regulation section 54.4975-7(b) as more fully described in Article V. Any Acquisition Loan must be primarily for the benefit of Plan Participants.

1.3 "Administrator" means the person or entity designated by the Employer pursuant to Section 2.2 to administer the Plan on behalf of the Employer.

1.4 "Affiliated Employer" means any corporation which is a member of a controlled group of corporations (as defined in Code Section 414(b)) which includes the Employer; any trade or business (whether or not incorporated) which is under common control (as defined in Code Section 414(c)) with the Employer; any organization (whether or not incorporated) which is a member of an affiliated service group (as defined in Code Section 414(m)) which includes the Employer; and any other entity required to be aggregated with the Employer pursuant to Regulations under Code Section 414(o).

1.5 "Aggregate Account" means, with respect to each Participant, the value of all accounts maintained on behalf of a Participant, whether attributable to Employer or Employee contributions, subject to the provisions of Article VIIII.

1.6 "Anniversary Date" means the last day of the Plan Year.

1.7 "Beneficiary" means the person (or entity) to whom the share of a deceased Participant's total account under the Plan is payable, subject to the restrictions of Sections 7.2 and 7.6.

1.8 "Board" means the Board of Directors of the Employer.

1.9 "Catch-up Contributions" means Elective Deferrals that are made to this Plan by a Catch-Up Eligible Participant pursuant to Section 4.3 below during any taxable year of such Participant that are in excess of (a) a statutory limit on Elective Deferrals or "annual additions" provide in Sections 401(a)(30), 401(k)(3), 402(g), 403(b), or 415(c) of the Code, as applicable or (b) any other applicable Plan limit on Elective Deferrals not described in (a) above. An applicable Plan limit includes any limit in the Plan that applies to elective deferrals without regard to Catch-up Contributions, such as the limit on Annual Additions imposed by Section 4.10, the annual dollar limit on elective deferrals under Section 402(g) of the Code, and the limit imposed on elective deferrals to this Plan by the actual deferral percentage (ADP) test described in Section 401(k)(3) of the Code and Section 4.6 of this Plan.

1.10 "Catch-Up Eligible Participant" means a Participant who (a) is eligible to defer Compensation pursuant to Section 4.2; and (b) will attain age 50 or higher before the end o f the Employee's taxable year.

1.11 "Code" means the Internal Revenue Code of 1986, as amended or replaced from time to time.

1.12 "Compensation" means, with respect to any Participant and except as otherwise provided herein, such Participant's wages as defined in Code Section 3401(a) and all other payments of compensation by the Employer (in the course of the Employer's trade or business) for a Plan Year for which the Employer is required to furnish the Participant a written statement under Code Sections 6041(d), 605l(a)(3) and 6052 (Form W-2 wages). Compensation must be determined without regard to any rules under Code Section 3401(a) that limit the remuneration included in wages based on the nature or location of the employment or the services performed (such as the exception for agricultural labor in Section 3401(a)(2) of the Code). For purposes of this Section, the determination of Compensation shall be made by:

(a) excluding (even if includible in gross income) reimbursements or other expense allowances, fringe benefits (cash or noncash), moving expenses, deferred compensation, and welfare benefits. Effective May 1, 2002, severance pay is excluded from compensation. Effective July 1, 2002, the following items are excluded from compensation: unrestricted stock grants, restricted stock grants, and non-statutory stock options. Notwithstanding the foregoing, effective January 6, 2004, this Section 1.11(a) is hereby restated to provide as follows: excluding (even if includible in gross income) reimbursements or other expense allowances, fringe benefits (cash or noncash), moving expenses, deferred compensation, welfare benefits, severance pay, unrestricted stock grants, restricted stock grants, non-statutory stock options, and compensation in lieu of notice.

(b) including amounts which are contributed by the Employer pursuant to a salary reduction agreement and which are not includible in the gross income of the Participant under Code Sections 125, 132(f)(4) for Plan Years beginning after December 31, 2000, 402(e)(3), 402(h)(l)(B), 403(b) or 457(b), and Employee contributions described in Code Section 414(h)(2) that are treated as Employer contributions.

(c) Including Military Differential Pay (as defined in Section 1.46 below) effective for Plan Years beginning after December 31, 2008.

(d) Effective for Plan Years beginning on and after July 1, 2007, amounts paid after the Participant's severance from employment with the Employer shall not be considered Compensation except as expressly provided otherwise in this Section or other provisions of this Plan.

For a Participant's initial year of participation, Compensation shall be recognized as of such Employee's effective date of participation pursuant to Section 3.2.

Effective January 1, 2008, Compensation shall also include the following types of compensation paid after a Participant's severance from employment with the Employer, provided that such

amounts shall only be included in Compensation to the extent such amounts are paid by the later of 2½ months after severance from employment, or by the end of the limitation year that includes the date of such severance from employment. Compensation shall include regular pay after severance from employment if (a) the payment is for regular compensation for services during the Participant's regular working hours, or compensation for services outside of the Participant's regular working hours (such as overtime or shift differential), commissions, bonuses, or other similar payments, and (b) the payment would have been paid to the Participant prior to severance from employment if the Participant had continued in employment with the Employer.

Compensation in excess of $200,000 (or such other amount provided in accordance with Section 401(a)(17)(B) of the Code) shall be disregarded for all purposes other than for purposes of salary deferral elections pursuant to Section 4.2. Such amount shall be adjusted for increases in the cost of living in accordance with Code Section 401(a)(17)(B), except that the dollar increase in effect on January 1 of any calendar year shall be effective for the Plan Year beginning with or within such calendar year. For any short Plan Year the Compensation limit shall be an amount equal to the Compensation limit for the calendar year in which the Plan Year begins multiplied by the ratio obtained by dividing the number of full months in the short Plan Year by twelve (12). Notwithstanding the foregoing, the annual Compensation of each Participant taken into account in determining allocations for any Plan Year beginning after December 31, 2001, shall not exceed $200,000, as adjusted for cost-of-living increases in accordance with Code Section 401(a)(17)(B).

For Plan Years beginning after December 31, 1996, for purposes of determining Compensation, the family member aggregation rules of Code Section 401(a)(17) and Code Section 414(q)(6) (as in effect prior to the Small Business Job Protection Act of 1996) are eliminated.

If any class of Employees is excluded from the Plan, then Compensation for any Employee who becomes eligible or ceases to be eligible to participate in the Plan (or in a component of the Plan) during a Plan Year shall only include Compensation while the Employee is an Eligible Employee covered by the Plan (or such component of the Plan).

For Plan Years beginning after December 31, 2008, any Military Differential Pay (as defined in Section 1.44 below) paid to a Participant by the Employer or any Affiliated Employer shall be treated as Compensation.

1.13 "Contract" or "Policy" means any life insurance policy, retirement income policy or annuity contract (group or individual) issued pursuant to the terms of the Plan. In the event of any conflict between the terms of this Plan and the terms of any contract purchased hereunder, the Plan provisions shall control.

1.14 "Current Obligations" means Trust obligations arising from extension of credit to the Trust and payable in cash within (1) year from the date an Employer contribution is due.

1.15 "Distribution Calendar Year" means a calendar year for which a minimum distribution pursuant to Section 7.16 is required. For distributions beginning before the Participant's death, the first Distribution Calendar Year is the calendar year immediately preceding the calendar year which contains the Participant's required beginning date under Section 7.16. For distributions beginning after the Participant's death, the first Distribution Calendar Year is the calendar year in which distributions are required to begin under Section 7.16. The required

minimum distribution for the Participant's first Distribution Calendar Year will be made on or before the Participant's required beginning date. The required minimum distribution for other Distribution Calendar Years, including the required minimum distribution for the Distribution Calendar Year in which the Participant's required beginning date occurs, will be made on or before December 31st of that Distribution Calendar Year.

1.16 "Designated Investment Alternative" means a specific investment identified by name by the Employer (or such other Fiduciary who has been given the authority to select investment options) as an available investment under the Plan to which Plan assets may be invested by the Trustee pursuant to the investment direction of a Participant. Employer Stock shall not be a Designated Investment Alternative.

1.17 "Directed Investment Option" means one or more of the following:

(a) a Designated Investment Alternative.

(b) any other investment permitted by the Plan and the Participant Direction Procedures to which Plan assets may be invested by the Trustee pursuant to the investment direction of a Participant. For purposes of this subsection, such other investment shall not include Employer Stock.

1.18 "Early Retirement Date" This Plan does not provide for a retirement date prior to Normal Retirement Date.

1.19 "Elective Contribution" means the Employer contributions to the Plan of Elective Deferrals. In addition, any Employer Qualified Non-Elective Contribution made to the Plan which is used to satisfy the "Actual Deferral Percentage" tests shall be considered an Elective Contribution for purposes of the Plan. Any contributions deemed to be Elective Contributions (whether or not used to satisfy the "Actual Deferral Percentage" tests or the "Actual Contribution Percentage" tests) shall be subject to the requirements of Sections 4.2(b) and 4.2(c) and shall further be required to satisfy the nondiscrimination requirements of Regulation 1.401(k)-1(b)(5) and Regulation 1.401(m)-1(b)(5), the provisions of which are specifically incorporated herein by reference.

1.20 "Elective Deferrals" shall mean any contributions made to this Plan, or any other 401(k) savings plan or other cash or deferred arrangement under Sections 401(k), 408(k)(6), 409(p) or 403(b) of the Code, at the election of the Participant in lieu of amounts otherwise payable to the Participant as cash compensation. Elective deferrals shall not, however, include any deferrals properly distributed as excess annual additions.

1.21 "Eligible Employee" means any Employee, subject to the following:

(a) Employees whose employment is governed by the terms of a collective bargaining agreement between Employee representatives (within the meaning of Code Section 7701(a)(46)) and the Employer under which retirement benefits were the subject of good faith bargaining between the parties will not be eligible to participate in this Plan unless such agreement expressly provides for coverage in this Plan.

(b) Employees classified by the Employer as “Interns” shall not be eligible to participate in this Plan.

(c) Employees of an Affiliated Employer shall not be eligible to participate in this Plan unless such Affiliated Employer has specifically adopted this Plan in writing and become a Participating Employer.

(d) Employees who are nonresident aliens (within the meaning of Code Section 7701(b)(1)(B)) and who receive no earned income (within the meaning of Code Section 911(d)(2)) from the Employer which constitutes income from sources within the United States (within the meaning of Code Section 861(a)(3)).

(e) Employees classified by the Employer as independent contractors who are subsequently determined by the Internal Revenue Service to be Employees shall not be Eligible Employees.

(f) Leased Employees treated as Employees of the Employer under Sections 414(n) and (o) of the Code shall not be Eligible Employees.

1.22 “Employee” means any person who is employed by the Employer or any other Participating Employer, and excludes any person who is employed as an independent contractor. Employee shall include Leased Employees within the meaning of Code Sections 414(n)(2) and 4l4(o)(2) unless such Leased Employees are covered by a plan described in Code Section 414(n)(5) and such Leased Employees do not constitute more than 20% of the recipient’s non-highly compensated work force.

1.23 “Employer” means Sun Hydraulics Corporation and any successor which shall maintain this Plan; and any predecessor which has maintained this Plan. The Employer is a corporation, with principal offices in the State of Florida. The Employer is taxed as a C corporation under Subtitle C of the Code.

1.22 “Employer Stock” means common stock issued by the sponsoring Employer (or by a corporation which is a member of the same controlled group) which is readily tradable on an established securities market. If there is no common stock which meets the requirement of the preceding sentence, the term Employer Stock means common stock issued by the sponsoring Employer (or by a corporation which is a member of the same controlled group) having a combination of voting power and dividend rights equal to or in excess of:

(a) that class of common stock of the sponsoring employer (or of any other such corporation) having the greatest voting power, and

(b) that class of common stock of the sponsoring employer (or of any other

such corporation) having the greatest dividend rights.

Non-callable preferred stock shall be treated as Employer Stock if such stock is convertible at any time into stock which meets the requirements of (a) and (b) above, and if such conversion is at a conversion price which (as of the date of the acquisition by the Plan) is reasonable. For purposes of the last preceding sentence, preferred stock shall be treated as non-callable if, after the call, there will be a reasonable opportunity for a conversion which meets the requirements of the last preceding sentence.

1.24 "ESOP" means the employee stock ownership plan pursuant to Article V satisfying the requirements of Code Sections 409 and 4975(e)(7) and Treasury Regulation Section 54.4975-11.

1.25 "ESOP Account" means the account established and maintained by the Administrator for each Participant (other than an HCT Employee) with respect to such Participant's total interest in the Plan and Trust resulting from Employer Non-Elective Contributions that are made in Employer Stock or that resulted in an allocation of Employer Stock or allocations of Employer Stock Forfeitures, and which currently is invested in Employer Stock. A separate accounting shall be maintained with respect to those portions (if any) of the Company Stock Account attributable to Elective Contributions and to employer contributions. A separate accounting shall also be maintained with respect to that portion of the ESOP Account attributable to the Participant's election pursuant to Section 5.10 below to reinvest cash dividends in Employer Stock.

1.26 "Excess Aggregate Contributions" means, with respect to any Plan Year, the excess of the aggregate amount of the Employer matching contributions made pursuant to Section 4.1(b) and Section 4.1(c) and any qualified non-elective contributions or elective deferrals taken into account pursuant to Section 4.8(c) on behalf of Highly Compensated Participants for such Plan Year, over the maximum amount of such contributions permitted under the limitations of Section 4.8(a) (determined by hypothetically reducing contributions made on behalf of Highly Compensated Participants in order of the actual contribution ratios beginning with the highest of such ratios). Such determination shall be made after first taking into account corrections of any Excess Elective Deferrals pursuant to Section 4.2(f) and taking into account any adjustments of any Excess Contributions pursuant to Section 4.7.

1.27 "Excess Contributions" means, with respect to a Plan Year, the excess of Elective Contributions used to satisfy the "Actual Deferral Percentage" tests made on behalf of Highly Compensated Participants for the Plan Year over the maximum amount of such contributions permitted under Section 4.6(a) (determined by hypothetically reducing contributions made on behalf of Highly Compensated Participants in order of the actual deferral ratios beginning with the highest of such ratios). Excess Contributions shall be treated as an "annual addition" pursuant to Section 4.10(b).

1.28 "Excess Elective Deferrals" means, with respect to any taxable year of a Participant, the excess of the aggregate amount of such Participant's Elective Deferrals to this Plan and the elective deferrals pursuant to Section 4.2(f) actually made on behalf of such Participant for such taxable year, over the dollar limitation provided for in Code Section 402(g), which is

incorporated herein by reference. Excess Elective Deferrals shall be treated as an "annual additi on" pursuant to Section 4.10(b) when contributed to the Plan unless distributed to the affected Participant not later than the first April 15th following the close of the Participant's taxable year. Additionally, for purposes of Article IX and Section 4.5(g), Excess Elective Deferrals shall continue to be treated as Employer contributions even if distributed pursuant to Section 4.2(f). However, Excess Elective Deferrals of Non-Highly Compensated Participants are not taken into account for purposes of Section 4.6(a) to the extent such Excess Elective Deferrals occur pursuant to Section 4.2(d).

1.29 "Fiduciary" means any person who (a) exercises any discretionary authority or discretionary control respecting management of the Plan or exercises any authority or control respecting management or disposition of its assets, (b) renders investment advice for a fee or other compensation, direct or indirect, with respect to any monies or other property of the Plan or has any authority or responsibility to do so, or (c) has any discretionary authority or discretionary responsibility in the administration of the Plan.

1.30 "Fiscal Year" means the Employer's accounting year of 12 months commencing on January 1 of each year and ending the following December 31.

1.31 "Forfeiture" means that portion of a Participant's Account that is not Vested, and occurs on the earlier of:

(a) the distribution of the entire Vested portion of the Participant's Account of a Former Participant who has severed employment with the Employer, or

(b) the last day of the Plan Year in which a Former Participant who has severed employment with the Employer incurs the fifth of five (5) consecutive 1-Year Breaks in Service.

Furthermore, the term "Forfeiture" shall also include amounts deemed to be Forfeitures pursuant to any other provision of this Plan.

Regardless of the preceding provisions, if a Former Participant is eligible to share in the allocation of Employer contributions or Forfeitures in the year in which the Forfeiture would otherwise occur, then the Forfeiture will not occur until the end of the first Plan Year for which the Former Participant is not eligible to share in the allocation of Employer contributions or Forfeitures.

1.32 "Former Participant" means a person who has been a Participant, but who has ceased to be a Participant for any reason.

1.33 "415 Compensation" with respect to any Participant means such Participant's wages as defined in Code Section 3401(a) and all other payments of compensation by the Employer (in the course of the Employer's trade or business) for a Plan Year for which the Employer is required to furnish the Participant a written statement under Code Sections 6041(d), 6051(a)(3) and 6052. "415 Compensation" must be determined without regard to any rules under Code Section 3401(a) that limit the remuneration included in wages based on the nature or location of the employment or the services performed (such as the exception for agricultural labor in Code Section 340l(a)(2)).

For “limitation years” beginning after December 31, 1997, for purposes of t his Section, the determination of “415 Compensation” shall include any elective deferral (as defined in Code Section 402(g)(3)), and any amount which is contributed or deferred by the Employer at the election of the Participant and which is not includible in the gross income of the Participant by reason of Code Sections 125, 132(f)(4) for “limitation years” beginning after December 31, 2000 or 457.

Effective January 1, 2008, 415 Compensation shall also include the following types of compensation paid after a Participant’s severance from employment with the Employer, provided that such amounts shall only be included in 415 Compensation to the extent such amounts are paid by the later of 2½ months after severance from employment, or by the end of the limitation year that includes the date of such severance from employment. 415 Compensation shall include regular pay after severance from employment if (a) the payment is for regular compensation for services during the Participant’s regular working hours, or compensation for services outside of the Participant’s regular working hours (such as overtime or shift differential), commissions, bonuses, or other similar payments, and (b) the payment would have been paid to the Participant prior to severance from employment if the Participant had continued in employment with the Employer.

Effective for Limitation Years beginning after December 31, 2008, 415 Compensation shall include Military Differential Pay (as defined in Section 1.44 below).

1.34 “414(s) Compensation” means the Participant’s wages and other compensation paid by the Employer for which the Employer is required to furnish the Participant a written statement under Sections 6041(d), 6051(a)(3) and 6052 of the Code. The period for determining 414(s) Compensation must be the calendar year ending with or within the Plan Year. An Employer shall further limit the period taken into account to that part of the calendar year in which an Employee was a Participant in the component of the Plan being tested. The period used to determine 414(s) Compensation must be applied uniformly to all Participants for the Plan Year.

For Plan Years beginning after December 31, 1996, for purposes of this Section, the family member aggregation rules of Code Section 4l4(q)(6) (as in effect prior to the Small Business Job Protection Act of I 996) are eliminated.

1.35 “HCT Employee” means an Employee who is employed by High Country Tek, but has not been employed by the Employer or any other Participating Employer.

1.36 “Highly Compensated Employee” means an Employee described in Code Section 414(q) and the Regulations thereunder, and generally means any Employee who:

(a) was a “five percent owner” as defined in Section 414(i) of the Code at any time during the “determination year” or the “look-back year”; or

(b) for the “look-back year” had “415 Compensation” from the Employer in excess of $80,000. The $80,000 amount is adjusted at the same time and in the same manner as under Code Section 415(d), except that the base period is the calendar quarter ending September 30, 1996.

The “determination year” means the Plan Year for which testing is being performed, and the “look-back year” means the immediately preceding twelve (12) month period.

A highly compensated former Employee is based on the rules applicable to deter mining Highly Compensated Employee status as in effect for the "determination year," in accordance with Regulation 1 .414(q)-lT, A-4 and IRS Notice 97-45 (or any superseding guidance).

In determining whether an Employee is a Highly Compensated Employee for a Plan Year beginning in 1997, the amendments to Code Section 414(q) stated above are treated as having been in effect for years beginning in 1996.

For purposes of this Section, for Plan Years beginning prior to January 1, 1998, the determination of "415 Compensation" shall be made by including amounts that would otherwise be excluded from a Participant's gross income by reason of the application of Code Sections 125, 402(e)(3), 402(h)(1)(B), and, in the case of Employer contributions made pursuant to a salary reduction agreement, Code Section 403(b).

In determining who is a Highly Compensated Employee, Employees who are non-resident aliens and who received no earned income (within the meaning of Code Section 91l(d)(2)) from the Employer constituting United States source income within the meaning of Code Section 861(a)(3) shall not be treated as Employees. If a Nonresident Alien Employee has non U.S. source income, that Employee is treated as satisfying this definition if all of such Employee's U.S. source income from the Employer is exempt from U.S. income tax under any applicable income tax treaty. Additionally, all Affiliated Employers shall be taken into account as a single employer and Leased Employees within the meaning of Code Sections 414(n)(2) and 4l4(o)(2) shall be considered Employees unless such Leased Employees are covered by a plan described in Code Section 4l4(n)(5) and are not covered in any qualified plan maintained by the Employer. The exclusion of Leased Employees for this purpose shall be applied on a uniform and consistent basis for all of the Employer's retirement plans. Highly Compensated Former Employees shall be treated as Highly Compensated Employees without regard to whether they performed services during the "determination year."

1.37 "Highly Compensated Participant" means any Highly Compensated Employee who is eligible to participate in the component of the Plan being tested.

1.38 "Hour of Service" means each hour for which an Employee is paid or entitled to payment for the performance of duties for the Employer.

1.39 "Income" means the income or losses allocable to "excess amounts" which shall equal the allocable gain or loss for the "applicable computation period". The income allocable to "excess amounts" for the "applicable computation period" is determined by multiplying the income for the "applicable computation period" by a fraction. The numerator of the fraction is the "excess amount" for the "applicable computation period." The denominator of the fraction is the total "account balance" attributable to "Employer contributions" as of the end of the "applicable computation period", reduced by the gain allocable to such total amount for the "applicable computation period" and increased by the loss allocable to such total amount for the "applicable computation period". The provisions of this Section shall be applied:

(a) For purposes of Section 4.2(f), by substituting:

(1) "Excess Elective Deferrals" for "excess amounts";

(2) "taxable year of the Participant" for "applicable computation period";

(3) "Deferred Compensation" for "Employer contributions"; and

(4) "Participant's Elective Account" for "account balance."

(b) For purposes of Section 4.7(a), by substituting:

(1) "Excess Contributions" for "excess amounts";

(2) "Plan Year" for "applicable computation period";

(3) "Elective Contributions" for "Employer contributions"; and

(4) "Participant's Elective Account" for "account balance."

(c) For purposes of Section 4.9(a), by substituting:

(1) "Excess Aggregate Contributions" for "excess amounts";

(2) "Plan Year" for "applicable computation period";

(3) "Employer matching contributions made pursuant to Section 4.1(b) and 4.1(c) and any qualified non-elective contributions or elective deferrals taken into account pursuant to Section 4.8(c) for "Employer contributions"; and

(4) "Participant's Account and Participant's Company Stock Account" for "account balance."

Income allocable to any distribution of Excess Elective Deferrals on or before the last day of the taxable year of the Participant shall be calculated from the first day of the taxable year of the Participant to the date on which the distribution is made pursuant to either the "fractional method" or the "safe harbor method." Under such "safe harbor method," allocable Income for such period shall be deemed to equal ten percent (10%) of the Income allocable to such Excess Deferred Compensation multiplied by the number of calendar months in such period. For purposes of determining the number of calendar months in such period, a distribution occurring on or before the fifteenth day of the month shall be treated as having been made on the last day of the preceding month and a distribution occurring after such fifteenth day shall be treated as having been made on the first day of the next subsequent month.

For Plan Years beginning after December 31, 2007, notwithstanding anything in the preceding paragraph or elsewhere in this Section 1.39 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 Elective Deferrals 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.

1.40 "Investment Manager" means a Fiduciary described in Section 3(38) of the Act which (a) has the power to manage, acquire, or dispose of Plan assets and (b) acknowledges fiduciary responsibility to the Plan in writing. Such entity must be a person, firm, or corporation registered as an investment adviser under the Investment Advisers Act of 1940, a bank, or an insurance company.

1.41 "Key Employee" means an Employee as defined in Code Section 416(i) and the Regulations thereunder. Generally, any Employee or former Employee (as well as each of the Employee's or former Employee's Beneficiaries) is considered a Key Employee if the Employee, at any time during the Plan Year that contains the "Determination Date" or any of the preceding four (4) Plan Years, has been included in one of the following categories:

(a) an officer of the Employer (as that term is defined within the meaning of the Regulations under Code Section 416) having annual "415 Compensation" greater than 50 percent of the amount in effect under Code Section 415(b)(1)(A) for any such Plan Year.

(b) one of the ten employees having annual "415 Compensation" from the Employer for a Plan Year greater than the dollar limitation in effect under Code Section 415(c)(1)(A) for the calendar year in which such Plan Year ends and owning (or considered as owning within the meaning of Code Section 318) both more than one-half percent interest and the largest interests in the Employer.

(c) a "five percent owner" of the Employer. "Five percent owner" means any person who owns (or is considered as owning within the meaning of Code Section 318) more than five percent (5%) of the outstanding stock of the Employer or stock possessing more than five percent (5%) of the total combined voting power of all stock of the Employer or, in the case of an unincorporated business, any person who owns more than five percent (5%) of the capital or profits interest in the Employer. In determining percentage ownership hereunder, employers that would otherwise be aggregated under Code Sections 414(b), (c), (m) and (o) shall be treated as separate employers.

(d) a "one percent owner" of the Employer having an annual "415 Compensation" from the Employer of more than $150,000. "One percent owner" means any person who owns (or is considered as owning within the meaning of Code Section 318) more than one percent (1%) of the outstanding stock of the Employer or stock possessing more than one percent (1%) of the total combined voting power of all stock of the Employer or, in the case of an unincorporated business, any person who owns more than one percent (1%) of the capital or profits interest in the Employer. In determining percentage ownership hereunder, employers that would otherwise be aggregated under Code Sections 414(b), (c), (m) and (o) shall be treated as separate employers. However, in determining whether an individual has "415 Compensation" of more than $150,000, "415 Compensation" from each employer required to be aggregated under Code Sections 414(b), (c), (m) and (o) shall be taken into account.

For purposes of this Section, the determination of "415 Compensation" shall be made by including amounts which are contributed by the Employer pursuant to a salary reduction agreement and which are not includible in the gross income of the Participant under Code Sections

125, 132(f)(4) for Plan Years beginning after December 31, 2000, 402(e)(3), 402(h)(1)(B), 403(b) or 457(b), and Employee contributions described in Code Section 414(h)(2) that are treated as Employer contributions.

Notwithstanding the foregoing, effective for Plan Years beginning after December 31, 2001, the definition of Key Employee is as provided in Section 9.3(a).

1.42 "Late Retirement Date" means a Participant's actual Retirement Date after having reached Normal Retirement Date.

1.43 "Leased Employee" means, for Plan Years beginning after December 31, 1996, any person (other than an Employee of the recipient Employer) who pursuant to an agreement between the recipient Employer and any other person or entity ("leasing organization") has performed services for the recipient (or for the recipient and related persons determined in accordance with Code Section 4l4(n)(6)) on a substantially full time basis for a period of at least one year, and such services are performed under primary direction or control by the recipient Employer. Contributions or benefits provided a Leased Employee by the leasing organization which are attributable to services performed for the recipient Employer shall be treated as provided by the recipient Employer. Furthermore, Compensation for a Leased Employee shall only include Compensation from the leasing organization that is attributable to services performed for the recipient Employer. A Leased Employee shall not be considered an Employee of the recipient Employer:

(a) if such employee is covered by a money purchase pension plan providing:

(1) a nonintegrated employer contribution rate of at least 10% of compensation, as defined in Code Section 415(c)(3), but for Plan Years beginning prior to January 1, 1998, including amounts which are contributed by the Employer pursuant to a salary reduction agreement and which are not includible in the gross income of the Participant under Code Sections 125, 402(e)(3), 402(h)(1)(B), 403(b) or 457(b), and Employee contributions described in Code Section 414(h)(2) that are treated as Employer contributions, and for Plan Years beginning prior to January 1, 2001, excluding amounts that are not includible in gross income under Code Section 132(f)(4);

(2) immediate participation;

(3) full and immediate vesting; and

(b) if Leased Employees do not constitute more than 20% of the recipient Employer's nonhighly compensated work force.

1.44 "Military Differential Pay" means any differential wage payments made to an individual that represents an amount which, when added to the individual's military pay, approximates the amount of compensation that was paid to the individual while working for the Employer. Notwithstanding the preceding sentence, for compensation determination periods beginning after December 31, 2008, an individual receiving a differential wage payment, as

defined by Code Section 3401(h)(2), is treated as an Employee of the Employer making the payment, and the differential wage payment is treated as 415 Compensation.

The Plan is not treated as failing to meet the requirements of any provision described in Code Section 414(u)(1)(C) (or corresponding Plan provisions, including, but not limited to, Plan provisions related to the ADP or ACP test) by reason of any contribution or benefit which is based on the differential wage payment. The preceding sentence applies only if all Employees of the Employer performing service in the uniformed services described in Code Section 3401(h)(2)(A) are entitled to receive differential wage payments (as defined in Code Section 3401(h)(2)) on reasonably equivalent terms and, if eligible to participate in a retirement plan maintained by the Employer, to make contributions based on the payments on reasonably equivalent terms (taking into account Code Sections 410(b)(3), (4), and (5)).

The Plan Administrator operationally may determine, for purposes of the provisions described in Code Section 414(u)(1)(C), whether to take into account any Elective Deferrals (and if applicable, any matching contributions) attributable to differential wages.

1.45 "Non-Elective Contribution" means the Employer contributions to the Plan excluding, however, contributions made pursuant to the Participant's deferral election provided for in Section 4.2 and any Qualified Non-Elective Contribution used in the "Actual Deferral Percentage" tests.

1.46 "Non-Highly Compensated Participant" means, for Plan Years beginning after December 31, 1996, any Participant who is not a Highly Compensated Employee. However, for purposes of Section 4.6(a) and Section 4.7, if the prior year testing method is used, a Non-Highly Compensated Participant shall be determined using the definition of Highly Compensated Employee in effect for the preceding Plan Year.

1.47 "Non-Key Employee" means any Employee or former Employee (and such Employee's or former Employee's Beneficiaries) who is not a Key Employee.

1.48 "Normal Retirement Age" means the Participant's 65th birthday. A Participant shall become fully Vested in the Participant's Account and Participant's Company Stock Account upon attaining Normal Retirement Age.

1.49 "Normal Retirement Date" means the Participant's Normal Retirement Age.

1.50 "1-Year Break in Service" means a Period of Severance of at least 12 consecutive months.

1.51 "Participant" means any Eligible Employee who participates in the Plan and has not for any reason become ineligible to participate further in the Plan.

1.52 "Participant Direction Procedures" means such instructions, guidelines or policies, the terms of which are incorporated herein, as shall be established pursuant to Section 4.14 and observed by the Administrator and applied and provided to Participants who have Participant Directed Accounts.

1.53 "Participant's Account" means the account established and maintained by the Administrator for each Participant (other than an HCT Employee) with respect to such Participant's total interest in the Plan and Trust (if any) resulting from the Employer Non-Elective Contributions. Notwithstanding the foregoing, the Participant's Account shall not include Employer Stock resulting from Employer Non-Elective Contributions.

1.54 "Participant's Account Balance" means the account balance as of the last Valuation Date in the calendar year immediately preceding the Distribution Calendar Year (valuation calendar year) increased by the amount of any contributions made and allocated or Forfeitures allocated to the account balance as of dates in the valuation calendar year after the Valuation Date and decreased by distributions made in the valuation calendar year after the Valuation Date. The account balance for the valuation calendar year includes any amounts rolled over or transferred to the Plan either in the valuation calendar year or in the Distribution Calendar Year if distributed or transferred in the valuation calendar year.

1.55 "Participant's Combined Account" means the total aggregate amount of each Participant's Elective Account, Participant's Account, and Participant's ESOP Account.

1.56 "Participant's Directed Account" means that portion of a Participant's interest in the Plan with respect to which the Participant has directed the investment in accordance with the Participant Direction Procedure.

1.57 "Participant's Elective Account" means the account established and maintained by the Administrator for each Participant with respect to the Participant's total interest in the Plan and Trust resulting from the Employer Elective Contributions used to satisfy the "Actual Deferral Percentage" tests. The Participant's Elective Account may consist of a Pre-Tax Elective Deferral Account and a Roth Contribution Account. Unless specifically stated otherwise, any reference to a Participant's Elective Account shall refer to both of these sub-accounts. A separate accounting shall be maintained with respect to that portion of the Participant's Elective Account attributable to such Elective Contributions pursuant to Section 4.2 and any Employer Qualified Non-Elective Contributions.

1.58 "Participant's Transfer/Rollover Account" means the account established and maintained by the Administrator for each Participant with respect to the Participant's total interest in the Plan resulting from amounts transferred to this Plan from a direct plan-to-plan transfer and/or with respect to such Participant's interest in the Plan resulting from amounts transferred from another qualified plan or "conduit" Individual Retirement Account in accordance with Section 4.12.

A separate accounting shall be maintained with respect to that portion of the Participant's Transfer/Rollover Account attributable to transfers (within the meaning of Code Section 414(1)) and "rollovers."

1.59 "Participating Employer" means any Affiliated Employer which has specifically adopted this Plan in writing, with the consent of the Company. For this purpose, High County Tek, Inc. shall become a Participating Employer, effective January 1, 2012.

1.60 "Period of Service" means the aggregate of all periods commencing with the Employee's first day of employment or reemployment with the Employer or Affiliated Employer and ending on the date a 1-Year Break in Service begins. The first day of employment or reemployment is the first day the Employee performs an Hour of Service (or, for an HCT Employee, if later, the date High Country Tek first became an Affiliated Employer). An Employee will also receive partial credit for any Period of Service of less than twelve (12) consecutive months. Fractional periods of a year will be expressed in terms of days.

1.61 "Period of Severance" means a continuous period of time during which the Employee is not employed by the Employer. Such period begins on the date the Employee retires, quits or is discharged, or if earlier, the twelve (12) month anniversary of the date on which the Employee was otherwise first absent from service.

In the case of an individual who is absent from work for maternity or paternity reasons, the twelve (12) consecutive month period beginning on the first anniversary of the first day of such absence shall not constitute a 1-Year Break in Service. For purposes of this paragraph, an absence from work for maternity or paternity reasons means an absence (a) by reason of the pregnancy of the individual, (b) by reason of the birth of a child of the individual, (c) by reason of the placement of a child with the individual in connection with the adoption of such child by such individual, or (d) for purposes of caring for such child for a period beginning immediately following such birth or placement.

1.62 "Plan" means this instrument, including all amendments thereto.

1.63 "Plan Year" means the Plan's accounting year of twelve (12) months commencing on January 1 of each year and ending the following December 31.

1.64 "Qualified Non-Elective Contribution" means any Employer contributions made pursuant to Section 4.7(b) and Section 4.9(f). Such contributions shall be considered an Elective Contribution for the purposes of the Plan and may be used to satisfy the "Actual Deferral Percentage" tests or the "Actual Contribution Percentage" tests.

1.65 "Readily tradable on an established securities market" shall mean, for purposes of this Plan, with respect to Employer Stock or other securities, that such securities are readily tradable on an established securities market within the meaning of Treasury Regulation Section 1.401(a)(35)-1(f)(5). Employer Stock or other securities shall be considered readily tradable on an established securities market if such securities are traded on a national securities exchange that is registered under Section 6 of the Securities Exchange Act of 1934. Securities shall also be considered to be readily tradable on an established securities market if the security is traded on a foreign national securities exchange that is officially recognized, sanctioned, or supervised by a governmental authority and where the security is deemed by the U.S. Securities and Exchange Commission ("SEC") as having a ready market under SEC Rule 15c3-1.

1.66 "Regulation" means the Income Tax Regulations as promulgated by the Secretary of the Treasury or a delegate of the Secretary of the Treasury, and as amended from time to time.

1.67 "Retired Participant" means a person who has been a Participant, but who has become entitled to retirement benefits under the Plan.

1.68 “Retirement Date” means the date as of which a Participant retires for reasons other than Total and Permanent Disability, whether such retirement occurs on a Participant’s Normal Retirement Date or Late Retirement Date (see Section 7.1).

1.69 "Roth Elective Deferral Account" means the separate subaccount established and maintained by the Plan Administrator for each Participant with respect to the Participant's total interest in the Plan and Trust resulting from Roth Contributions, including gains and losses attributable to those amounts. Amounts in the Roth Elective Deferral Account are nonforfeitable when made and are subject to the distribution restrictions of Section 4.2(c).

1.70 "Roth Contributions" means, effective January 1, 2007, a Participant's Elective Deferrals that are includible in the Participant's gross income at the time deferred and have been irrevocably designated as Roth Contributions by the Participant in his or her deferral election.

1.71 “Terminated Participant” means a person who has been a Participant, but whose employment has been terminated other than by death, Total and Permanent Disability or retirement.

1.72 “Top Heavy Plan” means a plan described in Article IX.

1.73 “Top Heavy Plan Year” means a Plan Year during which the Plan is a Top Heavy Plan.

1.74 “Total and Permanent Disability” means a physical or mental condition, certified by a physician selected by the Employer, in which a person is unable to engage in any substantial gainful activity due to physical or mental impairment. The physician must certify that the condition:

(a) has lasted (or is expected to last) at least 12 consecutive months; or

(b) is expected to result in death.

1.75 “Trust” means the trust or trusts established between the Employer and the Trustee in connection with the Plan.

1.76 “Trustee” means the person or entity named as trustee herein or in any separate trust forming a part of this Plan, and any successors.

1.77 “Trust Fund” means the assets of the Plan and Trust as the same shall exist from time to time.

1.78 “Valuation Date” means the Anniversary Date and may include any other date or dates deemed necessary or appropriate by the Administrator for the valuation of the Participants’ accounts during the Plan Year, which may include any day that the Trustee, any transfer agent appointed by the Trustee or the Employer or any stock exchange used by such agent, are open for business.

1.79 “Vested” means the nonforfeitable portion of any account maintained on behalf of a Participant.

1.80 “Voluntary Contribution Account” means the account established and maintained by the Administrator for each Participant with respect to the Participant’s total interest in the Plan resulting from the Participant’s after-tax voluntary Employee contributions made pursuant to Section 4.13.

ARTICLE II
ADMINISTRATION

2.1 POWERS AND RESPONSIBILITIES OF THE EMPLOYER

(a) In addition to the general powers and responsibilities otherwise provided for in this Plan, the Employer shall be empowered to appoint and remove the Trustee and the Administrator from time to time as it deems necessary for the proper administration of the Plan to ensure that the Plan is being operated for the exclusive benefit of the Participants and their Beneficiaries in accordance with the terms of the Plan, the Code, and the Act. The Employer may appoint counsel, specialists, advisers, agents (including any nonfiduciary agent) and other persons as the Employer deems necessary or desirable in connection with the exercise of its fiduciary duties under this Plan. The Employer may compensate such agents or advisers from the assets of the Plan as fiduciary expenses (but not including any business (settlor) expenses of the Employer), to the extent not paid by the Employer.

(b) The Employer may, by written agreement or designation, appoint at its option an Investment Manager (qualified under the Investment Company Act of 1940 as amended), investment adviser, or other agent to provide direction to the Trustee with respect to any or all of the Plan assets. Such appointment shall be given by the Employer in writing in a form acceptable to the Trustee and shall specifically identify the Plan assets with respect to which the Investment Manager or other agent shall have authority to direct the investment.

(c) The Employer shall establish a "funding policy and method," i.e., it shall determine whether the Plan has a short run need for liquidity (e.g., to pay benefits) or whether liquidity is a long run goal and investment growth (and stability of same) is a more current need, or shall appoint a qualified person to do so. The Employer or its delegate shall communicate such needs and goals to the Trustee, who shall coordinate such Plan needs with its investment policy. The communication of such a "funding policy and method" shall not, however, constitute a directive to the Trustee as to the investment of the Trust Funds. Such "funding policy and method" shall be consistent with the objectives of this Plan and with the requirements of Title I of the Act.

(d) The benefit plan committee of the Employer shall periodically review the performance of any Fiduciary or other person to whom duties have been delegated or allocated by it under the provisions of this Plan or pursuant to procedures established hereunder. This requirement may be satisfied by formal periodic review by the Employer or by a qualified person specifically designated by the Employer, through day-to-day conduct and evaluation, or through other appropriate ways.

(e) The Employer shall furnish Fiduciaries and Participants with notices and proxy statements or information statements when voting rights must be exercised pursuant to Section 5.3 of the Plan.

2.2 DESIGNATION OF ADMINISTRATIVE AUTHORITY

The Employer shall appoint one or more Administrators. Any person, including, but not limited to, the Employees of the Employer, shall be eligible to serve as an Administrator. Any person so appointed shall signify acceptance by filing written acceptance with the Employer. An Administrator may resign by delivering a written resignation to the Employer or be removed by the Employer by delivery of written notice of removal, to take effect at a date specified therein, or upon delivery to the Administrator if no date is specified.

The Employer, upon the resignation or removal of an Administrator, shall promptly designate a successor to this position. If the Employer does not appoint an Administrator, the Employer will function as the Administrator.

2.3 ALLOCATION AND DELEGATION OF RESPONSIBILITIES

If more than one person is appointed as Administrator, the responsibilities of each Administrator may be specified by the Employer and accepted in writing by each Administrator. In the event that no such delegation is made by the Employer, the Administrators may allocate the responsibilities among themselves, in which event the Administrators shall notify the Employer and the Trustee in writing of such action and specify the responsibilities of each Administrator. The Trustee thereafter shall accept and rely upon any documents executed by the appropriate Administrator until such time as the Employer or the Administrators file with the Trustee a written revocation of such designation.

2.4 POWERS AND DUTIES OF THE ADMINISTRATOR

The primary responsibility of the Administrator is to administer the Plan for the exclusive benefit of the Participants and their Beneficiaries, subject to the specific terms of the Plan. The Administrator shall administer the Plan in accordance with its terms and shall have the power and discretion to construe the terms of the Plan and to determine all questions arising in connection with the administration, interpretation, and application of the Plan. Any such determination by the Administrator shall be conclusive and binding upon all persons. The Administrator may establish procedures, correct any defect, supply any information, or reconcile any inconsistency in such manner and to such extent as shall be deemed necessary or advisable to carry out the purpose of the Plan; provided, however, that any procedure, discretionary act, interpretation or construction shall be done in a nondiscriminatory manner based upon uniform principles consistently applied and shall be consistent with the intent that the Plan shall continue to be deemed a qualified plan under the terms of Code Section 401(a) and that the ESOP component shall continue to be deemed an ESOP as defined by Code Section 4975(e)(7), and shall comply with the terms of the Act and all regulations issued pursuant thereto. The Administrator shall have all powers necessary or appropriate to accomplish the Administrator's duties under the Plan.

The Administrator shall be charged with the duties of the general administration of the Plan as set forth under the terms of the Plan, including, but not limited to, the following:

(a) the discretion to determine all questions relating to the eligibility of Employees to participate or remain a Participant hereunder and to receive benefits under the Plan;

(b) to compute, certify, and direct the Trustee with respect to the amount and the kind of benefits to which any Participant shall be entitled hereunder;

(c) to authorize and direct the Trustee with respect to all discretionary or otherwise directed disbursements from the Trust;

(d) to maintain all necessary records for the administration of the Plan;

(e) to interpret the provisions of the Plan and to make and publish such rules for regulation of the Plan as are consistent with the terms hereof

(f) to determine the size and type of any Contract to be purchased from any insurer, and to designate the insurer from which such Contract shall be purchased;

(g) to compute and certify to the Employer and to the Trustee from time to time the sums of money necessary or desirable to be contributed to the Plan;

(h) to consult with the Employer and the Trustee regarding the short and long-term liquidity needs of the Plan in order that the Trustee can exercise any investment discretion in a manner designed to accomplish specific objectives;

(i) to prepare and implement a procedure to notify Eligible Employees that they may elect to have a portion of their Compensation deferred or paid to them in cash;

(j) to act as the named Fiduciary responsible for communications with Participants as needed to maintain Plan compliance with Act Section 404(c), including, but not limited to, the receipt and transmitting of Participant's directions as to the investment of their account(s) under the Plan and the formulation of policies, rules, and procedures pursuant to which Participants may give investment instructions with respect to the investment of their accounts;

(k) to establish and communicate to Participants a procedure, which includes at least three (3) Designated Investment Alternatives pursuant to Regulations, for allowing each Participant to direct the Trustee as to the investment of such Participant's Company Stock Account pursuant to Sections 4.14 and 5.8;

(l) to determine the validity of, and take appropriate action with respect to, any qualified domestic relations order received by it; and

(m) to assist any Participant regarding the Participant's rights, benefits, or elections available under the Plan.

2.5 RECORDS AND REPORTS

The Administrator shall keep a record of all actions taken and shall keep all other books of account, records, policies, and other data that may be necessary for proper administration of the Plan and shall be responsible for supplying all information and reports to the Internal Revenue Service, Department of Labor, Participants, Beneficiaries and others as required by law.

2.6 APPOINTMENT OF ADVISERS

The Administrator, or the Trustee with the consent of the Administrator, may appoint counsel, specialists, advisers, agents (including nonfiduciary agents) and other persons as the Administrator or the Trustee deems necessary or desirable in connection with the administration of this Plan, including but not limited to agents and advisers to assist with the administration and management of the Plan, and thereby to provide, among such other duties as the Administrator may appoint, assistance with maintaining Plan records and the providing of investment information to the Plan's investment fiduciaries and to Plan Participants.

2.7 INFORMATION FROM EMPLOYER

The Employer shall supply full and timely information to the Administrator on all pertinent facts as the Administrator may require in order to perform its function hereunder and the Administrator shall advise the Trustee of such of the foregoing facts as may be pertinent to the Trustee's duties under the Plan. The Administrator may rely upon such information as is supplied by the Employer and shall have no duty or responsibility to verify such information.

2.8 PAYMENT OF EXPENSES

All expenses of administration may be paid out of the Trust Fund unless paid by the Employer. Such expenses shall include any expenses incident to the functioning of the Administrator, or any person or persons retained or appointed by any named Fiduciary incident to the exercise of their duties under the Plan, including, but not limited to, fees of accountants, counsel, Investment Managers, agents (including nonfiduciary agents) appointed for the purpose of assisting the Administrator or the Trustee in carrying out the instructions of Participants as to the directed investment of their accounts and other specialists and their agents, the costs of any bonds required pursuant to Act Section 412, and other costs of administering the Plan. Until paid, the expenses shall constitute a liability of the Trust Fund.

The Administrator may, with the consent of the Employer, adopt such policy on the allocation of administrative expenses to Participants' Accounts as the Administrator determines to be necessary and appropriate.

2.9 MAJORITY ACTIONS

Except where there has been an allocation and delegation of administrative authority pursuant to Section 2.3, if there is more than one Administrator, then they shall act by a majority of their number, but may authorize one or more of them to sign all papers on their behalf.

2.10 CLAIMS PROCEDURE

Claims for benefits under the Plan may be filed in writing with the Administrator. Written or electronic notice of the disposition of a claim shall be furnished to the claimant within ninety (90) days (45 days if the claim involves disability benefits) after the application is filed, or such period as is required by applicable law or Department of Labor regulation. In the event the claim is denied, the reasons for the denial shall be specifically set forth in the notice in language calculated to be understood by the claimant, pertinent provisions of the Plan shall be cited, and, where

appropriate, an explanation as to how the claimant can perfect the claim will be provided. In addition, the claimant shall be furnished with an explanation of the Plan's claims review procedure.

2.11 CLAIMS REVIEW PROCEDURE

Any Employee, former Employee, or Beneficiary of either, who has been denied a benefit by a decision of the Administrator pursuant to Section 2.10 shall be entitled to request the Administrator to give further consideration to a claim by filing with the Administrator a written request for a hearing. Such request, together with a written statement of the reasons why the claimant believes the claim should be allowed, shall be filed with the Administrator no later than sixty (60) days (45 days if the claim involves disability benefits) after receipt of the written or electronic notification provided for in Section 2.10. The Administrator shall then conduct a hearing within the next sixty (60) days (45 days if the claim involves disability benefits), at which the claimant may be represented by an attorney or any other representative of such claimant's choosing and expense and at which the claimant shall have an opportunity to submit written and oral evidence and arguments in support of the claim. At the hearing (or prior thereto upon five (5) business days written notice to the Administrator) the claimant or the claimant's representative shall have an opportunity to review all documents in the possession of the Administrator which are pertinent to the claim at issue and its disallowance. Either the claimant or the Administrator may cause a court reporter to attend the hearing and record the proceedings. In such event, a complete written transcript of the proceedings shall be furnished to both parties by the court reporter. The full expense of any such court reporter and such transcripts shall be borne by the party causing the court reporter to attend the hearing. A final decision as to the allowance of the claim shall be made by the Administrator within sixty (60) days (45 days if the claim involves disability benefits) of receipt of the appeal (unless there has been an extension of sixty (60) days due to special circumstances, provided the delay and the special circumstances occasioning it are communicated to the claimant within the sixty (60) day period) (45 days if the claim involves disability benefits). Such communication shall be written in a manner calculated to be understood by the claimant and shall include specific reasons for the decision and specific references to the pertinent Plan provisions on which the decision is based.

ARTICLE III
ELIGIBILITY

3.1 CONDITIONS OF ELIGIBILITY

Any Eligible Employee who has completed a three (3) month Period of Service (or, prior to January 1, 2008, a six (6) month Period of Service) and has attained age 18 shall be eligible to participate hereunder as of the date such Employee has satisfied such requirements. However, any Employee who was a Participant in the Plan prior to the effective date of this amendment and restatement shall continue to participate in the Plan.

3.2 EFFECTIVE DATE OF PARTICIPATION

An Eligible Employee shall become a Participant effective as of the first day of the Plan Year quarter coinciding with or next following the date such Employee met the eligibility requirements of Section 3.1, provided said Employee was still employed as of such date (or if not employed on such date, as of the date of rehire if a 1-Year Break in Service has not occurred or, if later, the date that the Employee would have otherwise entered the Plan had the Employee not terminated employment).

If an Employee, who has satisfied the Plan's eligibility requirements and would otherwise have become a Participant, shall go from a classification of a noneligible Employee to an Eligible Employee, such Employee shall become a Participant on the date such Employee becomes an Eligible Employee or, if later, the date that the Employee would have otherwise entered the Plan had the Employee always been an Eligible Employee.

If an Employee, who has satisfied the Plan's eligibility requirements and would otherwise become a Participant, shall go from a classification of an Eligible Employee to a noneligible class of Employees, such Employee shall become a Participant in the Plan on the date such Employee again becomes an Eligible Employee, or, if later, the date that the Employee would have otherwise entered the Plan had the Employee always been an Eligible Employee.

However, if such Employee incurs a 1-Year Break in Service, eligibility will be determined under the Break in Service rules set forth in Section 3.7.

Any HCT Employee who had already met the eligibility requirements of Section 3.1 as of December 31, 2011 shall become a Participant effective as of January 1, 2012.

3.3 DETERMINATION OF ELIGIBILITY

The Administrator shall determine the eligibility of each Employee for participation in the Plan based upon information furnished by the Employer. Such determination shall be conclusive and binding upon all persons, as long as the same is made pursuant to the Plan and the Act. Such determination shall be subject to review pursuant to Section 2.11.

3.4 TERMINATION OF ELIGIBILITY

In the event a Participant shall go from a classification of an Eligible Employee to an ineligible Employee, such Former Participant shall continue to vest in the Plan for each Period of Service completed while a noneligible Employee, until such time as the Participant's Account and Participant's ESOP Account are forfeited or distributed pursuant to the terms of the Plan. Additionally, the Former Participant's interest in the Plan shall continue to share in the earnings of the Trust Fund.

3.5 OMISSION OF ELIGIBLE EMPLOYEE

If, in any Plan Year, any Employee who should be included as a Participant in the Plan is erroneously omitted and discovery of such omission is not made until after a contribution by the Employer for the year has been made and allocated, then the Employer shall make a subsequent contribution, if necessary after the application of Section 4.5(c) and 4.5(d), so that the omitted Employee receives a total amount which the Employee would have received (including both Employer contributions and earnings thereon) had the Employee not been omitted. Such contribution shall be made regardless of whether it is deductible in whole or in part in any taxable year under applicable provisions of the Code.

3.6 INCLUSION OF INELIGIBLE EMPLOYEE

If, in any Plan Year, any person who should not have been included as a Participant in the Plan is erroneously included and discovery of such inclusion is not made until after a contribution for the year has been made and allocated, the Employer shall be entitled to recover the contribution made with respect to the ineligible person provided the error is discovered within twelve (12) months of the date on which it was made. Otherwise, the amount contributed with respect to the ineligible person shall constitute a Forfeiture for the Plan Year in which the discovery is made. Notwithstanding the foregoing, any Deferred Compensation made by an ineligible person shall be distributed to the person (along with any earnings attributable to such Deferred Compensation).

3.7 REHIRED EMPLOYEES AND BREAKS IN SERVICE

(a) If any Participant becomes a Former Participant due to severance from employment with the Employer and is reemployed by the Employer before a 1-Year Break in Service occurs, the Former Participant shall become a Participant as of the reemployment date.

(b) If any Participant becomes a Former Participant due to severance from employment with the Employer and is reemployed after a 1-Year Break in Service has occurred, Periods of Service shall include Periods of Service prior to the 1-Year Break in Service subject to the following rules:

(1) In the case of a Former Participant who under the Plan does not have a nonforfeitable right to any interest in the Plan resulting from Employer contributions, Periods of Service before a period of 1 -Year Break in Service will not be taken into account if the number of consecutive 1-Year Breaks in Service equal or exceed the greater of (A) five (5) or (B) the aggregate number of pre-break

Periods of Service. Such aggregate number of Periods of Service will not include any Periods of Service disregarded under the preceding sentence by reason of prior 1-Year Breaks in Service.

(2) A Former Participant shall participate in the Plan as of the date of reemployment.

(c) After a Former Participant who has severed employment with the Employer incurs five (5) consecutive 1-Year Breaks in Service, the Vested portion of said Former Participant's Account and Participant's ESOP Account attributable to pre-break service shall not be increased as a result of post-break service. In such case, separate accounts will be maintained as follows:

(1) one account for nonforfeitable benefits attributable to pre-break service; and

(2) one account representing the Participant's Employer derived account balance in the Plan attributable to post-break service.

(d) If any Participant becomes a Former Participant due to severance of employment with the Employer and is reemployed by the Employer before five (5) consecutive 1-Year Breaks in Service, and such Former Participant had received a distribution of the entire Vested interest prior to reemployment, then the forfeited account shall be reinstated only if the Former Participant repays the full amount which had been distributed. Such repayment must be made before the earlier of five (5) years after the first date on which the Participant is subsequently reemployed by the Employer or the close of the first period of five (5) consecutive 1-Year Breaks in Service commencing after the distribution. If a distribution occurs for any reason other than a severance of employment, the time for repayment may not end earlier than five (5) years after the date of distribution. In the event the Former Participant does repay the full amount distributed, the undistributed forfeited portion of the Participant's Account and Participant's ESOP Account must be restored in full but may not be reinvested in Employer Stock, unadjusted by any gains or losses occurring subsequent to the Valuation Date preceding the distribution. The source for such reinstatement may be Forfeitures occurring during the Plan Year. If such source is insufficient, then the Employer will contribute an amount which is sufficient to restore any such forfeited Accounts, provided, however, that if a discretionary contribution is made for such year pursuant to Section 4.1(e), such contribution shall first be applied to restore any such Accounts and the remainder shall be allocated in accordance with Section 4.5.

ARTICLE IV
CONTRIBUTION AND ALLOCATION

4.1 FORMULA FOR DETERMINING EMPLOYER CONTRIBUTION

For each Plan Year, the Employer shall contribute to the Plan:

(a) The amount of the total salary reduction elections of all Participants made pursuant to Section 4.2(a), which amount shall be deemed an Employer Elective Contribution.

(b) On behalf of each Participant who is eligible to share in matching contributions for the Plan Year as specified in Section 4.5(b), a matching contribution equal to 100% of each such Participant's Deferred Compensation, which amount shall be deemed an Employer Non-Elective Contribution. Such matching contribution shall be made in cash.

Except, however, in applying the matching percentage specified above, only salary reductions up to the following percentage of payroll period Compensation, based on the Participant's whole year Periods of Service, shall be considered.

Periods of Service	% of Compensation
Less than 3 years	3%
At least 3 years but less than 5 years	4%
At least 5 years but less than 7 years	5%
7 or more years	6%

(c) In addition to the above matching contributions, the Employer may contribute to the Plan, on behalf of each Participant who is eligible to share in matching contributions for the Plan Year as specified in Section 4.5(b), a discretionary matching contribution equal to a uniform percentage of each such Participant's Deferred Compensation, the exact percentage, if any, to be determined each year by the Employer, which amount, if any, shall be deemed an Employer Non-Elective Contribution. Such discretionary matching contribution may be made in Employer Stock or cash, as determined by the Board.

(d) To the extent Qualified Non-Elective Contributions are determined to be desirable pursuant to Section 4.6 below, the Employer may make Qualified Non-Elective Contributions on behalf of each Non-Highly Compensated Participant equal to a uniform percentage of each such Non-Highly Compensated Participant's Compensation for the Plan Year.

(e) In addition, the Employer in its sole discretion may contribute to the Plan on behalf of each Participant a discretionary profit-sharing contribution. The exact amount, if any, of such discretionary profit-sharing contribution shall be determined each year by the Employer and such amount, if any, shall be deemed an Employer Non-Elective Contribution. Such discretionary profit-sharing contribution may be made in Employer

Stock or cash, as determined by the Bo ard, and will be allocated to each Participant in accordance with the following formula: (Participant Compensation/Total Participant Compensation) x profit-sharing contribution.

(f) The funding of the ESOP component of the Plan shall be the responsibility of the Board.

(g) To the extent necessary, the Employer shall also contribute to the Plan the amount necessary to provide the top heavy minimum contribution required by Section 9.4 of the Plan. All contributions by the Employer shall be made in cash or in such property as is acceptable to the Trustee.

(h) An HCT Employee shall not be considered a Participant eligible for matching contributions pursuant to Section 4.1(b) and Section 4.1(c) or for discretionary employer profit sharing contributions pursuant to Section 4.1(e).

4.2 PARTICIPANT'S SALARY REDUCTION ELECTION

(a) Each Participant may elect to defer from 1% to 100% of Compensation which would have been received in the Plan Year, but for the deferral election. A deferral election (or modification of an earlier election) may not be made with respect to Compensation which is currently available on or before the date the Participant executed such election. For purposes of this Section, Compensation shall be determined on an annual basis prior to any reductions made pursuant to Code Sections 125, 132(f)(4) (for Plan Years beginning after December 31, 2000), 402(e)(3), 402(h)(l)(B), 403(b) or 457(b), and Employee contributions described in Code Section 414(h)(2) that are treated as Employer contributions.

The amount by which Compensation is reduced shall be that Participant's Deferred Compensation and be treated as an Employer Elective Contribution and allocated to that Participant's Elective Account.

Effective for Plan Years beginning on or after January 1, 2007, a Participant may elect to have all or a portion of the Participant's Elective Deferrals to be considered Roth Contributions pursuant to Section 4.17 below when contributed to the Plan.

Notwithstanding the above, each Catch-Up Eligible Participant shall be eligible to make Catch-Up Contributions during the Plan Year in accordance with, and subject to the limitations of, Code Section 414(v) and Section 4.3 below.

(b) The balance in each Participant's Elective Account shall be fully Vested at all times and, except as otherwise provided herein, shall not be subject to Forfeiture for any reason.

(c) Notwithstanding anything in the Plan to the contrary, amounts held in the Participant's Elective Account may not be distributable (including any offset of loans) earlier than:

(1) the Participant's severance from employment with the Employer;

(2) the Participant's Total and Permanent Disability, or death;

(3) the Participant's attainment of age 59 1/2;

(4) the termination of the Plan without the existence at the time of Plan termination of an alternative defined contribution plan or the establishment of a successor defined contribution plan by the Employer or an Affiliated Employer within the period ending twelve months after distribution of all assets from the Plan maintained by the Employer. For this purpose, a defined contribution plan is not treated as a successor defined contribution plan if the plan is an employee stock ownership plan (as defined in Code Section 4975(e)(7) or 409), a simplified employee pension plan (as defined in Code Section 408(k)), or a simple individual retirement account plan (as defined in Code Section 408(p)). Furthermore, if at all times during the 24-month period beginning 12 months before the date of the Plan's termination, fewer than 2% of the Participants in the Plan as of the date of Plan termination are eligible under the other defined contribution plan, then the other defined contribution plan is not an alternative defined contribution plan;

(5) the date of disposition by the Employer to an entity that is not an Affiliated Employer of substantially all of the assets (within the meaning of Code Section 409(d)(2)) used in a trade or business of such corporation if such corporation continues to maintain this Plan after the disposition with respect to a Participant who continues employment with the corporation acquiring such assets;

(6) the date of disposition by the Employer or an Affiliated Employer who maintains the Plan of its interest in a subsidiary (within the meaning of Code Section 409(d)(3)) to an entity which is not an Affiliated Employer but only with respect to a Participant who continues employment with such subsidiary; or

(7) the proven financial hardship of a Participant, subject to the limitations of Section 7.11.

(d) For each Plan Year, a Participant's Elective Deferrals made under this Plan and all other plans, contracts or arrangements of the Employer maintaining this Plan shall not exceed, during any taxable year of the Participant, the limitation imposed by Code Section 402(g), as in effect at the beginning of such taxable year, except to the extent permitted under Code Section 414(v) and Section 4.3 below, if applicable. If such dollar limitation is exceeded, a Participant will be deemed to have notified the Administrator of such excess amount which shall be distributed in a manner consistent with Section 4.2(f). The dollar limitation shall be adjusted annually pursuant to the method provided in Code Section 415(d) in accordance with Regulations.

(e) In the event a Participant has received a hardship distribution from the Participant's Elective Account pursuant to Section 7.11(b) or pursuant to Treasury Regulation 1.401(k)-1(d)(2)(iv)(B) from any other plan maintained by the Employer, then such Participant shall not be permitted to elect to have Elective Deferrals contributed to the

Plan for a period of six (6) months following the receipt of the distribution. Effective prior to January 1, 2002, the period during which the Participant shall not be permitted to have Deferred Compensation contributed to this Plan was limited to twelve (12) months following the receipt of the distribution. Furthermore, for taxable years beginning prior to January 1, 2002, the dollar limitation under Code Section 402(g) shall be reduced, with respect to the Participant's taxable year following the taxable year in which the hardship distribution was made, by the amount of such Participant's Deferred Compensation, if any, pursuant to this Plan (and any other plan maintained by the Employer) for the taxable year of the hardship distribution.

(f) If a Participant's Elective Deferrals under this Plan together with any other elective deferrals (as defined in Regulation 1.402(g)-1 (b) and 1.414(v)-1(g)(2)) under another qualified cash or deferred arrangement (as described in Code Section 401(k)), a simplified employee pension (as described in Code Section 408(k)(6)), a simple individual retirement account plan (as described in Code Section 408(p)), a salary reduction arrangement (within the meaning of Code Section 312l(a)(5)(D)), a deferred compensation plan under Code Section 457(b), or a trust described in Code Section 501(c)(18) cumulatively exceed the limitation imposed by Code Section 402(g) (as adjusted annually in accordance with the method provided in Code Section 415(d) pursuant to Regulations) for such Participant's taxable year, the Participant may, not later than March 1 following the close of the Participant's taxable year, notify the Administrator in writing of such excess and request that the Participant's Elective Deferrals under this Plan be reduced by an amount specified by the Participant. In such event, the Administrator shall recharacterize the amount specified by the Participant as a Catch-up Contribution pursuant to Section 4.3 below, or, to the extent Catch-up Contributions are not available to the Participant, may direct the Trustee to distribute such excess amount (and any Income allocable to such excess amount) to the Participant not later than the first April 15th following the close of the Participant's taxable year. Any distribution of less than the entire amount of Excess Elective Deferrals and Income shall be treated as a pro rata distribution of Excess Elective Deferrals and Income. The amount distributed shall not exceed the Participant's Elective Deferrals under the Plan for the taxable year (and any Income allocable to such excess amount). Any distribution on or before the last day of the Participant's taxable year must satisfy each of the following conditions:

(1) the distribution must be made after the date on which the Plan received the Excess Elective Deferrals;

(2) the Participant shall designate the distribution as Excess Elective Deferrals; and

(3) the Plan must designate the distribution as a distribution of Excess Elective Deferrals.

Any distribution made pursuant to this Section 4.2(f) shall be made first from unmatched Elective Deferrals and, thereafter, from Elective Deferrals which are matched. Matching contributions which relate to such Elective Deferrals shall be forfeited.

Notwithstanding the above, for any Plan Years in which a Participant may elect both Roth Contributions and pre-tax Elective Deferrals, the Plan Administrator may operationally implement an ordering rule procedure for the distribution of Excess Elective Deferrals. Matching contributions that relate to Excess Elective Deferrals (regardless of whether such Excess Elective Deferrals are pre-tax Elective Deferrals or Roth Contributions) shall be treated as a Forfeiture.

(g) Notwithstanding Section 4.2(f) above, a Participant's Excess Elective Defeerrals shall be reduced, but not below zero, by any distribution of Excess Contributions pursuant to Section 4.7(a) for the Plan Year beginning with or within the taxable year of the Participant.

(h) At Normal Retirement Date, or such other date when the Participant shall be entitled to receive benefits, the fair market value of the Participant's Elective Account shall be used to provide additional benefits to the Participant or the Participant's Beneficiary.

(i) Employer Elective Contributions made pursuant to this Section may be segregated into a separate account for each Participant in a federally insured savings account, certificate of deposit in a bank or savings and loan association, money market certificate, or other short-term debt security acceptable to the Trustee until such time as the allocations pursuant to Section 4.5 have been made.

(j) The Employer and the Administrator shall implement the salary reduction elections provided for herein in accordance with the following:

(1) A Participant must make an initial salary deferral election, or an election to receive cash in lieu of a salary deferral if the Participant is subject to the automatic deferral election feature under Section 4.2(k) below, within a reasonable time, not to exceed thirty (30) days, after entering the Plan pursuant to Section 3.2. If the Participant fails to make an initial salary deferral election within such time, then such Participant may thereafter make an election in accordance with the rules governing modifications. The Participant shall make such an election by entering into a written salary reduction agreement with the Employer and filing such agreement with the Administrator. Such election shall initially be effective beginning with the pay period following the acceptance of the salary reduction agreement by the Administrator, shall not have retroactive effect and shall remain in force until revoked.

(2) A Participant may modify a prior election at any time during the Plan Year and concurrently make a new election by filing a written notice with the Administrator within a reasonable time before the pay period for which such modification is to be effective. Any modification shall not have retroactive effect and shall remain in force until revoked.

(3) A Participant may elect to prospectively revoke the Participant's salary reduction agreement in its entirety at any time during the Plan Year by providing the Administrator with thirty (30) days written notice of such revocation (or upon such shorter notice period as may be acceptable to the Administrator). Such revocation shall become effective as of the beginning of the first pay period

coincident with or next following the expiration of the notice period. Furthermore, the termination of the Participant's employment, or the cessation of participation for any reason, shall be deemed to revoke any salary reduction agreement then in effect, effective immediately following the close of the pay period within which such termination or cessation occurs.

(k) **Automatic Enrollment by Negative Election.** Notwithstanding anything to the contrary in this Plan, effective for Plan Years beginning on and after January 1, 2007, the Employer shall apply the automatic enrollment provisions of this subsection 4.2(k) to each of the Eligible Employees described in Subsection 4.2(k)(1) of this Plan. Under such procedures for automatic enrollment by negative election as the Administrator may adopt, the Employer shall automatically enroll each Eligible Employee described in subsection (k)(1) in the Plan, and each such Eligible Employee shall be deemed to have made a Salary Reduction Agreement to reduce his or her Compensation by the amount specified in subsection 4.2(k)(2) below, unless the Eligible Employee has filed a contrary election under Section 4.2(k)(3). Amounts contributed to the Plan under such a deemed election shall be treated as Elective Contributions for all purposes under the Plan.

(1) **Covered Eligible Employees.** The negative election provisions of this subsection 4.2(k) shall apply to:

(A) each Eligible Employee who first becomes eligible to participate in the Plan on or after January 1, 2007,

(B) each other Eligible Employee who has not elected to make Elective Contributions to this Plan, and

(C) each other Eligible Employee who is deferring less than 3.0 percent of his or her Compensation.

(2) **Contributions under Negative Elections**. Unless an Eligible Employee described in Subsection 4.2(k)(1) files a contrary election under Subsection 4.2(k)(3) below, the Eligible Employee shall be deemed to have elected to reduce his or her Compensation for each pay period by the following percentage of payroll period Compensation, based on the Eligible Employee's whole year Periods of Service:

Periods of Service	% of Compensation
Less than 3 years	3%
At least 3 years, but less than 5 years	4%
At least 5 years, but less than 7 years	5%
7 or more years	6%

(3) **Contrary election.** An Eligible Employee may at any time elect not to defer any Compensation or to defer an amount which is less than or more than the negative election amount specified in subsection 4.2(k)(2) ("contrary election"). An Eligible Employee's contrary election generally is effective as of

the first payroll period which follows delivery of the Eligible Employee's contrary el ection to the Administrator. However, an Eligible Employee may make a contrary election which is effective: (1) for the first payroll period in which he/she becomes a Participant if the Eligible Employee makes a contrary election within a reasonable period following the Participant's entry date and before the Compensation to which the election applies becomes currently available; or (2) for the first payroll period following January 1, 2007, if the Eligible Employee makes a contrary election not later than December 31, 2006. An Eligible Employee's contrary election continues in effect until the Eligible Employee subsequently changes his/her Salary Reduction Agreement.

(4) **Negative election notice.** The Administrator must provide a notice to each Eligible Employee which explains the effect of the negative election and an Eligible Employee's right to make a contrary election, including the procedure and timing applicable to the contrary election. The Administrator must provide the notice to an Eligible Employee a reasonable period prior to that Eligible Employee's commencement of participation in the Plan subject to the negative election. The Administrator also must notify annually those Eligible Employees then subject to the negative election of the existing negative election deferral percentage and the Eligible Employee's right to make a contrary election, including the procedure and timing applicable to the contrary election.

(5) **Default investment.** In the event an Eligible Employee has Elective Contributions withheld pursuant to this subsection 4.2(k) and has not submitted any investment directive, any cash received as Elective Contributions on his or her behalf shall be invested in the default Directed Investment Option, as provided for in Section 4.14.

4.3 CATCH-UP CONTRIBUTIONS

This Section 4.3 shall apply to catch-up contributions made on and after January 1, 2002. All Employees who are eligible to make salary reductions under this Plan and who have attained age 50 before the close of the Plan Year shall be eligible to make catch-up contributions in accordance with, and subject to the limitations of, Code Section 414(v). Such catch-up contributions shall not be taken into account for purposes of the provisions of the Plan implementing the required limitations of Code Sections 402(g) and 415. The Plan shall not be treated as failing to satisfy the provisions of the Plan implementing the requirements of Code Section 401(k)(3), 401(k)(11), 401(k)(12), 410(b), or 416, as applicable, by reason of the making of such catch-up contributions. Notwithstanding any other provision of the Plan, effective January 6, 2004, a Participant may elect to make catch-up contributions pursuant to this Section 4.3 as a percentage of compensation or as a stated amount of compensation.

If an Employee is eligible to make Catch-up Contributions under this Section 4.3 and the Employee's Elective Deferrals to this Plan for a Plan Year exceed the annual limit imposed by the actual deferral percentage test under Section 4.6 with respect to the Plan Year or would otherwise exceed the annual limit on Elective Deferrals imposed by Code Section 402(g), the Administrator may recharacterize that part of the Deferred Compensation made on behalf of the Employee with

respect to the Plan Year which exceeds the limit imposed by the actual deferral percentage test imposed by Section 4.6 (as determined under Section 4.7(a) below) (the "excess contributions") or that part of the Employee's Deferred Compensation requested by the Participant pursuant to Section 4.2(f) (the "excess deferrals") as Catch-up Contributions, to the maximum extent possible under this Section 4.3. Any recharacterization of excess contributions or excess deferrals as Catch-up Contributions shall be completed within 2-1/2 months after the end of the Plan Year. Any excess contributions or excess deferrals recharacterized as Catch-up Contributions shall be fully vested and nonforfeitable at all times, and shall remain subject to the restrictions on early withdrawals set forth in Section 4.2(c) above.

4.4 TIME OF PAYMENT OF EMPLOYER CONTRIBUTION

The Employer may make its contribution to the Plan for a particular Plan Year at such time as the Employer, in its sole discretion, determines. If the Employer makes a contribution for a particular Plan Year after the close of that Plan Year, the Employer will designate to the Trustee the Plan Year for which the Employer is making its contribution.

Notwithstanding anything contained herein to the contrary, Deferred Compensation must be remitted to the Trust no later than the 15th business day of the month following the month in which the Participant's Deferred Compensation would otherwise have been payable to such Participant in cash as set forth in DOL Regulation §2510.3-l02(b)(l).

4.5 ALLOCATION OF CONTRIBUTION AND EARNINGS

(a) The Administrator shall establish and maintain an account in the name of each Participant to which the Administrator shall credit as of each Anniversary Date, or other Valuation Date, all amounts allocated to each such Participant as set forth herein.

(b) The Employer shall provide the Administrator with all information required by the Administrator to make a proper allocation of the Employer contributions for each Plan Year. Within a reasonable period of time after the date of receipt by the Administrator of such information, the Administrator shall allocate such contribution as follows:

(1) With respect to the Employer Elective Contributions made pursuant to Section 4.1(a), to each Participant's Elective Account in an amount equal to each such Participant's Elective Deferrals to this Plan for the year.

(2) With respect to the Employer Non-Elective Contribution made pursuant to Sections 4.1(b) and 4.1(c) that are made in cash, to each Participant's Account in accordance with Sections 4.1(b) and 4.1(c). Any Participant actively employed during the Plan Year shall be eligible to share in the tiered matching contribution for the Plan Year. However, only Participants who are employed on the last day of the Plan Year shall be eligible to share in the discretionary matching contribution and discretionary profit-sharing contribution for the Plan Year.

(3) With respect to the Employer Non-Elective Contribution made pursuant to Sections 4.1(b) and 4.1(c) that are made in Employer Stock, to each Participant's ESOP Account in accordance with Sections 4.1(b) and 4.1(c). Only

Participants who are employed on the last day of the Plan Year shall be eligible to share in the discretionary matching contribution and discretionary profit-sharing contribution for the Plan Year.

(4) Notwithstanding the foregoing, an HCT Employee shall be a Participant for purposes of Subsection 4.1(a), but shall not be considered a Participant eligible for employer matching or profit sharing contributions under Subsections 4.1(b), (c) and (e).

(5) With respect to Qualified Non-Elective Contributions made pursuant to Section 4.1(d), to each Non-Highly Compensated Participant's Elective Account when used to satisfy the Actual Deferral Percentage tests.

(6) With respect to any discretionary employer non-elective profit sharing contribution made pursuant to Section 4.1(e), to each eligible Participant's Account in the same proportion that each such Participant's Compensation for the year bears to the total Compensation of all eligible Participants for such Plan Year. Only those Participants who are actively employed by the Employer on the last day of the Plan Year shall be eligible to share in such discretionary employer profit sharing contribution for the Plan Year.

(c) The ESOP Account of each Participant shall be credited with the Participant's allocable share of Employer Stock (including fractional shares) contributed in kind by the Employer, or purchased and paid for by the Plan with cash contributions declared by the Employer for this purpose, effective as of the date such Employer contribution is to be made. Stock dividends on Employer Stock held in the Participant's ESOP Account shall be credited to the Participant's ESOP Account when paid to the Plan. Cash dividends on Employer Stock held in the Participant's ESOP Account shall be credited to the Participant's Other Investments Account when paid to the Plan, and then reinvested in Employer Stock. The additional shares of Employer Stock purchased with such dividends shall be credited to the Participant's ESOP Account when purchased.

(d) On or before each Anniversary Date any amounts which became Forfeitures since the last Anniversary Date may be made available to reinstate previously forfeited account balances of Former Participants, if any, in accordance with Section 3.7(d), be used to satisfy any contribution that may be required pursuant to Section 3.5 and/or 7.9, or be used to pay any administrative expenses of the Plan. The remaining Forfeitures, if any, shall be used to reduce the contribution of the Employer hereunder for the Plan Year in which such Forfeitures occur.in the following manner:

(1) Forfeitures attributable to Employer matching contributions made pursuant to Section 4.1(b) shall used to reduce the Employer matching contribution for the Plan Year in which such Forfeitures occur.

(2) Forfeitures attributable to Employer discretionary contributions made pursuant to Section 4.1(e) shall be used to reduce the Employer discretionary contribution for the Plan Year in which such Forfeitures occur, or, if there is no

such Employer discretionary contribution for the Plan Year in which such Forfeitures occur, to reduce the Employer matching contributions for such Plan Year.

(e) For any Top Heavy Plan Year, Non-Key Employees not otherwise eligible to share in the allocation of contributions as provided above, shall receive the minimum allocation provided for in Section 4.5(g) if eligible pursuant to the provisions of Section 4.5(i).

(f) Notwithstanding the foregoing, Participants who are not actively employed on the last day of the Plan Year due to Retirement (Normal or Late), Total and Permanent Disability or death shall share in allocation of contributions for that Plan Year.

(g) Minimum Allocations Required for Top Heavy Plan Years : Notwithstanding the foregoing, for any Top Heavy Plan Year, the sum of the Employer contributions allocated to the Participant's Combined Account of each Non-Key Employee shall be equal to at least three percent (3%) of such Non-Key Employee's "415 Compensation" (reduced by contributions and forfeitures, if any, allocated to each Non-Key Employee in any defined contribution plan included with this Plan in a Required Aggregation Group). However, if (1) the sum of the Employer contributions allocated to the Participant's Combined Account of each Key Employee for such Top Heavy Plan Year is less than three percent (3%) of each Key Employee's "415 Compensation" and (2) this Plan is not required to be included in an Aggregation Group to enable a defined benefit plan to meet the requirements of Code Section 401(a)(4) or 410, the sum of the Employer contributions allocated to the Participant's Combined Account of each Non-Key Employee shall be equal to the largest percentage allocated to the Participant's Combined Account of any Key Employee. However, in determining whether a Non-Key Employee has received the required minimum allocation, such Non-Key Employee's Elective Deferrals to the Plan shall not be taken into account.

However, no such minimum allocation shall be required in this Plan for any Non-Key Employee who participates in another defined contribution plan subject to Code Section 412 included with this Plan in a Required Aggregation Group.

(h) For purposes of the minimum allocations set forth above, the percentage allocated to the Participant's Combined Account of any Key Employee shall be equal to the ratio of the sum of the Employer contributions allocated on behalf of such Key Employee divided by the "415 Compensation" for such Key Employee.

(i) For any Top Heavy Plan Year, the minimum allocations set forth above shall be allocated to the Participant's Combined Account of all Non-Key Employees who are Participants and who are employed by the Employer on the last day of the Plan Year, including Non-Key Employees who have (1) failed to complete a Period of Service; and (2) declined to make mandatory contributions (if required) or, in the case of a cash or deferred arrangement, elective contributions to the Plan.

(j) As of the Valuation Date, before the current valuation period allocation of Employer contributions, any earnings or losses (net appreciation or net depreciation) of the Trust Fund shall be allocated in the same proportion that each Participant's and Former Participant's

nonsegregated accounts bear to the total of all Participants' and Former Participants' nonsegregated accounts as of such date. Earnings or loses with respect to a Participant's Directed Account shall be allocated in accordance with Section 4.14.

(k) For the purposes of this Section, "415 Compensation" in excess of $150,000 (or such other amount provided in the Code) shall be disregarded. Such amount shall be adjusted for increases in the cost of living in accordance with Code Section 401(a)(17)(B), except that the dollar increase in effect on January 1 of any calendar year shall be effective for the Plan Year beginning with or within such calendar year. If "415 Compensation" for any prior determination period is taken into account in determining a Participant's minimum benefit for the current Plan Year, the "415 Compensation" for such determination period is subject to the applicable annual "415 Compensation" limit in effect for that prior period. Notwithstanding the foregoing, the 415 Compensation of each Participant taken into account for any Plan Year beginning after December 31, 2001, shall not exceed $200,000, as adjusted for cost-of-living increases in accordance with Code Section 401(a)(17)(B). For this purpose, in determining the minimum benefit in Plan Years beginning on or after January 1, 1989, the annual "415 Compensation" limit in effect for determination periods beginning before that date is $200,000 (or such other amount as adjusted for increases in the cost of living in accordance with Code Section 415(d) for determination periods beginning on or after January 1, 1989, and in accordance with Code Section 401(a)(17)(B) for determination periods beginning on or after January 1, 1994). For determination periods beginning prior to January 1, 1989, the $200,000 limit shall apply only for Top Heavy Plan Years and shall not be adjusted. For any short Plan Year the "415 Compensation" limit shall be an amount equal to the "415 Compensation" limit for the calendar year in which the Plan Year begins multiplied by the ratio obtained by dividing the number of full months in the short Plan Year by twelve (12).

(l) Notwithstanding anything herein to the contrary, Participants who terminated employment for any reason during the Plan Year shall share in the salary reduction contributions made by the Employer for the year of termination without regard to the Hours of Service credited.

(m) Notwithstanding anything in this Section to the contrary, all information necessary to properly reflect a given transaction may not be available until after the date specified herein for processing such transaction, in which case the transaction will be reflected when such information is received and processed. Subject to express limits that may be imposed under the Code, the processing of any contribution, distribution or other transaction may be delayed for any legitimate business reason (including, but not limited to, failure of systems or computer programs, failure of the means of the transmission of data, force majeure, the failure of a service provider to timely receive values or prices, and the correction for errors or omissions or the errors or omissions of any service provider). The processing date of a transaction will be binding for all purposes of the Plan.

4.6 ACTUAL DEFERRAL PERCENTAGE TESTS

(a) Maximum Annual Allocation: For each Plan Year beginning after December 31, 1996, the annual allocation derived from Employer Elective Contributions to a Highly Compensated Participant's Elective Account shall satisfy one of the following tests:

(1) The "Actual Deferral Percentage" for the Highly Compensated Participant group shall not be more than the "Actual Deferral Percentage" of the

Non-Highly Compensated Participant group (for the preceding Plan Year if the prior year testing method is used to calculate the "Actual Deferral Percentage" for the Non-Highly Compensated Participant group) multiplied by 1.25, or

(2) The excess of the "Actual Deferral Percentage" for the Highly Compensated Participant group over the "Actual Deferral Percentage" for the Non-Highly Compensated Participant group (for the preceding Plan Year if the prior year testing method is used to calculate the "Actual Deferral Percentage" for the Non-Highly Compensated Participant group) shall not be more than two percentage points. Additionally, the "Actual Deferral Percentage" for the Highly Compensated Participant group shall not exceed the "Actual Deferral Percentage" for the Non-Highly Compensated Participant group (for the preceding Plan Year if the prior year testing method is used to calculate the "Actual Deferral Percentage" for the Non-Highly Compensated Participant group) multiplied by 2. The provisions of Code Section 401(k)(3) and Regulation l.40l(k)-l(b) are incorporated herein by reference.

(b) For the purposes of this Section "Actual Deferral Percentage" means, with respect to the Highly Compensated Participant group and Non-Highly Compensated Participant group for a Plan Year, the average of the ratios, calculated separately for each Participant in such group, of the amount of Employer Elective Contributions (less Catch-Up Contributions) allocated to each Participant's Elective Account for such Plan Year, to such Participant's "414(s) Compensation" for such Plan Year. The actual deferral ratio for each Participant and the "Actual Deferral Percentage" for each group shall be calculated to the nearest one-hundredth of one percent. Employer Elective Contributions (less Catch-Up Contributions) allocated to each Non-Highly Compensated Participant's Elective Account shall be reduced by Excess Elective Deferrals to the extent such excess amounts are made under this Plan or any other plan maintained by the Employer.

Notwithstanding the above, if the prior year testing method is used to calculate the "Actual Deferral Percentage" for the Non-Highly Compensated Participant group for the first Plan Year of this amendment and restatement, the "Actual Deferral Percentage" for the Non-Highly Compensated Participant group for the preceding Plan Year shall be calculated pursuant to the provisions of the Plan then in effect.

(c) For the purposes of Sections 4.6(a) and 4.7, a Highly Compensated Participant and a Non-Highly Compensated Participant shall include any Employee eligible to make a deferral election pursuant to Section 4.2, whether or not such deferral election was made or suspended pursuant to Section 4.2.

Notwithstanding the above, if the prior year testing method is used to calculate the "Actual Deferral Percentage" for the Non-Highly Compensated Participant group for the first Plan Year of this amendment and restatement, for purposes of Sections 4.6(a) and 4.7, a Non-Highly Compensated Participant shall include any such Employee eligible to make a deferral election, whether or not such deferral election was made or suspended, pursuant to the provisions of the Plan in effect for the preceding Plan Year.

(d) For the purposes of this Section and Code Sections 40l(a)(4), 410(b) and 401(k), if two or more plans which include cash or deferred arrangements are considered one plan for the purposes of Code Section 401(a)(4) or 410(b) (other than Code Section 410(b)(2)(A)(ii)), the cash or deferred arrangements included in such plans shall be treated as one arrangement. In addition, two or more cash or deferred arrangements may be considered as a single arrangement for purposes of determining whether or not such arrangements satisfy Code Sections 401(a)(4), 410(b) and 401(k). In such a case, the cash or deferred arrangements included in such plans and the plans including such arrangements shall be treated as one arrangement and as one plan for purposes of this Section and Code Sections 401(a)(4), 410(b) and 401(k). Any adjustment to the Non-Highly Compensated Participant actual deferral ratio for the prior year shall be made in accordance with Internal Revenue Service Notice 98-1 and any superseding guidance. Plans may be aggregated under this paragraph (d) only if they have the same plan year. Notwithstanding the above, for Plan Years beginning after December 31, 1996, if two or more plans which include cash or deferred arrangements are permissively aggregated under Regulation 1.410(b)-7(d), all plans permissively aggregated must use either the current year testing method or the prior year testing method for the testing year.

Notwithstanding the above, an employee stock ownership plan described in Code Section 4975(e)(7) or 409 may not be combined with this Plan for purposes of determining whether the employee stock ownership plan or this Plan satisfies this Section and Code Sections 401(a)(4), 410(b) and 401(k).

(e) For the purposes of this Section, if a Highly Compensated Participant is a Participant under two or more cash or deferred arrangements (other than a cash or deferred arrangement which is part of an employee stock ownership plan as defined in Code Section 4975(e)(7) or 409) of the Employer or an Affiliated Employer, all such cash or deferred arrangements shall be treated as one cash or deferred arrangement for the purpose of determining the actual deferral ratio with respect to such Highly Compensated Participant. However, if the cash or deferred arrangements have different plan years, this paragraph shall be applied by treating all cash or deferred arrangements ending with or within the same calendar year as a single arrangement. For Plan Years beginning on or after January 1, 2006, if any Highly Compensated Participant participates in two or more qualified 401(k) savings plans or other “cash or deferred arrangements” maintained by the Employer that have different plan years, all elective deferrals made to any of the plans during the Plan Year of this Plan shall be treated as elective deferrals made to this Plan for purposes of the average deferral percentage test prescribed by this Section 4.6.

(f) For the purpose of this Section, unless otherwise provided below, when calculating the “Actual Deferral Percentage” for the Non-Highly Compensated Participant group, the prior year testing method shall be used. Any change from the current year testing method to the prior year testing method shall be made pursuant to Internal Revenue Service Notice 98-1, Section VII (or superseding guidance), the provisions of which are incorporated herein by reference.

For the Plan Year beginning after December 31, 1996, the current year testing method shall be used.

For the Plan Year beginning after December 31, 1997, the current year testing m ethod shall be used.

For the Plan Year beginning after December 31, 1998, the prior year testing method shall be used.

For the Plan Year beginning after December 31, 1999, the current year testing method shall be used.

For the Plan Year beginning after December 31, 2000, the prior year testing method shall be used.

(g) Notwithstanding anything in this Section to the contrary, the provisions of this Section and Section 4.7 may be applied separately (or will be applied separately to the extent required by Regulations) to each plan within the meaning of Regulation 1.401(k)-l(g)(11). Furthermore, for Plan Years beginning after December 31, 1998, the provisions of Code Section 401(k)(3)(F) may be used to exclude from consideration all Non-Highly Compensated Employees who have not satisfied the minimum age and service requirements of Code Section 410(a)(1)(A). For purposes of applying this provision, the Administrator may use any effective date of participation that is permitted under Code Section 410(b) provided such date is applied on a consistent and uniform basis to all Participants.

4.7 ADJUSTMENT TO ACTUAL DEFERRAL PERCENTAGE TESTS

In the event (or if it is anticipated) that the initial allocations of the Employer Elective Contributions made pursuant to Section 4.5 do (or might) not satisfy one of the tests set forth in Section 4.6(a) for Plan Years beginning after December 31, 1996, the Administrator shall adjust Excess Contributions pursuant to the options set forth below:

(a) On or before the fifteenth day of the third month following the end of each Plan Year, but in no event later than the close of the following Plan Year, the Highly Compensated Participant having the largest dollar amount of Elective Contributions shall have a portion of such Participant's Elective Contributions distributed (or recharacterized as Catch-Up Contributions pursuant to Section 4.3, if possible) until the total amount of Excess Contributions has been treated as Catch-Up Contributions or distributed, or until the amount of such Participant's remaining Elective Contributions equals the Elective Contributions of the Highly Compensated Participant having the second largest dollar amount of Elective Contributions. This process shall continue until the total amount of Excess Contributions has been distributed or recharacterized. In determining the amount of Excess Contributions to be treated as Catch-Up Contributions or distributed with respect to an affected Highly Compensated Participant as determined herein, such amount shall be reduced pursuant to Section 4.2(f) by any Excess Elective Deferrals previously distributed to such affected Highly Compensated Participant for such Participant's taxable year ending with or within such Plan Year.

(1) With respect to the distribution of Excess Contributions pursuant to (a) above, such distribution:

(i) may be postponed but not later than the close of the Plan Year following the Plan Year to which they are allocable;

(ii) shall be adjusted for Income; and

(iii) shall be designated by the Employer as a distribution of Excess Contributions (and Income).

(2) Any distribution of less than the entire amount of Excess Contributions shall be treated as a pro rata distribution of Excess Contributions and Income.

(3) Matching contributions which relate to Excess Contributions shall be forfeited unless the related matching contribution is distributed as an Excess Aggregate Contribution pursuant to Section 4.9.

Notwithstanding the above, for any Plan Years in which Participant's may make both Roth Contributions and pre-tax Elective Deferrals, the Plan Administrator may operationally implement an ordering rule procedure for the distribution of Excess Contributions. Matching Contributions that relate to Excess Contributions (regardless of whether such Excess Contributions are pre-tax Elective Deferrals or Roth Contributions) shall be treated as a Forfeiture.

Any distribution of Excess Contributions made pursuant to this subsection shall be made first from unmatched Elective Deferrals (regardless of whether they are attributable to pre-tax Elective Deferrals or Contributions) and, thereafter, from Elective Deferrals which are matched. Matching contributions which relate to Elective Deferrals that are distributed pursuant to this Subsection shall be treated as a Forfeiture to the extent required pursuant to Code Section 401(a)(4) and the Regulations thereunder, unless the related Matching Contribution is distributed as an Excess Aggregate Contribution pursuant to Section 4.9.

(b) Notwithstanding the above, within twelve (12) months after the end of the Plan Year, the Employer may make a special Qualified Non-Elective Contribution in accordance with one of the following provisions which contribution shall be allocated to the Participant’s Elective Account of each Non-Highly Compensated Participant eligible to share in the allocation in accordance with such provision. The Employer shall provide the Administrator with written notification of the amount of the contribution being made and for which provision it is being made pursuant to:

(1) A special Qualified Non-Elective Contribution may be made on behalf of Non-Highly Compensated Participants in an amount sufficient to satisfy (or to prevent an anticipated failure of) one of the tests set forth in Section 4.6(a). Such contribution shall be allocated in the same proportion that each Non-Highly Compensated Participant’s 414(s) Compensation for the year (or prior year if the prior year testing method is being used) bears to the total 414(s) Compensation of all Non-Highly Compensated Participants for such year.

(2) A special Qualified Non-Elective Contribution may be made on behalf of Non-Highly Compensated Participants in an amount sufficient to satisfy (or to prevent an anticipated failure of) one of the tests set forth in Section 4.6(a). Such contribution shall be allocated to Non-Highly Compensated Participants pursuant to Section 4.5 above.

(3) A special Qualified Non-Elective Contribution may be made on behalf of Non-Highly Compensated Participants in an amount sufficient to satisfy (or to prevent an anticipated failure of) one of the tests set forth in Section 4.6(a). Such contribution shall be allocated to the Non-Highly Compensated Participant having the lowest 414(s) Compensation, until one of the tests set forth in Section 4.6(a) is satisfied (or is anticipated to be satisfied), or until such Non-Highly Compensated Participant has received the maximum "annual addition" pursuant to Section 4.10. This process shall continue until one of the tests set forth in Section 4.6(a) is satisfied (or is anticipated to be satisfied). This Subsection 4.7(b)(3) shall not be utilized for any Plan Year beginning on or after January 1, 2006.

Notwithstanding the above, at the Employer's discretion, Non-Highly Compensated Participants who are not employed at the end of the Plan Year (or at the end of the prior Plan Year if the prior year testing method is being used) shall not be eligible to receive a special Qualified Non-Elective Contribution and shall be disregarded.

Notwithstanding the above, for Plan Years beginning after December 31, 1998, if the testing method changes from the current year testing method to the prior year testing method, then for purposes of preventing the double counting of Qualified Non-Elective Contributions for the first testing year for which the change is effective, any special Qualified Non-Elective Contribution on behalf of Non-Highly Compensated Participants used to satisfy the "Actual Deferral Percentage" or "Actual Contribution Percentage" test under the current year testing method for the prior year testing year shall be disregarded.

(c) If during a Plan Year, it is projected that the aggregate amount of Elective Contributions to be allocated to all Highly Compensated Participants under this Plan would cause the Plan to fail the tests set forth in Section 4.6(a), then the Administrator may automatically reduce the deferral amount of affected Highly Compensated Participants, beginning with the Highly Compensated Participant who has the highest deferral ratio until it is anticipated the Plan will pass the tests or until the actual deferral ratio equals the actual deferral ratio of the Highly Compensated Participant having the next highest actual deferral ratio. This process may continue until it is anticipated that the Plan will satisfy one of the tests set forth in Section 4.6(a). Alternatively, the Employer may specify a maximum percentage of Compensation that may be deferred.

(d) Any Excess Contributions (and Income) which are distributed on or after 2 1/2 months after the end of the Plan Year shall be subject to the ten percent (10%) Employer excise tax imposed by Code Section 4979.

4.8 ACTUAL CONTRIBUTION PERCENTAGE TESTS

(a) The "Actual Contribution Percentage" for Plan Years beginning after December 31, 1996 for the Highly Compensated Participant group shall not exceed the greater of:

(1) 125 percent of such percentage for the Non-Highly Compensated Participant group (for the preceding Plan Year if the prior year testing method is used to calculate the "Actual Contribution Percentage" for the Non-Highly Compensated Participant group); or

(2) the lesser of 200 percent of such percentage for the Non-Highly Compensated Participant group (for the preceding Plan Year if the prior year testing method is used to calculate the "Actual Contribution Percentage" for the Non-Highly Compensated Participant group), or such percentage for the Non-Highly Compensated Participant group (for the preceding Plan Year if the prior year testing method is used to calculate the "Actual Contribution Percentage" for the Non-Highly Compensated Participant group) plus 2 percentage points. The provisions of Code Section 401(m) and Regulations 1.401(m)-1(b) and 1.401(m)-2 are incorporated herein by reference. The multiple use test described in Treasury Regulation Section 1.401(m)-2 of the Plan shall not apply for Plan Years beginning after December 31, 2001.

(b) For the purposes of this Section and Section 4.9, "Actual Contribution Percentage" for a Plan Year means, with respect to the Highly Compensated Participant group and Non-Highly Compensated Participant group (for the preceding Plan Year if the prior year testing method is used to calculate the "Actual Contribution Percentage" for the Non-Highly Compensated Participant group), the average of the ratios (calculated separately for each Participant in each group and rounded to the nearest one-hundredth of one percent) of:

(1) the sum of Employer matching contributions made pursuant to Section 4.1(b) and/or Section 4.1(c) on behalf of each such Participant for such Plan Year; to

(2) the Participant's "414(s) Compensation" for such Plan Year.

Notwithstanding the above, if the prior year testing method is used to calculate the "Actual Contribution Percentage" for the Non-Highly Compensated Participant group for the first Plan Year of this amendment and restatement, for purposes of Section 4.8(a), the "Actual Contribution Percentage" for the Non-Highly Compensated Participant group for the preceding Plan Year shall be determined pursuant to the provisions of the Plan then in effect.

(c) For purposes of determining the "Actual Contribution Percentage," only Employer matching contributions contributed to the Plan prior to the end of the succeeding Plan Year shall be considered. In addition, the Administrator may elect to take into account, with respect to Employees eligible to have Employer matching contributions

pursuant to Section 4.1(b) or Section 4.1(c) allocated to their accounts, elective deferrals (as define d in Regulation 1.402(g)-1(b)) and qualified non-elective contributions (as defined in Code Section 40l(m)(4)(C)) contributed to any plan maintained by the Employer. Such elective deferrals and qualified non-elective contributions shall be treated as Employer matching contributions subject to Regulation 1.401(m)-1(b)(5) which is incorporated herein by reference. However, the Plan Year must be the same as the plan year of the plan to which the elective deferrals and the qualified non-elective contributions are made.

(d) For purposes of this Section and Code Sections 401(a)(4), 410(b) and 401(m), if two or more plans of the Employer to which matching contributions, Employee contributions, or both, are made are treated as one plan for purposes of Code Sections 40l(a)(4) or 410(b) (other than the average benefits test under Code Section 410(b)(2)(A)(ii)), such plans shall be treated as one plan. In addition, two or more plans of the Employer to which matching contributions, Employee contributions, or both, are made may be considered as a single plan for purposes of determining whether or not such plans satisfy Code Sections 40l(a)(4), 410(b) and 401(m). In such a case, the aggregated plans must satisfy this Section and Code Sections 40l(a)(4), 410(b) and 401(m) as though such aggregated plans were a single plan. Notwithstanding the above, this Plan may not be combined with any other plan which is not an employee stock ownership plan described in Code Section 4975(e)(7) or 409 may not be aggregated with this Plan for purposes of determining whether the employee stock ownership plan or this Plan satisfies this Section and Code Sections 401(a)(4), 410(b) and 401(m).

(e) If a Highly Compensated Participant is a Participant under two or more plans (other than an employee stock ownership plan as defined in Code Section 4975(e)(7) or 409) which are maintained by the Employer or an Affiliated Employer to which matching contributions, Employee contributions, or both, are made, all such contributions on behalf of such Highly Compensated Participant shall be aggregated for purposes of determining such Highly Compensated Participant’s actual contribution ratio. However, if the plans have different plan years, this paragraph shall be applied by treating all plans ending with or within the same calendar year as a single plan. For Plan Years beginning on or after January 1, 2006, if any Highly Compensated Employee participates in two or more qualified plans maintained by the Company that have different plan years, all matching Contributions or Employee contributions made to any of the plans during the 12-month Plan Year of this Plan shall be treated as made to this Plan for purposes of the average percentage test prescribed by this Section 4.8.

(f) For purposes of Sections 4.8(a) and 4.9, a Highly Compensated Participant and Non-Highly Compensated Participant shall include any Employee eligible to have Employer matching contributions (whether or not a deferral election was made or suspended) allocated to the Participant’s account for the Plan Year.

Notwithstanding the above, if the prior year testing method is used to calculate the “Actual Contribution Percentage” for the Non-Highly Compensated Participant group for the first Plan Year of this amendment and restatement, for the purposes of Section 4.8(a), a Non-Highly Compensated Participant shall include any such Employee eligible to have

Employer matching contributions (whether or not a deferral election was made or suspended) allocated to the Participant's account for the preceding Plan Year pursuant to the provisions of the Plan then in effect.

(g) For the purpose of this Section, for Plan Years beginning after December 31, 1996, unless otherwise provided below, when calculating the "Actual Contribution Percentage" for the Non-Highly Compensated Participant group, the prior year testing method shall be used. Any change from the current year testing method to the prior year testing method shall be made pursuant to Internal Revenue Service Notice 98-1, Section VII (or superseding guidance), the provisions of which are incorporated herein by reference.

For the Plan Year beginning after December 31, 1996, the current year testing method shall be used.

For the Plan Year beginning after December 31, 1997, the current year testing method shall be used.

For the Plan Year beginning after December 31, 1998, the prior year testing method shall be used.

For the Plan Year beginning after December 31, 1999, the current year testing method shall be used.

For the Plan Year beginning after December 31, 2000, the prior year testing method shall be used.

(h) Notwithstanding anything in this Section to the contrary, the provisions of this Section and Section 4.9 may be applied separately (or will be applied separately to the extent required by Regulations) to each plan within the meaning of Regulation 1.401(k)-l(g)(11). Furthermore, for Plan Years beginning after December 31, 1998, the provisions of Code Section 401(k)(3)(F) may be used to exclude from consideration all Non-Highly Compensated Employees who have not satisfied the minimum age and service requirements of Code Section 410(a)(1)(A).

4.9 ADJUSTMENT TO ACTUAL CONTRIBUTION PERCENTAGE TESTS

(a) In the event (or if it is anticipated) that, for Plan Years beginning after December 31, 1996, the "Actual Contribution Percentage" for the Highly Compensated Participant group exceeds (or might exceed) the "Actual Contribution Percentage" for the Non-Highly Compensated Participant group pursuant to Section 4.8(a), the Administrator (on or before the fifteenth day of the third month following the end of the Plan Year, but in no event later than the close of the following Plan Year) shall direct the Trustee to distribute to the Highly Compensated Participant having the largest dollar amount of contributions determined pursuant to Section 4.8(b)(1), the Vested portion of such contributions (and Income allocable to such contributions) and, if forfeitable, forfeit such non-Vested Excess Aggregate contributions attributable to Employer matching contributions (and Income allocable to such forfeitures) until the total amount of Excess

Aggregate Contributions has been distributed, or until the Participant's remaining amount equals the amount of contributions determined pursuant to Section 4.8(b)(l) of the Highly Compensated Participant having the second largest dollar amount of contributions. This process shall continue until the total amount of Excess Aggregate Contributions has been distributed.

If the correction of Excess Aggregate Contributions attributable to Employer matching contributions is not in proportion to the Vested and non-Vested portion of such contributions, then the Vested portion of the Participant's Account or Participant's ESOP Account attributable to Employer matching contributions after the correction shall be subject to Section 7.5(h).

(b) Any distribution and/or forfeiture of less than the entire amount of Excess Aggregate Contributions (and Income) shall be treated as a pro rata distribution and/or forfeiture of Excess Aggregate Contributions and Income. Distribution of Excess Aggregate Contributions shall be designated by the Employer as a distribution of Excess Aggregate Contributions (and Income). Forfeitures of Excess Aggregate Contributions shall be treated in accordance with Section 4.5.

(c) Excess Aggregate Contributions, including forfeited matching contributions, shall be treated as Employer contributions for purposes of Code Sections 404 and 415 even if distributed from the Plan.

Forfeited matching contributions that are reallocated to Participants' Accounts or Participant's ESOP Account for the Plan Year in which the forfeiture occurs shall be treated as an "annual addition" pursuant to Section 4.10(b) for the Participants to whose Accounts they are reallocated and for the Participants from whose Accounts they are forfeited.

(d) The determination of the amount of Excess Aggregate Contributions with respect to any Plan Year shall be made after first determining the Excess Contributions, if any, to be treated as after-tax voluntary Employee contributions due to recharacterization for the plan year of any other qualified cash or deferred arrangement (as defined in Code Section 401(k)) maintained by the Employer that ends with or within the Plan Year.

(e) If during a Plan Year the projected aggregate amount of Employer matching contributions to be allocated to all Highly Compensated Participants under this Plan would, by virtue of the tests set forth in Section 4.8(a), cause the Plan to fail such tests, then the Administrator may automatically reduce proportionately or in the order provided in Section 4.9(a) each affected Highly Compensated Participant's projected share of such contributions by an amount necessary to satisfy one of the tests set forth in Section 4.8(a).

(f) Notwithstanding the above, within twelve (12) months after the end of the Plan Year, the Employer may make a special Qualified Non-Elective Contribution in accordance with one of the following provisions which contribution shall be allocated to the Participant's Account of each Non-Highly Compensated eligible to share in the allocation in accordance with such provision. The Employer shall provide the

Administrator with written notification of the amount of the contribution b eing made and for which provision it is being made pursuant to:

(1) A special Qualified Non-Elective Contribution may be made on behalf of Non-Highly Compensated Participants in an amount sufficient to satisfy (or to prevent an anticipated failure of) one of the tests set forth in Section 4.8. Such contribution shall be allocated in the same proportion that each Non-Highly Compensated Participant's 414(s) Compensation for the year (or prior year if the prior year testing method is being used) bears to the total 414(s) Compensation of all Non-Highly Compensated Participants for such year.

(2) A special Qualified Non-Elective Contribution may be made on behalf of Non-Highly Compensated Participants in an amount sufficient to satisfy (or to prevent an anticipated failure of) one of the tests set forth in Section 4.8. Such contribution shall be allocated in equal amounts (per capita).

(3) A special Qualified Non-Elective Contribution may be made on behalf of Non-Highly Compensated Participants in an amount sufficient to satisfy (or to prevent an anticipated failure of) one of the tests set forth in Section 4.8. Such contribution shall be allocated to the Non-Highly Compensated Participant having the lowest 414(s) Compensation, until one of the tests set forth in Section 4.8 is satisfied (or is anticipated to be satisfied), or until such Non-Highly Compensated Participant has received the maximum "annual addition" pursuant to Section 4.10. This process shall continue until one of the tests set forth in Section 4.8 is satisfied (or is anticipated to be satisfied). This Subsection 4.9(f)(5) shall not be utilized for any Plan Year beginning on or after January 1, 2006.

Notwithstanding the above, at the Employer's discretion, Non-Highly Compensated Participants who are not employed at the end of the Plan Year (or at the end of the prior Plan Year if the prior year testing method is being used) shall not be eligible to receive a special Qualified Non-Elective Contribution and shall be disregarded.

Notwithstanding the above, for Plan Years beginning after December 31, 1998, if the testing method changes from the current year testing method to the prior year testing method, then for purposes of preventing the double counting of Qualified Non-Elective Contributions for the first testing year for which the change is effective, any special Qualified Non-Elective Contribution on behalf of Non-Highly Compensated Participants used to satisfy the "Actual Deferral Percentage" or "Actual Contribution Percentage" test under the current year testing method for the prior year testing year shall be disregarded.

(g) Any Excess Aggregate Contributions (and Income) which are distributed on or after 2 1/2 months after the end of the Plan Year shall be subject to the ten percent (10%) Employer excise tax imposed by Code Section 4979.

4.10 MAXIMUM ANNUAL ADDITIONS

(a) Notwithstanding the foregoing, for "limitation years" beginning after December 31, 2001, the maximum "annual additions" credited to a Participant's accounts

for any “limitation year” shall equal the lesser of: (1) $40,000 adjusted annually as provided in C ode Section 415(d) pursuant to the Regulations, or (2) one hundred percent (100%) of the Participant’s “415 Compensation” for such “limitation year.” If the Employer contribution that would otherwise be contributed or allocated to the Participant’s accounts would cause the “annual additions” for the “limitation year” to exceed the maximum “annual additions,” the amount contributed or allocated will be reduced so that the “annual additions” for the “limitation year” will equal the maximum “annual additions,” and any amount in excess of the maximum “annual additions,” which would have been allocated to such Participant may be allocated to other Participants. For any short “limitation year,” the dollar limitation in (1) above shall be reduced by a fraction, the numerator of which is the number of full months in the short “limitation year” and the denominator of which is twelve (12). The “415 Compensation” limit referred to in (b) of the previous sentence shall not apply to any contribution for medical benefits after separation from service (within the meaning of Code Section 401(h) or Code Section 419A(f)(2)) which is otherwise treated as an “annual addition.”

(b) For purposes of applying the limitations of Code Section 415, “annual additions” means the sum credited to a Participant’s accounts for any “limitation year” of (l) Employer contributions, (2) Employee contributions, (3) forfeitures, (4) amounts allocated, after March 31, 1984, to an individual medical account, as defined in Code Section 415(l)(2) which is part of a pension or annuity plan maintained by the Employer, (5) amounts derived from contributions paid or accrued after December 31, 1985, in taxable years ending after such date, which are attributable to post-retirement medical benefits allocated to the separate account of a key employee (as defined in Code Section 419A(d)(3)) under a welfare benefit plan (as defined in Code Section 419(e)) maintained by the Employer, and (6) allocations under a simplified employee pension plan. Except, however, the “415 Compensation” percentage limitation referred to in paragraph (a) above shall not apply to: (1) any contribution for medical benefits (within the meaning of Code Section 401(h) or 419A(f)(2)) after separation from service which is otherwise treated as an “annual addition,” or (2) any amount otherwise treated as an “annual addition” under Code Section 415(l)(l).

If the "annual additions" under the Plan would cause the maximum "annual additions" to be exceeded for any Participant, and all or a portion of the "excess amount" is treated as a Catch-Up Contribution, then any matching contributions which relate to such Catch-Up Contribution will be used to reduce the Employer contribution in the next "limitation year."

(c) For purposes of applying the limitations of Code Section 415, the following are not "annual additions": (1) the transfer of funds from one qualified plan to another and (2) provided no more than one-third of the Employer contributions for the year are allocated to Highly Compensated Participants, Forfeitures of Company Stock purchased with the proceeds of an Acquisition Loan and Employer contributions applied to the payment of interest on an Acquisition Loan. In addition, the following are not Employee contributions for the purposes of Section 4.10(b)(2): (1) rollover contributions (as defined in Sections 402(c), 402(e)(6), 403(a)(4), 403(b)(8) and 408(d)(3) and 457(e)(16) of the

Code); (2) repayments of loans made to a Participant from the Plan; (3) repayments of distributions received by an Employee pursuant to Code Section 411 (a)(7)(B) (cash-outs); (4) repayments of distributions received by an Employee pursuant to Code Section 41l(a)(3)(D) (mandatory contributions); and (5) Employee contributions to a simplified employee pension excludable from gross income under Code Section 408(k)(6).

(d) For purposes of applying the limitations of Code Section 415, the “limitation year” shall be the Plan Year.

(e) For the purpose of this Section, all qualified defined contribution plans (whether terminated or not) ever maintained by the Employer shall be treated as one defined contribution plan.

(f) For the purpose of this Section, if the Employer is a member of a controlled group of corporations, trades or businesses under common control (as defined by Code Section 1563(a) or Code Section 414(b) and (c) as modified by Code Section 415(h)), is a member of an affiliated service group (as defined by Code Section 414(m)), or is a member of a group of entities required to be aggregated pursuant to Regulations under Code Section 414(o), all Employees of such Employers shall be considered to be employed by a single Employer.

(g) If a Participant participates in more than one defined contribution plan maintained by the Employer which have different Anniversary Dates, the maximum “annual additions” under this Plan shall equal the maximum “annual additions” for the “limitation year” minus any “annual additions” previously credited to such Participant’s accounts during the “limitation year.”

(1) If a Participant participates in both a defined contribution plan subject to Code Section 412 and a defined contribution plan not subject to Code Section 412 maintained by the Employer which have the same Anniversary Date, “annual additions” will be credited to the Participant’s accounts under the defined contribution plan subject to Code Section 412 prior to crediting “annual additions” to the Participant’s accounts under the defined contribution plan not subject to Code Section 412.

(2) If a Participant participates in more than one defined contribution plan not subject to Code Section 412 maintained by the Employer which have the same Anniversary Date, the maximum “annual additions” under this Plan shall equal the product of (A) the maximum “annual additions” for the “limitation year” minus any “annual additions” previously credited under subparagraphs (1) or (2) above, multiplied by (B) a fraction (i) the numerator of which is the “annual additions” which would be credited to such Participant’s accounts under this Plan without regard to the limitations of Code Section 415 and (ii) the denominator of which is such “annual additions” for all plans described in this subparagraph.

(h) Notwithstanding anything contained in this Section to the contrary, the limitations, adjustments and other requirements prescribed in this Section shall at all times comply with the provisions of Code Section 415 and the Regulations thereunder.

(i) For purposes of this Section 4.10 of the Plan and Section 415(c) of the Code, for limitation years beginning on or after January 1, 2008, "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 continuedin 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.

4.11 ADJUSTMENT FOR EXCESSIVE ANNUAL ADDITIONS

(a) Effective January 1, 2008, in the event there is an "excess amount" for any Participant for a "limitation year," the Plan may only correct such "excess amount" in accordance with the Employee Plans Compliance Resolution System (EPCRS) as set forth in Revenue Procedure 2008-50 or any subsequent guidance.

(b) If, as a result of a reasonable error in estimating a Participant's Compensation, a reasonable error in determining the amount of elective deferrals (within the meaning of Code Section 402(g)(3)) that may be made with respect to any Participant under the limits of Section 4.10 or other facts and circumstances to which Regulation 1.415-6(b)(6) shall be applicable, the "annual additions" under this Plan for any limitation year beginning prior to July 1, 2007 would cause the maximum "annual additions" to be exceeded for any Participant, the "excess amount" will be disposed of in one of the following manners, as uniformly determined by the Administrator for all Participants similarly situated.

(1) Any unmatched Deferred Compensation and, thereafter, proportionately from Deferred Compensation which is matched and matching contributions which relate to such Deferred Compensation, will be reduced to the extent they would reduce the "excess amount." The Deferred Compensation (and for "limitation years" beginning after December 31, 1995, any gains attributable to

such Deferred Compensation) will be distributed to the Participant and the Employer matching contributions (and for "limitation years" beginning after December 31, 1995, any gains attributable to such matching contributions) will be used to reduce the Employer contribution in the next "limitation year";

(2) If, after the application of subparagraph (1) above, an "excess amount" still exists, and the Participant is covered by the Plan at the end of the "limitation year," the "excess amount" will be used to reduce the Employer contribution for such Participant in the next "limitation year," and each succeeding "limitation year" if necessary;

(3) If, after the application of subparagraphs (1) and (2) above, an "excess amount" still exists, and the Participant is not covered by the Plan at the end of the "limitation year," the "excess amount" will be held unallocated in a "Section 415 suspense account. " The "Section 415 suspense account" will be applied to reduce future Employer contributions for all remaining Participants in the next "limitation year," and each succeeding "limitation year" if necessary;

(4) If a "Section 415 suspense account" is in existence at any time during the "limitation year" pursuant to this Section, it will not participate in the allocation of investment gains and losses of the Trust Fund. If a "Section 415 suspense account" is in existence at any time during a particular "limitation year," all amounts in the "Section 415 suspense account" must be allocated and reallocated to Participants' accounts before any Employer contributions or any Employee contributions may be made to the Plan for that "limitation year." Except as provided in (1) above, "excess amounts" may not be distributed to Participants or Former Participants.

(c) For purposes of this Article, "excess amount" for any Participant for a "limitation year" shall mean the excess, if any, of (l) the "annual additions" which would be credited to the Participant's account under the terms of the Plan without regard to the limitations of Code Section 415 over (2) the maximum "annual additions" determined pursuant to Section 4.10.

(d) For purposes of this Section, "Section 415 suspense account" shall mean an unallocated account equal to the sum of "excess amounts" for all Participants in the Plan during the "limitation year."

4.12 ROLLOVERS AND PLAN-TO-PLAN TRANSFERS FROM QUALIFIED PLANS

(a) With the consent of the Administrator, amounts may be transferred (within the meaning of Code Section 414(1)) to this Plan from other tax qualified plans under Code Section 401(a) by Eligible Employees, provided that the trust from which such funds are transferred permits the transfer to be made and the transfer will not jeopardize the tax exempt status of the Plan or Trust or create adverse tax consequences for the Employer. Prior to accepting any transfers to which this Section applies, the Administrator may require an opinion of counsel that the amounts to be transferred meet the requirements of this Section. The amounts transferred shall be set up in a separate account herein referred to as a Participant's Transfer Account. The Participant's Transfer/Rollover Account may not be reinvested in Employer Stock. Furthermore, for vesting purposes, the Participant's portion of the Participant's Transfer Account attributable to any transfer shall be subject to Section 7.4(b).

Except as permitted by Regulations (including Regulation 1.411(d)-4), amounts attributable to elective contributions (as defined in Regulation 1.401(k)-1(g)(3)), including amounts treated as elective contributions, which are transferred from another qualified plan in a plan-to-plan transfer (other than a direct rollover) shall be subject to the distribution limitations provided for in Regulation 1.401(k)-1(d).

(b) With the consent of the Administrator, the Plan may accept a "rollover" by Eligible Employees, provided the "rollover" will not jeopardize the tax exempt status of the Plan or create adverse tax consequences for the Employer. Prior to accepting any "rollovers" to which this Section applies, the Administrator may require the Employee to establish (by providing an opinion of counsel or otherwise) that the amounts to be rolled over to this Plan meet the requirements of this Section. Effective as of the first day of the first plan year beginning after December 31, 2001, the Administrator, operationally and on a nondiscriminatory basis, may limit the source of rollover contributions that may be accepted by this Plan. The amounts rolled over shall be set up in a separate account herein referred to as a "Participant's Transfer/Rollover Account." Such account shall be fully Vested at all times and shall not be subject to Forfeiture for any reason.

For purposes of this Section, the term "qualified plan" shall mean any tax qualified plan under Code Section 401(a), or, any other plans from which distributions are eligible to be rolled over into this Plan pursuant to the Code. The term "rollover" means: (i) amounts transferred to this Plan directly from another qualified plan; (ii) distributions received by an Employee from other "qualified plans" which are eligible for tax-free rollover to a "qualified plan" and which are transferred by the Employee to this Plan within sixty (60) days following receipt thereof; (iii) amounts transferred to this Plan from a conduit individual retirement account provided that the conduit individual retirement account has no assets other than assets which (A) were previously distributed to the Employee by another "qualified plan," (B) were eligible for tax-free rollover to a "qualified plan" and (C) were deposited in such conduit individual retirement account within sixty (60) days of receipt thereof (iv) amounts distributed to the Employee from a conduit individual retirement account meeting the requirements of clause (iii) above, and transferred by the Employee to this Plan within sixty (60) days of receipt thereof from such conduit individual retirement account; and (v) any other amounts which are eligible to be rolled

over to this Plan pursuant to the Code.

(c) Amounts in a Participant's Transfer/Rollover Account shall be held by the Trustee pursuant to the provisions of this Plan and may not be withdrawn by, or distributed to the Participant, in whole or in part, except as provided in Section 7.10 and paragraph (d) of this Section. The Trustee shall have no duty or responsibility to inquire as to the propriety of the amount, value or type of assets transferred, nor to conduct any due diligence with respect to such assets; provided, however, that such assets are otherwise eligible to be held by the Trustee under the terms of this Plan.

(d) At Normal Retirement Date or such other date when the Participant or the Participant's Beneficiary shall be entitled to receive benefits, the Participant's Transfer/Rollover Account shall be used to provide additional benefits to the Participant or the Participant's Beneficiary. Any distributions of amounts held in a Participant's Transfer/Rollover Account shall be made in a manner which is consistent with and satisfies the provisions of Section 7.5, including, but not limited to, all notice and consent requirements of Code Section 411(a)(11) and the Regulations thereunder. Furthermore, such amounts shall be considered as part of a Participant's benefit in determining whether an involuntary cash-out of benefits may be made without Participant consent.

(e) The Administrator may direct that Employee transfers and rollovers made after a Valuation Date be segregated into a separate account for each Participant until such time as the allocations pursuant to this Plan have been made, at which time they may remain segregated or be invested as part of the general Trust Fund or be directed by the Participant pursuant to Section 4.14.

(f) This Plan shall not accept any direct or indirect transfers (as that term is defined and interpreted under Code Section 401(a)(l1) and the Regulations thereunder) from a defined benefit plan, money purchase plan (including a target benefit plan), stock bonus or profit sharing plan which would otherwise have provided for a life annuity form of payment to the Participant.

(g) Notwithstanding anything herein to the contrary, a transfer directly to this Plan from another qualified plan (or a transaction having the effect of such a transfer) shall only be permitted if it will not result in the elimination or reduction of any "Section 41l(d)(6) protected benefit" as described in Section 8.1.

4.13 VOLUNTARY CONTRIBUTIONS

(a) Any prior after-tax voluntary Employee contributions shall be maintained in each Participant's Voluntary Contribution Account. The balance in each Participant's Voluntary Contribution Account shall be fully Vested at all times and shall not be subject to Forfeiture for any reason.

(b) A Participant may elect at any time to withdraw after-tax voluntary Employee contributions from such Participant's Voluntary Contribution Account and the actual earnings thereon in a manner which is consistent with and satisfies the provisions of

Section 7.5, including, but not limited to, all notice and consent requirements of Code Section 411(a)(11) and the Regulations thereunder. If the Administrator maintains sub-accounts with respect to after-tax voluntary Employee contributions (and earnings thereon) which were made on or before a specified date, a Participant shall be permitted to designate which sub-account shall be the source for withdrawal. Forfeitures of Employer contributions shall not occur solely as a result of an Employee's withdrawal of after-tax voluntary Employee contributions.

4.14 DIRECTED INVESTMENT ACCOUNT

(a) 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 or any portion 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 in different assets. That portion of the interest of any Participant so directing will thereupon be considered a Participant's Directed Account. All contributions to a Participant's ESOP Account shall be invested in Employer Stock. However, any amount of the Participant's ESOP Account that the Participant subsequently elects to direct the investment of pursuant to Section 5.8 shall be transferred from the Participant's ESOP Account to the Participant's Directed Account.

(b) As of each Valuation Date, all Participant Directed Accounts shall be charged or credited with the net earnings, gains, losses and expenses as well as any appreciation or depreciation in the market value using publicly listed fair market values when available or appropriate as follows:

(1) to the extent that the assets in a Participant's Directed Account are accounted for as pooled assets or investments, the allocation of earnings, gains and losses of each Participant's Directed Account shall be based upon the total amount of funds so invested in a manner proportionate to the Participant's share of such pooled investment; and

(2) to the extent that the assets in the Participant's Directed Account are accounted for as segregated assets, the allocation of earnings, gains and losses from such assets shall be made on a separate and distinct basis.

(c) Investment directions will be processed as soon as administratively practicable after proper investment directions are received from the Participant. No guarantee is made by the Plan, Employer, Administrator or Trustee that investment directions will be processed on a daily basis, and no guarantee is made in any respect regarding the processing time of an investment direction. Notwithstanding any other provision of the Plan, the Employer, Administrator or Trustee reserves the right to not value an investment option on any given Valuation Date for any reason deemed appropriate by the Employer, Administrator or Trustee. Furthermore, the processing of any

investment transaction may be delayed for any legitimate business reason (including, but not limited to, failure of systems or computer programs, failure of the means of the transmission of data, force majeure, the failure of a service provider to timely receive values or prices, and correction for errors or omissions or the errors or omissions of any service provider). The processing date of a transaction will be binding for all purposes of the Plan and considered the applicable Valuation Date for an investment transaction.

(d) The Participant Direction Procedures shall provide an explanation of the circumstances under which Participants and their Beneficiaries may give investment instructions, including, but need not be limited to, the following:

(1) the conveyance of instructions by the Participants and their Beneficiaries to invest Participant Directed Accounts in Directed Investment Options;

(2) the name, address and phone number of the Fiduciary (and, if applicable, the person or persons designated by the Fiduciary to act on its behalf) responsible for providing information to the Participant or a Beneficiary upon request relating to the Directed Investment Options;

(3) applicable restrictions on transfers to and from any Designated Investment Alternative;

(4) any restrictions on the exercise of voting, tender and similar rights related to a Directed Investment Option by the Participants or their Beneficiaries;

(5) a description of any transaction fees and expenses which affect the balances in Participant Directed Accounts in connection with the purchase or sale of Directed Investment Options; and

(6) general procedures for the dissemination of investment and other information relating to the Designated Investment Alternatives as deemed necessary or appropriate, including but not limited to a description of the following:

(i) the investment vehicles available under the Plan, including specific information regarding any Designated Investment Alternative;

(ii) any designated Investment Managers; and

(iii) a description of the additional information which may be obtained upon request from the Fiduciary designated to provide such information.

(e) Any information regarding investments available under the Plan, to the extent not required to be described in the Participant Direction Procedures, may be provided to the Participant in one or more written documents (or in any other form including, but not limited to, electronic media) which are separate from the Participant Direction Procedures and are not thereby incorporated by reference into this Plan.

(f) The Administrator may, in its discretion, include in or exclude by amendment or other action from the Participant Direction Procedures such instructions, guidelines or policies as it deems necessary or appropriate to ensure proper administration of the Plan, and may interpret the same accordingly.

4.15 QUALIFIED MILITARY SERVICE

Notwithstanding any provision of this Plan to the contrary, effective December 12, 1994, contributions, benefits and service will be provided in accordance with Code Section 414(u).

4.16 ELIGIBLE INDIVIDUAL ACCOUNT PLAN

Notwithstanding any provision of this Plan to the contrary, effective on and after January 1, 2003, the Plan may acquire and hold qualifying employer securities (as defined in Act Section 407(d)(5)). The Plan is explicitly designed to be an eligible individual account plan as defined in Act Section 407(d)(3) with respect to the acquisition and holding of qualifying employer securities. The discretionary matching stock contribution for Plan Year 2003 and subsequent Plan Years shall be invested in Employer Stock as required under the Plan, as amended, effective January 1, 2004.

4.17 ROTH DEFERRAL CONTRIBUTIONS

(1) General Application.

(A) This Section 4.17 will apply to contributions beginning with the first day of the first taxable year beginning on or after January 1, 2007.

(B) As of the effective date under subsection 4.17(1)(A) hereof, the Plan will accept Roth Deferral Contributions made on behalf of Participants. A Participant's Roth Deferral Contributions will be allocated to a separate account maintained for such contributions as described in subsection 4.17(2).

(C) Unless specifically stated otherwise, Roth Deferral Contributions will be treated as Elective Contributions for all purposes under the Plan.

(2) Separate Accounting.

(A) Contributions and withdrawals of Roth Deferral Contributions will be credited and debited to the Roth Deferral Contributions sub-account maintained for each Participant within the Participant's Elective Account.

(B) The Plan will maintain a record of the amount of Roth Deferral Contributions in each such sub-account.

(C) Gains, losses, and other credits or charges must be separately allocated on a reasonable and consistent basis to each Participant's Roth Deferral Contributions

sub-account and the Participant's other sub-accounts within the Participant's Elective Account under the Plan.

(D) No contributions other than Roth Deferral Contributions and properly attributable earnings will be credited to each Participant's Roth Deferral Contributions sub-account.

(3) Direct Rollovers.

(A) Notwithstanding anything to the contrary in Section 7.13, a direct rollover of a distribution from a Roth Deferral Contributions sub-account under the Plan will only be made to another Roth Deferral Contributions account under an applicable retirement plan described in Code section 402A(e)(1) or to a Roth IRA described in Code section 408A and only to the extent the rollover is permitted under the rules of Code section 402(c).

(B) Notwithstanding anything to the contrary in Section 4.12, the Plan will accept a rollover contribution to a Roth Deferral Contributions sub-account, but only if it is a direct rollover from another Roth Deferral Contributions account under an applicable retirement plan described in Code section 402A(e)(1) and only to the extent the rollover is permitted under the rules of Code section 402(c).

(C) The Plan will not provide for a direct rollover (including an automatic rollover) for distributions from a Participant's Roth Deferral Contributions sub-account if the amounts of the distributions that are eligible rollover distributions are reasonably expected to total less than $200 during a year. In addition, any distribution from a Participant's Roth Deferral Contributions sub-account is not taken into account in determining whether distributions from a Participant's other sub-accounts are reasonably expected to total less than $200 during a year. However, eligible rollover distributions from a Participant's Roth Deferral Contributions sub-account are taken into account in determining whether the total amount of the Participant's account balances under the Plan exceeds $1,000 for purposes of mandatory distributions from the Plan.

(D) The provisions of the Plan that allow a Participant to elect a direct rollover of only a portion of an eligible rollover distribution but only if the amount rolled over is at least $500 is applied by treating any amount distributed from the Participant's Roth Deferral Contributions sub-account as a separate distribution from any amount distributed from the Participant's other sub-accounts in the Plan, even if the amounts are distributed at the same time.

(4) Correction of Excess Contributions. In the case of a distribution of excess contributions, a Highly Compensated Employee may designate the extent to which the excess amount is composed of pre-tax Elective Contributions and Roth Elective Deferrals but only to the extent such types of deferrals were made for the year.

If the Highly Compensated Employee does not designate which type of Elective Contributions are to be distributed, the Plan will distribute pre-tax Elective Contributions first.

(5) Roth Deferral Contributions Defined. A Roth Deferral Contribution is an Elective Contribution that is:

(A) Designated irrevocably by the Participant at the time ofthe cash or deferred election as a Roth Deferral Contribution that is being made in lieu of all or a portion of the pre-tax Elective Contributions the Participant is otherwise eligible to make under the Plan; and

(B) Treated by the Employer as includible in the Participant's income at the time the Participant would have received that amount in cash if the Participant had not made acash or deferred election.

(6) Hardship and In-Service Distributions. The Plan permits hardship distributions of Elective Contributions. Roth Deferral Contributions may be withdrawn for a hardship distribution subject to the same conditions that apply to pre-tax Elective Contributions. Roth Deferral Contributions may be withdrawn for an in-service distribution subject to the same conditions that apply to other Elective Contributions.

(7) Ordering Rules for Distributions. The Administrator operationally may implement an ordering rule procedure for withdrawals (including, but not limited to, hardship or other in-service withdrawals) from a Participant's accounts attributable to pre-tax Elective Contributions or Roth Deferral Contributions. Pursuant to such procedure, the Administrator may determine whether the pre-tax Elective Contributions or Roth Deferral Contributions are distributed first, provided any such determination is made in a uniform nondiscriminatory manner. Alternatively, such procedure may permit the Participant to elect which type of Elective Deferrals shall be distributed first. Further, a terminated participant may elect a distribution of all or a portion of his or her account balance attributable to Roth Deferral Contributions in a different form or at a different time than a distribution of all or a portion of his or her other accounts under the Plan.

(8) Participant Loans. Roth Deferral Contributions shall be treated in the same manner as pre-tax Elective Contributions for purposes of the Plan's participant loan policy regarding limitations on the ability to borrow from or use a Participant's Account as security. Furthermore, the loan policy or program may be modified to provide for an ordering rule with respect to the default of a loan that is made from the Participant's Roth Deferral Contributions sub-account and other Accounts under the Plan.

(9) Automatic Enrollment. Whenever a Participant is contributing to the Plan pursuant to an automatic enrollment feature (i.e., in the absence of an affirmative election by a Participant, a certain amount or percentage of Compensation will automatically be contributed to the Plan as an Elective Deferral), then such Elective Deferral shall be made as a pre-tax Elective Contribution, not as a Roth Deferral Contribution.

(10) Operational Compliance. The Administrator will administer Roth Deferral Contributions in accordance with applicable regulations or other binding authority not reflected in this amendment. Any applicable regulations or other binding authority shall supersede any contrary provisions of this amendment.

4.18 INCOME ADJUSTMENT.

Any excess deferred compensation distributed under Section 4.2(f), any excess contributions distributed pursuant to Section 4.7(a) and excess aggregate contributions distributed pursuant to Section 4.9(b) shall be adjusted for any investment income or loss up to the date of the distribution. The investment income or loss attributable to such distributable contributions shall be the sum of (i) the income or loss on such contributions for the Plan Year, plus (ii) the income or loss on such contributions for the gap period, determined under any reasonable method selected by the Plan Administrator. If no other method has been specified by the Plan Administrator, the investment income or loss allocable to such excess contributions shall be the sum of: (1) income or loss allocable to the Participant's Elective Account (or, for purposes of Section 4.9(b), Account) for the Plan Year multiplied by a fraction, the numerator of which is such Participant's excess contributions for the Plan Year and the denominator is the Participant's account balance attributable to elective deferrals (or, for purposes of Section 4.9(b), matching contributions) without regard to any income or loss occurring during such Plan Year; and (2) ten percent of the amount determined under (1) multiplied by the number of whole calendar months between the end of the Plan Year and the date of distribution, counting the month of distribution if distribution occurs after the 15th of such month. Any method used to determine income or loss hereunder shall be used consistently for all Participants in determining the income or loss allocable to distributable contributions hereunder and shall be the same method that is used by the Plan in allocating income or loss to Participants' Accounts. For purposes of this paragraph, the "gap period" means the period between the end of the Plan Year and the date of distribution; provided, however, that income or loss for the gap period may be determined as of a date that is no more than seven days before the date of distribution.

For Plan Years beginning after December 31, 2007, notwithstanding anything in the preceding paragraph or elsewhere in this Section 4.18 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.

ARTICLE V
SPECIAL PROVISIONS RELATING TO THE ESOP

5.1 ESTABLISHMENT OF ESOP

The portion of the Plan comprised of Participant's ESOP Accounts and of the Loan Suspense Account, if any, is hereby established and segregated as a stock bonus plan as defined in Regulation Section 1.401-1(b)(1)(iii) and an employee stock ownership plan ("ESOP") satisfying the requirements of Code Sections 409 and 4975(e)(7). The ESOP is intended to be invested primarily in Employer Stock.

5.2 NO ACQUISITION LOANS

(a) This Plan is not intended to be a leveraged employee stock ownership plan, and the Trustee may not incur Acquisition Loans to purchase Employer Stock, either from the Employer to the Plan or from another lender to the Plan and guaranteed by the Employer.

(b) Whenever a cash contribution to the ESOP is declared by the Employer, the proceeds of such contribution shall promptly be used by the Trustee to finance the acquisition of shares of Employer Stock, which are either newly issued shares, outstanding shares held by the Employer as treasury shares, or outstanding shares held by a shareholder and purchased by the Trust

(c) Notwithstanding any other provision of this Plan to the contrary, the ESOP Trust may not enter in any arrangement granting any other person a put option with respect to Employer Stock except as described in Section 5.6 below, and may not obligate itself to acquire Employer Stock or other securities from a particular stockholder at an indefinite time determined upon the happening of a future event such as the death of the stockholder.

5.3 VOTING OF EMPLOYER STOCK

(a) If the Employer Stock is a registration-type class of securities, as defined in paragraph (c) below, the Plan meets the requirements of this paragraph only if each Participant or Beneficiary in the Plan is entitled to direct the Plan as to the manner in which Employer Stock which is entitled to vote and is allocated to the Account of such Participant or Beneficiary is to be voted. Any allocated Employer Stock with respect to which voting instructions are not given, and shares of Employer Stock, which are not then allocated to Participants' ESOP Accounts, shall be voted by the Trustee as provided in section 2.3(r) of the Schwab Plan Directed Employee Benefit Trust Agreement between the Employer and the Charles Schwab Trust Company dated September 27, 2002 (the "Schwab Trust Agreement").

(b) If the Employer Stock is not a registration-type class of securities, as defined in paragraph (c) below, Employer Stock in the Trust shall be voted by the Trustee as provided in section 2.3(r) of the Schwab Trust Agreement. However, each Participant (or Beneficiary) will be entitled to give confidential instructions as to the voting of shares of Employer Stock then allocated to his Participant's ESOP Account on corporate matters

which involve the voting of such shares with respect to the appr oval or disapproval of a corporate merger or consolidation, recapitalization, reclassification, liquidation, dissolution, sale of substantially all the assets of a trade or business, or such similar transaction as the Secretary of the Treasury may prescribe in regulations, in accordance with procedures established by the Administrator. In that event, any allocated Employer Stock with respect to which voting instructions are not given, and shares of Employer Stock, which are not then allocated to Participants' ESOP Accounts, shall be voted by the Trustee as provided in section 2.3(r) of the Schwab Trust Agreement.

Instructions to the Trustee for voting of allocated shares of Employer Stock shall be made by written ballot distributed pursuant to procedures ensuring confidentiality established by the Administrator. Participants and Beneficiaries shall be named fiduciaries under the Act to the extent they exercise rights pursuant to this Section 5.3. The Trustee shall honor the instructions of the Participants and Beneficiaries given in accordance with this Section 5.3 to the extent that doing so does not violate the Trustee's duties under the Act.

(c) For purposes of this Section 5.3, the term "registration-type class of securities" means (i) a class of securities required to be registered under Section 12 of the Securities Exchange Act of 1934, and (ii) a class of securities which would be required to be so registered except for the exemption from registration provided in Subsection (g)(2)(H) of Section 12 of the Securities Exchange Act of 1934.

5.4 RIGHT OF FIRST REFUSAL

Shares of the Employer Stock when held and distributed by the Trustee shall not be subject to a "right of first refusal," as provided in Regulation Section 54.4975-7(b)(9).

5.5 RIGHT TO DEMAND EMPLOYER STOCK

Distribution of a vested Participant's ESOP Accounts will be made in-kind in whole shares of Employer Stock, cash or a combination of both, as determined by the Administrator, provided, however, that the Administrator shall notify the Participant of his right to demand distribution of his vested Participant's ESOP Account entirely in kind in whole shares of Employer Stock (with the value of any fractional share paid in cash). If the charter or by-laws of the Employer restrict ownership of substantially all of the outstanding Employer Stock to Employees and the Trust, or if the sponsoring employer is an S Corporation as defined in Code Section 1361(a), the Participant is not entitled to a distribution in the form of Employer Stock and the distribution of a Participant's ESOP Account shall be made entirely in the form of cash.

5.6 PUT OPTION

If the shares of Employer Stock are not readily tradable on an established market, the Employer shall issue a "put option" to each Participant or Beneficiary receiving a distribution of Employer Stock from the Plan. The put option shall permit the Participant or Beneficiary to sell such Employer Stock at its then fair market value, as determined by an independent appraiser (as defined in Section 6.3), to the Employer, at any time during the 60 day period commencing on the date the Employer Stock was distributed to the recipient and, if not exercised within that period,

the put option will temporarily lapse. Upon the close of the Plan Year in which such temporary lapse of the put option occurs, the independent appraiser shall determine the value of the Employer Stock, and the Administrator shall notify each distributee who did not exercise the initial put option prior to its temporary lapse in the preceding Plan Year of the revised value of the Employer Stock. The time during which the put option may be exercised shall recommence on the date such notice or revaluation is given and shall permanently terminate 60 days thereafter. The Trustee may be permitted by the Employer to purchase Employer Stock put to the Employer under a put option. At the option of the Employer, as the case may be, the payment for Employer Stock sold pursuant to a put option shall be made, as determined in the discretion of the Employer, as the case may be, in the following forms:

(a) if the Employer Stock was distributed as part of a total distribution, then payment will be made with a promissory note which provides for substantially equal annual installments commencing within 30 days from the date of the exercise of the put option and over a period not exceeding 5 years, with interest payable at a reasonable rate (as determined by the Employer) on any unpaid installment balance, with adequate security provided, and without penalty for any prepayment of such installments; or

(b) in a lump sum no later than 30 days after such Participant exercises the put option.

5.7 DISTRIBUTION AND PAYMENT REQUIREMENTS

(a) If the Participant, and, if applicable pursuant to Code Sections 401(a)(11) and 417, with the consent of the Participant's spouse, elects the distribution of the Participant's ESOP Account balance in the Plan, such distribution shall be made in a lump sum at the times described in Article VII.

(b) Notwithstanding Section 5.7(a), if the Participant, and, if applicable pursuant to Code Section 401(a)(11) and 417, with the consent of the Participant's spouse, elects the distribution of the Participant's ESOP Account balance in the Plan shall commence not later than one year after the close of the Plan Year:

(i) in which the Participant separates from service by reason of the attainment of Normal Retirement Age under the Plan, disability or death, or

(ii) which is the fifth Plan Year following the Plan Year in which the Participant otherwise separates from service, except that this paragraph (ii) shall not apply if the Participant is reemployed by the Employer before distribution is required to begin under this paragraph (ii).

(c) The distribution of the Participant's ESOP Account balance shall be in a lump sum. Notwithstanding the previous sentence, the distribution of the Participant's ESOP Account balance shall not be delayed beyond distributions made in substantially equal periodic payments (not less frequently than annually) over a period not longer than the greater of:

(i) five (5) years, or

(ii) in the case of a Participant with a Participant's ESOP Account balance in excess of $ 800,000, five (5) years plus one (1) additional year (but not more than five (5) additional years) for each $160,000 or fraction thereof by which such balance exceeds $800,000.

5.8 DIVERSIFICATION OF INVESTMENTS

(a) One year after the date upon which the Employer makes an Employer Non-Elective Contribution in Employer Stock to a Participant's ESOP Account, the Participant shall have the right to make an election to diversify and direct the investment of such portion of his Participant's ESOP Account.

(b) Notwithstanding Section 5.8(a), any qualified participant shall have the right to make an election to direct the investment of a portion of his Participant's ESOP Account. Any Participant who has completed at least ten (10) years of participation in the Plan and who has attained the age of fifty-five (55) is a "qualified participant". Such qualified participant may elect within ninety (90) days after the close of each Plan Year in the six (6) Plan Year period beginning with the first Plan Year in which he becomes a qualified participant, to diversify the investment of at least twenty five percent (25%) of his Participant's ESOP Account, less any amount to which a prior diversification election applies. In the case of the last year of such six (6) Plan Year period, fifty percent (50%) shall be substituted for twenty five percent (25%) in the preceding sentence. The portion of a qualified participant's ESOP Account which is eligible for diversification pursuant to this Section 5.8 may be invested in any of the Directed Investment Options, as described in Section 4.14.

(c) Effective on and after January 1, 2007, any Participant (whether a qualified participant under Subsection 5.8(b) above or not) and any Beneficiary or other person who has an ESOP Account under this Plan, shall have the right to elect to direct the investment of a portion of the ESOP Account to the following extent. For both that portion of his or her Participant's ESOP Account attributable to employer contributions (other than elective deferrals) which is invested in Employer Stock and that portion (if any) of his or her Participant's ESOP Account attributable to elective deferrals which is invested Employer Stock, the person may elect to direct the Plan to divest any such Employer Stock and to reinvest the proceeds in any of the Directed Investment Options, as described in Section 4.14.

(d) The Plan shall offer not less than three (3) Directed Investment Options (other than Employer Stock), each of which is diversified and has materially different return and risk characteristics. The Administrator may adopt such procedures as he determines to be necessary or appropriate imposing timing restrictions or similar conditions on Participant elections to divest Employer Stock; provided that the Plan shall provide for reasonable periodic opportunities occurring no less frequently than quarterly, and shall not impose restrictions or conditions on elections to divest which are not imposed on the Directed Investment Options except to the extent such additional restrictions are imposed by reason of applicable securities laws.

(e) Not later than 30 days before the first date on which a Participant (or other individual) is eligible to exercise the right to direct the divestiture of any Employer Stock in his or her ESOP Account pursuant to Section 5.8(c) of the Plan and Section 204(j) of ERISA, the Administrator shall provide such individual with a notice:

(1) setting forth such right to elect to diversify under this Section 5.8(c); and

(2) describing the importance of diversifying the investment of retirement account assets.

(f) Except as provided below, the Plan may not (1) impose any restriction on the individual's right to divest an investment in Employer Stock that is not imposed on an investment in an investment that is not Employer Stock or (2) condition any benefit on an investment in Employer Stock. The Plan may not impose such restrictions or conditions either directly or indirectly, including, but not limited to, providing that a Participant who elects to divest Employer Stock in his or her ESOP Account is not permitted to reinvest in Employer Stock for any period of time thereafter, provided that, notwithstanding the preceding, the Plan Administrator may impose some or all of the following restrictions and conditions on investments in Employer Stock:

(1) A restriction on the divestiture of Employer Stock that is either required in order to ensure compliance with the applicable securities laws (including but not limited to Section 16(b) of the Securities Exchange Act of 1934 and/or SEC Rule 10b-5) or is reasonably designed to ensure compliance with such applicable securities laws,

(2) The Plan may limit the extent to which an individual Participant's Account may be invested in Employer Stock, provided that the limitation applies without regard to a prior exercise of rights to divest Employer Stock.

(3) The Plan may impose reasonable restrictions on the timing, frequency and number of investment elections that an individual Participant can make to invest in Employer Stock, provided that the restrictions are designed to limit short-term trading in Employer Stock.

(4) The Plan may impose investment fees or expenses on other investment options that are not imposed on investments in Employer Stock, and may charge participant Accounts a reasonable fee to cover expenses associated with the divestiture of Employer Stock.

(5) If the Plan offers a Designated Investment Alternative that is a stable value fund or similar fund, the Plan may permit transfers to be made into or out of such stable value fund or similar fund more frequently that other funds, including a fund invested in Employer Stock. The Plan may also allow transfers out of a Designated Investment Alternative that is a qualified default investment alternative more frequently than a fund holding Employer Stock.

5.9 NONTERMINABLE RIGHTS

The provisions of Section 5.6 shall continue to be applicable to shares of Employer Stock even if the Plan ceases to be an employee stock ownership plan within the meaning of Code Section 4975(e)(7).

5.10 DISTRIBUTION OF DIVIDENDS ON EMPLOYER STOCK

(a) Dividends Paid to Participants. Any dividends paid with respect to shares of Employer Stock allocated to Participant's ESOP Accounts may, as determined by the Administrator, be either (i) paid by the Employer directly in cash to Participants or their Beneficiaries, on a non-discriminatory basis; (ii) paid to the Trustee and distributed by the Trustee to the Participants or their Beneficiaries no later than 90 days after the end of the Plan Year in which paid to the Trustee; or (iii) at the election of the Participant or their Beneficiaries, paid as provided in clause (i) or (ii), or paid to the Trustee and reinvested in Employer Stock. At the discretion of the Administrator, any dividends paid with respect to shares of Employer Stock allocated to Participant's ESOP Accounts may be used to pay Plan expenses.

(b) Dividends paid with respect to the shares of Company Stock allocated to a Participant's Company Stock Account may be reinvested in shares of Company Stock in accordance with Section 5.10(a)(iii) above only if the portion of the affected Participants' Accounts attributable to the reinvested dividends is 100 percent vested and non-forfeitable.

ARTICLE VI
VALUATIONS

6.1 VALUATION OF THE TRUST FUND

The Administrator shall direct the Trustee, as of each Valuation Date, to determine the net worth of the assets comprising the Trust Fund as it exists on the Valuation Date. In determining such net worth, the Trustee shall value the assets comprising the Trust Fund at their fair market value (or their contractual value in the case of a Contract or Policy) as of the Valuation Date and shall deduct all expenses for which the Trustee has not yet obtained reimbursement from the Employer or the Trust Fund. The Trustee may update the value of any shares held in the Participant Directed Account by reference to the number of shares held by that Participant, priced at the market value as of the Valuation Date.

6.2 METHOD OF VALUATION

In determining the fair market value of securities held in the Trust Fund which are listed on a registered stock exchange, the Administrator shall direct the Trustee to value the same at the prices they were last traded on such exchange preceding the close of business on the Valuation Date. If such securities were not traded on the Valuation Date, or if the exchange on which they are traded was not open for business on the Valuation Date, then the securities shall be valued at the prices at which they were last traded prior to the Valuation Date. Any unlisted security held in the Trust Fund shall be valued at its bid price next preceding the close of business on the Valuation Date, which bid price shall be obtained from a registered broker or an investment banker. In determining the fair market value of assets other than securities for which trading or bid prices can be obtained, the Trustee may appraise such assets itself, or in its discretion, employ one or more appraisers for that purpose and rely on the values established by such appraiser or appraisers. Notwithstanding the foregoing, Employer Stock that is not readily tradable on an established securities market shall be valued as provided in Section 6.3.

6.3 VALUATION OF EMPLOYER STOCK

If the Employer Stock is not readily tradable on an established securities market, the Trustee shall, as of each Valuation Date, make a good faith determination of the fair market value of the Employer Stock by obtaining the advice of an “independent appraiser” meeting requirements similar to the requirements of the Regulations prescribed under Code Section 170(a)(1), as prescribed by in Code Section 401(a)(28)(C) and in regulations issued pursuant to Act Section 3(18). If applicable, the Trustee shall promptly notify the Administrator as to the valuation of the Employer Stock.

Valuations must be made in good faith and based on all relevant factors for determining the fair market value of securities. An independent appraisal will not in itself be a good faith determination of valuein the case of a transaction between the Plan and a disqualified person. However, in other cases, a determination of fair market value based on at least an annual appraisal independently arrived at by a person who customarily makes such appraisals and who is independent of any party to the transaction will be deemed to be a good faith determination of value.

In the case of a transaction between a Plan and a disqualified person(within the meaning of Section 4975 of the Code), the value of the Employer Stock shall be determined as of the date of the transaction. For all other Plan purposes, value must be determined as of the most recent Valuation Date under the Plan.

ARTICLE VII
DETERMINATION AND DISTRIBUTION OF BENEFITS

7.1 DETERMINATION OF BENEFITS UPON RETIREMENT

Every Participant may terminate employment with the Employer and retire for the purposes hereof on the Participant’s Normal Retirement Date. However, a Participant may postpone the termination of employment with the Employer to a later date, in which event the participation of such Participant in the Plan, including the right to receive allocations pursuant to Section 4.5, shall continue until such Participant’s Late Retirement Date. Upon a Participant’s Retirement Date or attainment of Normal Retirement Date without termination of employment with the Employer, or as soon thereafter as is practicable, the Trustee shall distribute, at the election of the Participant, all amounts credited to such Participant’s Combined Account in accordance with Section 7.5.

7.2 DETERMINATION OF BENEFITS UPON DEATH

(a) Upon the death of a Participant before the Participant’s Retirement Date or other termination of employment, all amounts credited to such Participant’s Combined Account shall become fully Vested. The Administrator shall direct the Trustee, in accordance with the provisions of Sections 7.6 and 7.7, to distribute the value of the deceased Participant’s accounts to the Participant’s Beneficiary.

(b) Upon the death of a Former Participant, the Administrator shall direct the Trustee, in accordance with the provisions of Sections 7.6 and 7.7, to distribute any remaining Vested amounts credited to the accounts of a deceased Former Participant to such Former Participant’s Beneficiary.

(c) Any security interest held by the Plan by reason of an outstanding loan to the Participant or Former Participant shall be taken into account in determining the amount of the death benefit.

(d) The Administrator may require such proper proof of death and such evidence of the right of any person to receive payment of the value of the account of a deceased Participant or Former Participant as the Administrator may deem desirable. The Administrator’s determination of death and of the right of any person to receive payment shall be conclusive.

(e) The Beneficiary of the death benefit payable pursuant to this Section shall be the Participant’s spouse. Except, however, the Participant may designate a Beneficiary other than the spouse if:

(1) the spouse has waived the right to be the Participant’s Beneficiary, or

(2) the Participant is legally separated or has been abandoned (within the meaning of local law) and the Participant has a court order to such effect (and there is no “qualified domestic relations order” as defined in Code Section 414(p) which provides otherwise), or

(3) the Participant has no spouse, or

(4) the spouse cannot be located.

In such event, the designation of a Beneficiary shall be made on a form satisfactory to the Administrator. A Participant may at any time revoke a designation of a Beneficiary or change a Beneficiary by filing written (or in such other form as permitted by the Internal Revenue Service) notice of such revocation or change with the Administrator. However, the Participant's spouse must again consent in writing (or in such other form as permitted by the Internal Revenue Service) to any change in Beneficiary unless the original consent acknowledged that the spouse had the right to limit consent only to a specific Beneficiary and that the spouse voluntarily elected to relinquish such right.

(f) In the event no valid designation of Beneficiary exists, or if the Beneficiary is not alive at the time of the Participant's death, the death benefit will be paid in the following order of priority to:

(1) the Participant's surviving spouse;

(2) the Participant's children, including adopted children, per stirpes;

(3) the Participant's surviving parents, in equal shares; or

(4) the Participant's estate.

If the Beneficiary does not predecease the Participant, but dies prior to distribution of the death benefit, the death benefit will be paid to the Beneficiary's designated Beneficiary (or if there is no designated Beneficiary, to the Beneficiary's estate).

(g) Notwithstanding anything in this Section to the contrary, if a Participant has designated the spouse as a Beneficiary, then a divorce decree or a legal separation that relates to such spouse shall revoke the Participant's designation of the spouse as a Beneficiary unless the decree or a qualified domestic relations order (within the meaning of Code Section 414(p)) provides otherwise.

(h) Any consent by the Participant's spouse to waive any rights to the death benefit must be in writing (or in such other form as permitted by the Internal Revenue Service), must acknowledge the effect of such waiver, and be witnessed by a Plan representative or a notary public. Further, the spouse's consent must be irrevocable and must acknowledge the specific nonspouse Beneficiary.

(i) In the case of a death occurring on or after January 1, 2007, if a Participant dies while performing qualified military service (as defined in Section 414(u) of the Code), the Participant's Beneficiary is entitled to any additional benefits (other than benefit accruals relating to the period of qualified military service) provided under the Plan as if the Participant had resumed employment and then terminated employment on account of death. Moreover, the Plan will credit the Participant's qualified military service as service for vesting purposes, as though the Participant had resumed employment under the

Uniformed Services Employment and Reemployment Rights Act (USERRA) immediately prior to the Participant's death.

7.3 DETERMINATION OF BENEFITS IN EVENT OF DISABILITY

In the event of a Participant's Total and Permanent Disability prior to the Participant's Retirement Date or other termination of employment, all amounts credited to such Participant's Combined Account shall become fully Vested. In the event of a Participant's Total and Permanent Disability, the Administrator, in accordance with the provisions of Sections 7.5 and 7.7, shall direct the distribution to such Participant of all Vested amounts credited to such Participant's Combined Account.

7.4 DETERMINATION OF BENEFITS UPON TERMINATION

(a) If a Participant's employment with the Employer is terminated for any reason other than death, Total and Permanent Disability or retirement, then such Participant shall be entitled to such benefits as are provided hereinafter pursuant to this Section 7.4.

If a portion of a Participant's Account is forfeited, shares of Employer Stock allocated to the Participant's ESOP Account must be forfeited only after the other assets held in the Participant's Account has been depleted. If interest in more than one class of Employer Stock has been allocated to a Participant's ESOP Account, the Participant must be treated as forfeiting the same proportion of each such class.

Distribution of the funds due to a Terminated Participant shall be made on the occurrence of an event which would result in the distribution had the Terminated Participant remained in the employ of the Employer (upon the Participant's death, Total and Permanent Disability or Normal Retirement). Any distribution under this paragraph shall be made in a manner which is consistent with and satisfies the provisions of Section 7.5, including, but not limited to, all notice and consent requirements of Code Section 411(a)(11) and the Regulations thereunder.

If, for Plan Years beginning after August 5, 1997, the value of a Terminated Participant's Vested benefit derived from Employer and Employee contributions does not exceed $5,000 ($3,500 for Plan Years beginning prior to August 6, 1997) and, if the distribution is made prior to March 22, 1999, has never exceeded $5,000 ($3,500 for Plan Years beginning prior to August 6, 1997) at the time of any prior distribution, then the Administrator shall direct the Trustee to cause the entire Vested benefit to be paid to such Participant in a single lump sum.

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 be required before the Plan may make any immediate lump sum cashout distribution.

(b) The Vested portion of any Participant's Account and Participant's ESOP Account shall be a percentage of the total amount credited to the Participant's Account and Participant's ESOP Account determined on the basis of the Participant's number of whole year Periods of Service according to the following schedule:

Vesting Schedule

Periods of Service	**Percentage**
1	20%
2	40%
3	60%
4	80%
5	100%

(c) Notwithstanding the vesting schedule above, the Vested percentage of a Participant's Account and Participant's ESOP Account shall not be less than the Vested percentage attained as of the later of the effective date or adoption date of this amendment and restatement. The above vesting schedule also applies to Participants who terminated employment with a vested benefit as of October 1, 1997.

(d) Notwithstanding the vesting schedule above, upon the complete discontinuance of the Employer contributions to the Plan or upon any full or partial termination of the Plan, all amounts then credited to the account of any affected Participant shall become 100% Vested and shall not thereafter be subject to Forfeiture.

(e) The computation of a Participant's nonforfeitable percentage of such Participant's interest in the Plan shall not be reduced as the result of any direct or indirect amendment to this Plan. In the event that the Plan is amended to change or modify any vesting schedule, or if the Plan is amended in any way that directly or indirectly affects the computation of the Participant's nonforfeitable percentage, or if the Plan is deemed amended by an automatic change to a top heavy vesting schedule, then each Participant with at least three (3) whole year Periods of Service as of the expiration date of the election period may elect to have such Participant's nonforfeitable percentage computed under the Plan without regard to such amendment or change. If a Participant fails to make such election, then such Participant shall be subject to the new vesting schedule. The Participant's election period shall commence on the adoption date of the amendment and shall end sixty (60) days after the latest of:

(1) the adoption date of the amendment,

(2) the effective date of the amendment, or

(3) the date the Participant receives written notice of the amendment from the Employer or Administrator.

(f) The amount of any Forfeiture from a Participant's Accounts shall first be taken from the unvested portion of the Participant's Accounts other than his ESOP

Account. If the Forfeiture of such other Accounts is not sufficient to reduce the fair market value of his unvested interest in his or her Accounts to the percentage of the total balance of his Accounts determined under Subsection (b) above, the remainder of the Forfeiture shall be deducted from the Participant's ESOP Account.

7.5 DISTRIBUTION OF BENEFITS

(a) The Administrator, pursuant to the election of the Participant, shall direct the Trustee to distribute to a Participant or such Participant’s Beneficiary any amount to which the Participant is entitled under the Plan in one or more of the following methods:

(1) One lump-sum payment in cash or in property allocated to the Participant’s account except, however, for property distributions made prior to the earlier of (A) the effective date of an amendment limiting distribution in property to property allocated to the Participant’s account, or (B) the adoption date of this amendment and restatement, distributions in property are not limited to property in the Participant’s account.

(2) For distributions other than distributions of Employer Stock, payments over a period certain in monthly, quarterly, semiannual, or annual cash installments. In order to provide such installment payments, the Administrator may (A) segregate the aggregate amount thereof in a separate, federally insured savings account, certificate of deposit in a bank or savings and loan association, money market certificate or other liquid short-term security or (B) purchase a nontransferable annuity contract for a term certain (with no life contingencies) providing for such payment. The period over which such payment is to be made shall not extend beyond the Participant’s life expectancy (or the life expectancy of the Participant and the Participant’s designated Beneficiary).

(b) Any distribution to a Participant, for Plan Years beginning after August 5, 1997, who has a benefit which exceeds $5,000 ($3,500 for Plan Years beginning prior to August 6, 1997) or, if the distribution is made prior to March 22, 1999, has ever exceeded $5,000 ($3,500 for Plan Years beginning prior to August 6, 1997) at the time of any prior distribution, shall require such Participant’s written (or in such other form as permitted by the Internal Revenue Service) consent if such distribution commences prior to the time the benefit is “immediately distributable.” A benefit is “immediately distributable” if any part of the benefit could be distributed to the Participant (or surviving spouse) before the Participant attains (or would have attained if not deceased) the later of the Participant’s Normal Retirement Age or age 62. However, for distributions prior to October 17, 2000, if a Participant has begun to receive distributions pursuant to an optional form of benefit under which at least one scheduled periodic distribution has not yet been made, and if the value of the Participant’s benefit, determined at the time of the first distribution under that optional form of benefit, exceeded $5,000 ($3,500 for Plan Years beginning prior to August 6, 1997), then the value of the Participant’s benefit prior to October 17, 2000 is deemed to continue to exceed such amount.

Effective on and after March 28, 2005, there will be no mandatory lump sum cashout dis tributions out of this Plan. 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.

(c) The following rules will apply to the consent requirements set forth in subsection (b):

(1) The Participant must be informed of the right to defer receipt of the distribution. For notices provided in Plan Years beginning after December 31, 2006, such notification must also include a description of the consequences of an election not to defer receipt, including the investment options available and the fees and expenses applicable to the Participant's Account under the Plan if an election to defer the distribution is made. If a Participant fails to consent, it shall be deemed an election to defer the commencement of payment of any benefit. However, any election to defer the receipt of benefits shall not apply with respect to distributions which are required under Section 7.5(d).

(2) Notice of the rights specified under this paragraph shall be provided no less than thirty (30) days and no more than one-hundred eighty (180) days (or, prior to January 1, 2008, ninety (90) days) before the date the distribution commences.

(3) Written (or such other form as permitted by the Internal Revenue Service) consent of the Participant to the distribution must not be made before the Participant receives the notice and must not be made more than one-hundred eighty (180) days (or, prior to January 1, 2008, ninety (90) days) before the date the distribution commences.

(4) No consent shall be valid if a significant detriment is imposed under the Plan on any Participant who does not consent to the distribution.

Any such distribution may commence less than thirty (30) days after the notice required under Regulation 1.411(a)-11(c) is given, provided that: (1) the Administrator clearly informs the Participant that the Participant has a right to a period of at least thirty (30) days after receiving the notice to consider the decision of whether or not to elect a distribution (and, if applicable, a particular distribution option), and (2) the Participant, after receiving the notice, affirmatively elects a distribution.

(d) Notwithstanding any provision in the Plan to the contrary, the distribution of a Participant's benefits made on or after January 1, 1997 shall be made in accordance with the following requirements and shall otherwise comply with Code Section 401(a)(9) and the Regulations thereunder (including Regulation 1.401(a)(9)-2), the provisions of which are incorporated herein by reference:

(1) A Participant's benefits shall be distributed or must begin to be distributed not later than April 1st of the calendar year following the later of (i) the calendar year in which the Participant attains age 70 1/2 or (ii) the calendar year in

which the Participant retires, provided, however, that this clause (ii) shall not apply in the case of a Participant who is a "five (5) percent owner" at any time during the Plan Year ending with or within the calendar year in which such owner attains age 70 1/2. Such distributions shall be equal to or greater than any required distribution.

Alternatively, distributions to a Participant must begin no later than the applicable April 1st as determined under the preceding paragraph and must be made over a period certain measured by the life expectancy of the Participant (or the life expectancies of the Participant and the Participant's designated Beneficiary) in accordance with Regulations.

(2) Distributions to a Participant and the Participant's Beneficiaries shall only be made in accordance with the incidental death benefit requirements of Code Section 40l(a)(9)(G) and the Regulations thereunder.

With respect to distributions under the Plan made for calendar years beginning on or after January 1, 2001, the Plan will apply the minimum distribution requirements of Code Section 401(a)(9) in accordance with the Regulations under Code Section 401(a)(9) that were proposed on January 17, 2001, notwithstanding any provision of the Plan to the contrary. This amendment shall continue in effect until the end of the last calendar year beginning before the effective date of final Regulations under Code Section 401(a)(9) or such other date specified in guidance published by the Internal Revenue Service.

(e) For purposes of this Section, the life expectancy of a Participant and a Participant's spouse shall not be redetermined in accordance with Code Section 401(a)(9)(D). Life expectancy and joint and last survivor expectancy shall be computed using the return multiples in Tables V and VI of Regulation 1.72-9.

(f) The restrictions imposed by this Section shall not apply if a Participant has, prior to January 1, 1984, made a written designation to have retirement benefits paid in an alternative method acceptable under Code Section 401(a)(9) as in effect prior to the enactment of the Tax Equity and Fiscal Responsibility Act of 1982.

(g) All annuity Contracts under this Plan shall be non-transferable when distributed. Furthermore, the terms of any annuity Contract purchased and distributed to a Participant or spouse shall comply with all of the requirements of the Plan.

(h) If a distribution is made to a Participant who has not severed employment and who is not fully Vested in the Participant's Account and Participant's ESOP Account and the Participant may increase the Vested percentage in such account, then, at any relevant time the Participant's Vested portion of the account will be equal to an amount ("X") determined by the formula:

X equals P(AB plus D) – D

For purposes of applying the formula: P is the Vested percentage at the relevant time, AB is the account balance at the relevant time, and D is the amount of distribution.

7.6 DISTRIBUTION OF BENEFITS UPON DEATH

(a) (1)The death benefit payable pursuant to Section 7.2 shall be paid to the Participant's Beneficiary within a reasonable time after the Participant's death by either of the following methods, as elected by the Participant (or if no election has been made prior to the Participant's death, by the Participant's Beneficiary) subject, however, to the rules specified in Section 7.6(b):

(i) One lump-sum payment in cash or in property allocated to the Participant's account except, however, for property distributions made prior to the earlier of (A) the effective date of an amendment limiting distribution in property to property allocated to the Participant's account, or (B) the adoption date of this amendment and restatement, distributions in property are not limited to property in the Participant's account.

(ii) Payment in monthly, quarterly, semi-annual, or annual cash installments over a period to be determined by the Participant or the Participant's Beneficiary. After periodic installments commence, the Beneficiary shall have the right to direct the Trustee to reduce the period over which such periodic installments shall be made, and the Trustee shall adjust the cash amount of such periodic installments accordingly.

(1) In the event the death benefit payable pursuant to Section 7.2 is payable in installments, then, upon the death of the Participant, the Administrator may direct the Trustee to segregate the death benefit into a separate account, and the Trustee shall invest such segregated account separately, and the funds accumulated in such account shall be used for the payment of the installments.

(b) Notwithstanding any provision in the Plan to the contrary, distributions upon the death of a Participant shall be made in accordance with the following requirements and shall otherwise comply with Code Section 40l(a)(9) and the Regulations thereunder. If it is determined, pursuant to Regulations, that the distribution of a Participant's interest has begun and the Participant dies before the entire interest has been distributed, the remaining portion of such interest shall be distributed at least as rapidly as under the method of distribution selected pursuant to Section 7.5 as of the date of death. If a Participant dies before receiving any distributions of the interest in the Plan or before distributions are deemed to have begun pursuant to Regulations, then the death benefit shall be distributed to the Participant's Beneficiaries by December 31st of the calendar year in which the fifth anniversary of the Participant's date of death occurs.

However, the 5-year distribution requirement of the preceding paragraph shall not apply to any portion of the deceased Participant's interest which is payable to or for the benefit of a designated Beneficiary if the designated beneficiary elects to receive benefits under the 1-year rule (including the spousal exception), as explained below. In such event, such portion shall be distributed over a period not extending beyond the life expectancy of such designated Beneficiary provided such distribution begins not later than December 31st of the calendar year immediately following the calendar year in which the

Participant died. However, in the event the Participant's spouse (determined as of the date of the Participant's death) is the designated Beneficiary, the requirement that distributions commence within one year of a Participant's death shall not apply. In lieu thereof, distributions must commence on or before the later of:

(1) December 31st of the calendar year immediately following the calendar year in which the Participant died; or

(2) December 31st of the calendar year in which the Participant would have attained age 70 1/2. If the surviving spouse dies before distributions to such spouse begin, then the 5-year distribution requirement of this Section shall apply as if the spouse was the Participant.

(c) For purposes of this Section, the life expectancy of a Participant and a Participant's spouse shall not be redetermined in accordance with Code Section 401(a)(9)(D). Life expectancy and joint and last survivor expectancy shall be computed using the return multiples in Tables V and VI of Regulation 1.72-9.

(d) For purposes of this Section, any amount paid to a child of the Participant will be treated as if it had been paid to the surviving spouse if the amount becomes payable to the surviving spouse when the child reaches the age of majority.

(e) Subject to the spouse's right of consent afforded under the Plan, the restrictions imposed by this Section shall not apply if a Participant has, prior to January 1, 1984, made a written designation to have death benefits paid in an alternative method acceptable under Code Section 401(a)(9) as in effect prior to the enactment of the Tax Equity and Fiscal Responsibility Act of 1982.

(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 Employer immediately prior to the date of his death.

7.7 TIME OF SEGREGATION OR DISTRIBUTION

Except as limited by Sections 7.5 and 7.6, whenever the Trustee is to make a distribution or to commence a series of payments the distribution or series of payments may be made or begun on such date or as soon thereafter as is practicable. However, unless a Former Participant elects in writing to defer the receipt of benefits (such election may not result in a death benefit that is more than incidental), the payment of benefits shall begin not later than the sixtieth (60th) day after the close of the Plan Year in which the latest of the following events occurs: (a) the date on which the Participant attains the earlier of age 65 or the Normal Retirement Age specified herein; (b) the tenth (10th) anniversary of the year in which the Participant commenced participation in the Plan; or (c) the date the Participant terminates service with the Employer.

Notwithstanding the foregoing, the failure of a Participant to consent to a distribution that is "immediately distributable" (within the meaning of Section 7.5), shall be deemed to be an election to defer the commencement of payment of any benefit sufficient to satisfy this Section.

7.8 DISTRIBUTION FOR MINOR OR INCOMPETENT BENEFICIARY

In the event a distribution is to be made to a minor or incompetent individual, then the Administrator may direct that such distribution be paid to the legal guardian, or if none in the case of a minor Beneficiary, to a parent of such Beneficiary or a responsible adult with whom the Beneficiary maintains residence, or to the custodian for such Beneficiary under the Uniform Gift to Minors Act or Gift to Minors Act, if such is permitted by the laws of the state in which said Beneficiary resides. Such a payment to the legal guardian, custodian or parent of a minor or incompetent individual shall fully discharge the Trustee, Employer, and Plan from further liability on account thereof.

7.9 LOCATION OF PARTICIPANT OR BENEFICIARY UNKNOWN

In the event that all, or any portion, of the distribution payable to a Participant or Beneficiary hereunder shall, at the later of the Participant's attainment of age 62 or Normal Retirement Age, remain unpaid solely by reason of the inability of the Administrator, after sending a registered letter, return receipt requested, to the last known address, and after further diligent effort, to ascertain the whereabouts of such Participant or Beneficiary, the amount so distributable may, in the sole discretion of the Administrator, either be treated as a Forfeiture, or be paid directly to an individual retirement account described in Code Section 408(a) or an individual retirement annuity described in Code Section 408(b) at the time it is determined that the whereabouts of the Participant or the Participant's Beneficiary cannot be ascertained. In the event a Participant or Beneficiary is located subsequent to a Forfeiture, such benefit shall be restored, first from Forfeitures, if any, and then from an additional Employer contribution if necessary. However, regardless of the preceding, a benefit which is lost by reason of escheat under applicable state law is not treated as a Forfeiture for purposes of this Section nor as an impermissible forfeiture under the Code.

7.10 PRE-RETIREMENT DISTRIBUTION

Unless otherwise provided, at such time as a Participant shall have attained the age of 59-1/2 years, the Administrator, at the election of the Participant who has not severed employment with the Employer, shall direct the Trustee to distribute all or a portion of the Vested amount then credited to the accounts maintained on behalf of the Participant. In addition, a Participant may withdraw all or a portion of the amount in his Voluntary Contribution Account (after-tax account) at any time prior to severance of employment. In the event that the Administrator makes an in-service distribution, the Participant shall continue to be eligible to participate in the Plan on the same basis as any other Employee. Any distribution made pursuant to this Section shall be made in a manner consistent with Section 7.5, including, but not limited to, all notice and consent requirements of Code Section 4l1(a)(11) and the Regulations thereunder.

Notwithstanding the above, pre-retirement distributions from a Participant's Elective Account shall not be permitted prior to the Participant attaining age 59 1/2 except as otherwise permitted under the terms of the Plan.

7.11 ADVANCE DISTRIBUTION FOR HARDSHIP

(a) The Administrator, at the election of the Participant, shall direct the Trustee to distribute to any Participant in any one Plan Year up to the lesser of 100% of the Participant's Elective Account and Participant's Transfer/Rollover Account valued as of the last Valuation Date or the amount necessary to satisfy the immediate and heavy financial need of the Participant. Any distribution made pursuant to this Section shall be deemed to be made as of the first day of the Plan Year or, if later, the Valuation Date immediately preceding the date of distribution, and the Participant's Elective Account and Participant's Transfer/Rollover Account shall be reduced accordingly. Withdrawal under this Section is deemed to be on account of an immediate and heavy financial need of the Participant only if the withdrawal is for:

(1) Medical expenses described in Code Section 213(d) incurred by the Participant, the Participant's spouse, or any of the Participant's dependents (as defined in Code Section 152) or necessary for these persons to obtain medical care as described in Code Section 213(d);

(2) The costs directly related to the purchase (excluding mortgage payments) of a principal residence for the Participant;

(3) Payment of tuition, related educational fees, and room and board expenses for the next twelve (12) months of post-secondary education for the Participant and the Participant's spouse, children, or dependents; or

(4) Payments necessary to prevent the eviction of the Participant from the Participant's principal residence or foreclosure on the mortgage on that residence; or

(5) payments for burial or funeral expenses for the Participant's deceased parent, spouse, child, or dependent (as defined in Code section 152 without regard to subsection (d)(1)(B) thereof);

(6) expenses for the repair of damage to the Participant's principal residence that would qualify for the casualty deduction under Code section 165 (determined without regard to whether the loss exceeds 10% of adjusted gross income).

(b) No distribution shall be made pursuant to this Section unless the Administrator, based upon the Participant's representation and such other facts as are known to the Administrator, determines that all of the following conditions are satisfied:

(1) The distribution is not in excess of the amount of the immediate and heavy financial need of the Participant. The amount of the immediate and heavy

financial need may include any amounts necessary to pay any federal, state, or local income taxes or penalties reasonably anticipated to result from the distribution;

(2) The Participant has obtained all distributions, other than hardship distributions, and all nontaxable (at the time of the loan) loans currently available under all plans maintained by the Employer; and

(3) The Plan, and all other plans maintained by the Employer, provide that the Participant's elective deferrals and after-tax voluntary Employee contributions will be suspended for at least six (6) months after receipt of the hardship distribution or, the Participant, pursuant to a legally enforceable agreement, will suspend elective deferrals and after-tax voluntary Employee contributions to the Plan and all other plans maintained by the Employer for at least six (6) months after receipt of the hardship distribution.

(c) Notwithstanding the above, distributions from the Participant's Elective Account pursuant to this Section shall be limited, as of the date of distribution, to the Participant's Elective Account as of the end of the last Plan Year ending before July 1, 1989, plus the total Participant's Elective Deferrals after such date, reduced by the amount of any previous distributions pursuant to this Section and Section 7.10.

(d) Any distribution made pursuant to this Section shall be made in a manner which is consistent with and satisfies the provisions of Section 7.5, including, but not limited to, all notice and consent requirements of Code Section 411(a)(11) and the Regulations thereunder.

(e) Special Rules Hurricane-Related Hardship Distributions. The following provisions shall apply to distributions on account of financial hardship to qualified Plan Participants whose principal residence was in a federally proclaimed disaster area affected by Hurricane Katrina, Hurricane Rita or Hurricane Wilma, and as a result of any or all of such Hurricanes incurred an economic loss (a "Qualified Hurricane-related Distribution"). For purposes of these provisions, such rules will apply to Qualified Hurricane-related Distributions that took place at any time on or after August 25, 2005 and before January 1, 2007 with respect to Hurricane Katrina, at any time on or after September 23, 2005 and before January 1, 2007, with respect to Hurricane Rita, and at any time on or after October 23, 2005 and before January 1, 2007, with respect to Hurricane Wilma.

(1) Such Qualified Hurricane-related Distribution(s) on account of financial hardship from the Plan, when combined with all distributions obtained from all qualified plans maintained by the Employer or any other member of the Employer's controlled group shall not exceed $100,000. Further, the aggregate amount of Qualified Hurricane-related Distribution(s) received by a Participant for any taxable year shall not exceed the excess of $100,000, over the aggregate amounts treated as Qualified Hurricane-related Distributions received by the Participant for all previous taxable years

(2) Repayment Rights. A Participant-recipient of a Qualified Hurricane-related Distribution shall have the right at any time during a three-year period commencing as of the day after the date that the Qualified Hurricane-related Distribution is received to make a repayment or repayments of said distribution to the Plan (or another Eligible Retirement Plan) in an amount not exceeding the principal amount of the Qualified Hurricane-related Distribution. Further, a Participant-recipient of a Qualified Hurricane-related Distribution for the purchase of a principal residence may make a repayment or repayments of said distribution to the Plan (or another Eligible Retirement Plan) in an amount not exceeding the principal amount of the Qualified Hurricane-related Distribution if said repayment occurred during the period commencing on August 25, 2005 and ending February 28, 2006 with respect to a Hurricane Katrina-related distribution, during a period commencing on September 23, 2005 and ending February 28, 2006 with respect to a Hurricane Rita-related distribution, or during a period commencing on October 23, 2005 and ending February 28, 2006 with respect to a Hurricane Wilma-related distribution.

(3) A Qualified Hurricane-related Distribution shall be deemed to not violate the prohibitions on early distribution under Section 4.2 that apply to elective contributions made to Code Section 401(k) plans.

(4) The Plan provides for special hurricane–related distributions to Plan Participants who lived or worked in the Hurricane Katrina disaster area that qualified for individual relief from the Federal Emergency Management Agency. Similar relief is not available for Hurricanes Rita and Wilma. These special distributions could also have been made available to Participants residing outside the disaster area if they had a child, parent, grandparent or other dependent that lived or worked in the disaster area. In order to qualify for the special relief provided herein, the distribution had to be made by March 31, 2006. The six-month suspension on further deferrals is not applicable. These distributions were not restricted to the reasons specified in subparagraph 4.2(c). Plan Participants who received a distribution under this paragraph who themselves were not the victim of Hurricane Katrina may not take advantage of the special repayment rules provided in paragraph (2) above. The increase in the withdrawal limit to $100,000 as specified in paragraph (1) above also did not apply to these withdrawals.

7.12 QUALIFIED DOMESTIC RELATIONS ORDER DISTRIBUTION

All rights and benefits, including elections, provided to a Participant in this Plan shall be subject to the rights afforded to any “alternate payee” under a “qualified domestic relations order.” Furthermore, a distribution to an “alternate payee” shall be permitted if such distribution is authorized by a “qualified domestic relations order,” even if the affected Participant has not separated from service and has not reached the “earliest retirement age” under the Plan. For the purposes of this Section, “alternate payee,” “qualified domestic relations order” and “earliest retirement age” shall have the meaning set forth under Code Section 414(p).

Effective on and after April 6, 2007, a domestic relations order that otherwise satisfies the requirements for a qualified domestic relations order ("QDRO") will not fail to be a QDRO: (i) solely because the order is issued after, or revises, another domestic relations order or QDRO; or (ii) solely because of the time at which the order is issued, including issuance after the Participant's death. A domestic relations order described in this paragraph is subject to the same requirements and protections that apply to QDROs.

7.13 DIRECT ROLLOVER

(a) Notwithstanding any provision of the Plan to the contrary that would otherwise limit a "distributee's" election under this Section, a "distributee" may elect, at the time and in the manner prescribed by the Administrator, to have any portion of an "eligible rollover distribution" that is equal to at least $500 paid directly to an "eligible retirement plan" specified by the "distributee" in a "direct rollover."

(b) For purposes of this Section the following definitions shall apply:

(1) An "eligible rollover distribution" means any distribution described in Code Section 402(c)(4) and generally includes is any distribution of all or any portion of the balance to the credit of the "distributee," except that an "eligible rollover distribution" does not include: any distribution that is one of a series of substantially equal periodic payments (not less frequently than annually) made for the life (or life expectancy) of the "distributee" or the joint lives (or joint life expectancies) of the "distributee" and the "distributee's" designated beneficiary, or for a specified period often years or more; any distribution to the extent such distribution is required under Code Section 401(a)(9); the portion of any other distribution that is not includible in gross income (determined without regard to the exclusion for net unrealized appreciation with respect to employer securities); any hardship distribution described in Code Section 401(k)(2)(B)(i)(IV) made after December 31, 1999; and any other distribution that is reasonably expected to total less than $200 during a year. For distributions made after December 31, 2001, any amount that is distributed on account of hardship shall not be an eligible rollover distribution and the distributee may not elect to have any portion of such a distribution paid directly to an eligible retirement plan. In addition, for distributions made after December 31, 2001, a portion of a distribution shall not fail to be an eligible rollover distribution merely because the portion consists of after-tax Employee contributions which are not includible in gross income. However, such portion may be transferred only to an individual retirement account or annuity described in Code Section 408(a) or (b), or to a qualified defined contribution plan described in Code Section 401(a) or 403(a) that agrees to separately account for amounts so transferred, including separately accounting for the portion of such distribution which is includible in gross income and the portion of such distribution which is not so includible.

(2) An "eligible retirement plan" is an individual retirement account described in Code Section 408(a), an individual retirement annuity described in

Code Section 408(b), an annuity plan described in Code Section 403(a), or a qualified trust described in Code Section 401(a), that accepts the "distributee's" "eligible rollover distribution." However, in the case of an "eligible rollover distribution" to the surviving spouse, an "eligible retirement plan" is an individual retirement account or individual retirement annuity. For distributions made after December 31, 2001, an eligible retirement plan shall also mean an annuity contract described in Code Section 403(b) and an eligible plan under Code Section 457(b) which is maintained by a state, political subdivision of a state, or any agency or instrumentality of a state or political subdivision of a state and which agrees to separately account for amounts transferred into such plan from this Plan. For distributions made after December 31, 2001, the definition of eligible retirement plan shall also apply in the case of a distribution to a surviving spouse, or to a spouse or former spouse who is the alternate payee under a qualified domestic relation order, as defined in Code Section 414(p). 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.

In addition, for distributions made after December 31, 2007, a Participant may elect to directly roll over an "eligible rollover distribution" to a Roth IRA described in Code Section 408A(b).

(3) A "distributee" includes an Employee or former Employee. In addition, the Employee's or former Employee's surviving spouse and the Employee's or former Employee's spouse or former spouse who is the alternate payee under a qualified domestic relations order, as defined in Code Section 414(p), are "distributees" with regard to the interest of the spouse or former spouse. 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.

(4) A "direct rollover" is a payment by the Plan to the "eligible retirement plan" specified by the "distributee."

7.14 NEW DISTRIBUTION EVENT

This Section 7.14 shall apply for distributions occurring on and after January 1, 2002 for severance from employment occurring on or after January 1, 2002. A Participant's Elective Contributions and earnings attributable to these contributions shall be distributed on account of the Participant's severance from employment. However, such a distribution shall be subject to the other provisions of the Plan regarding distributions, other than provisions that require a separation

from service before such amounts may be distributed.

7.15 SPECIAL RULES WITH RESPECT TO THE ESOP

Article V provides special rules with respect to distributions that relate to the ESOP portion of the Plan. If a provision of this Article VII conflicts with any provision of Article V, the provisions of Article V shall supersede the Article VII provisions.

7.16 MINIMUM REQUIRED DISTRIBUTIONS

(a) General Rules.

1. Effective Date. Unless a later effective date is specified in subsection (f) below, the provisions of this Section 7.16 will apply for purposes of determining required minimum distributions for calendar years beginning with the 2002 calendar year.

2. Coordination with Minimum Distribution Requirements Previously in Effect. If the effective date of this Section 7.16 is earlier than calendar years beginning with the 2003 calendar year, required minimum distributions for 2002 under this Section 7.16 will be determined as follows. If the total amount of 2002 required minimum distributions under the Plan made to the distributee prior to the effective date of this Section 7.16 equals or exceeds the required minimum distributions determined under this Section 7.16 , then no additional distributions will be required to be made for 2002 on or after such date to the distributee. If the total amount of 2002 required minimum distributions under the Plan made to the distributee prior to the effective date of this Section 7.16 is less than the amount determined under this Section 7.16 , then required minimum distributions for 2002 on and after such date will be determined so that the total amount of required minimum distributions for 2002 made to the distributee will be the amount determined under this Section 7.16.

3. Precedence. The requirements of this Section 7.16 will take precedence over any inconsistent provisions of the Plan.

4. Requirements of Treasury Regulations Incorporated. All distributions required under this Section 7.16 will be determined and made in accordance with the Regulations under Code Section 401(a)(9).

5. TEFRA Section 242(b)(2) Elections. Notwithstanding the other provisions of this Section 7.16, distributions may be made under a designation made before January 1, 1984, in accordance with Section 242(b)(2) of the Tax Equity and Fiscal Responsibility Act (TEFRA) and the provisions of the Plan that relate to Section 242(b)(2) of TEFRA.

(b) Time and Manner of Distribution.

1. Required Beginning Date. The Participant's entire interest will be distributed, or begin to be distributed, to the Participant no later than the Participant's required beginning date.

2. Death of Participant Before Distributions Begin. If the Participant dies before distributions begin, the Participant’s entire interest will be distributed, or begin to be distributed, no later than as follows:

A. If the Participant's surviving spouse is the Participant's sole designated beneficiary, then, except as provided in subsection (f) of this Section 7.16, distributions to the surviving spouse will begin by December 31 of the calendar year immediately following the calendar year in which the Participant died, or by December 31 of the calendar year in which the Participant would have attained age 70½, if later.

B. If the Participant's surviving spouse is not the Participant's sole designated beneficiary, then, except as provided in subsection (f) of this Section 7.16, distributions to the designated beneficiary will begin by December 31 of the calendar year immediately following the calendar year in which the Participant died.

C. If there is no designated beneficiary as of September 30 of the year following the year of the Participant's death, the Participant's entire interest will be distributed by December 31 of the calendar year containing the fifth anniversary of the Participant's death.

D. If the Participant's surviving spouse is the Participant's sole designated beneficiary and the surviving spouse dies after the Participant but before distributions to the surviving spouse begin, this subsection 7.16(b)(2), other than paragraph A, will apply as if the surviving spouse were the Participant.

For purposes of this subsection (b)(2) and subsection (d) of this Section 7.16, unless paragraph D of this subsection (b)(2) applies, distributions are considered to begin on the Participant's required beginning date. If paragraph D applies, distributions are considered to begin on the date distributions are required to begin to the surviving spouse under paragraph A above. If distributions under an annuity purchased from an insurance company irrevocably commence to the Participant before the Participant's required beginning date (or to the Participant's surviving spouse before the date distributions are required to begin to the surviving spouse under paragraph A of this subsection (b)(2), the date distributions are considered to begin is the date distributions actually commence.

3. Forms of Distribution. Unless the Participant's interest is distributed in the form of an annuity purchased from an insurance company or in a single sum on or before the required beginning date, as of the first distribution calendar year distributions will be made in accordance with subsections (c) and (d) of this Section 7.16. If the Participant's interest is distributed in the form of an annuity purchased from an insurance company, distributions thereunder will be made in accordance with the requirements of Section 401(a)(9) of the Code and the Regulations.

(c) Required Minimum Distributions During Participant's Lifetime.

1. Amount of Required Minimum Distribution For Each Distribution Calendar Year. During the Participant's lifetime, the minimum amount that will be distributed for each distribution calendar year is the lesser of:

A. the quotient obtained by dividing the Participant's account balance by the distribution period in the Uniform Lifetime Table set forth in Section 1.401(a)(9)-9 of the Regulations, using the Participant's age as of the Participant's birthday in the distribution calendar year; or

B. if the Participant's sole designated beneficiary for the distribution calendar year is the Participant's spouse, the quotient obtained by dividing the Participant's account balance by the number in the Joint and Last Survivor Table set forth in Section 1.401(a)(9)-9 of the Regulations, using the Participant's and spouse's attained ages as of the Participant's and spouse's birthdays in the distribution calendar year.

2. Lifetime Required Minimum Distributions Continue Through Year of Participant's Death. Required minimum distributions will be determined under this subsection 7.16(c) beginning with the first distribution calendar year and up to and including the distribution calendar year that includes the Participant's date of death.

(d) Required Minimum Distributions After Participant's Death.

1. Death On or After Date Distributions Begin.

A. Participant Survived by Designated Beneficiary. If the Participant dies on or after the date distributions begin and there is a designated beneficiary, the minimum amount that will be distributed for each distribution calendar year after the year of the Participant's death is the quotient obtained by dividing the Participant's account balance by the longer of the remaining life expectancy of the Participant or the remaining life expectancy of the Participant's designated beneficiary, determined as follows:

B. The Participant's remaining life expectancy is calculated using the age of the Participant in the year of death, reduced by one for each subsequent year.

C. If the Participant's surviving spouse is the Participant's sole designated beneficiary, the remaining life expectancy of the surviving spouse is calculated for each distribution calendar year after the year of the Participant's death using the surviving spouse's age as of the spouse's birthday in that year. For distribution calendar years after the year of the surviving spouse's death, the remaining life expectancy of the surviving spouse is calculated using the age of the surviving spouse as of the spouse's birthday in the calendar year of the spouse's death, reduced by one for each subsequent calendar year.

D. If the Participant's surviving spouse is not the Participant's sole designated beneficiary, the designated beneficiary's remaining life expectancy is calculated using the age of the beneficiary in the year following the year of the Participant's death, reduced by one for each subsequent year.

E. No Designated Beneficiary. If the Participant dies on or after the date distributions begin and there is no designated beneficiary as of September 30 of the year after the year of the Participant's death, the minimum amount that will be distributed for each distribution calendar year after the year of the Participant's death is the quotient obtained by dividing the Participant's account balance by the Participant's remaining life expectancy calculated using the age of the Participant in the year of death, reduced by one for each subsequent year.

2. Death Before Date Distributions Begin.

A. Participant Survived by Designated Beneficiary. Except as provided in subsection (f) below, if the Participant dies before the date distributions begin and there is a designated beneficiary, the minimum amount that will be distributed for each distribution calendar year after the year of the Participant's death is the quotient obtained by dividing the Participant's account balance by the remaining life expectancy of the Participant's designated beneficiary, determined as provided in subsection (d)(1) of this Section 7.16.

B. No Designated Beneficiary. If the Participant dies before the date distributions begin and there is no designated beneficiary as of September 30 of the year following the year of the Participant's death, distribution of the Participant's entire interest will be completed by December 31 of the calendar year containing the fifth anniversary of the Participant's death.

C. Death of Surviving Spouse Before Distributions to Surviving Spouse Are Required to Begin. If the Participant dies before the date distributions begin, the Participant's surviving spouse is the Participant's sole designated beneficiary, and the surviving spouse dies before distributions are required to begin to the surviving spouse under subsection 7.16(b)(2)(A), this subsection (d)(2) will apply as if the surviving spouse were the Participant.

(e) Definitions.

1. Designated beneficiary. The individual who is designated as the Beneficiary under the Plan and is the designated beneficiary under Section 401(a)(9) of the Code and Section 1.401(a)(9)-1, Q&A-4, of the Regulations.

2. Distribution calendar year. A calendar year for which a minimum distribution is required. For distributions beginning before the Participant's death, the first distribution calendar year is the calendar year immediately preceding the calendar year which contains the Participant's required beginning date. For distributions beginning after the Participant's death, the first distribution calendar year is the calendar year in which distributions are required to begin under subsection (b)(2) of this Section 7.16. The required minimum distribution for the Participant's first distribution calendar year will be made on or before the Participant's required beginning date. The required minimum distribution for other distribution calendar years, including the required minimum distribution for the distribution calendar year in which the Participant's required beginning date occurs, will be made on or before December 31 of that distribution calendar year.

3. Life expectancy. Life expectancy as computed by use of the Single Life Table in Section 1.401(a)(9)-9 of the Regulations.

4. Participant's account balance. The account balance as of the last valuation date in the calendar year immediately preceding the distribution calendar year (valuation calendar year) increased by the amount of any contributions made and allocated or forfeitures allocated to the account balance as of dates in the valuation calendar year after the valuation date and decreased by distributions made in the valuation calendar year after the valuation date. The account balance for the valuation calendar year includes any

amounts rolled over or transferred to the Plan either in the valuation calendar year or in the distribution calendar year if distributed or transferred in the valuation calendar year.

5. Required beginning date. The date specified in the Plan when distributions under Section 401(a)(9) of the Code are required to begin.

(f) Overriding Elections.

The following provisions apply:

1. Effective Date. This Section 7.16 applies for purposes of determining required minimum distributions for distribution calendar years beginning with the 2003 calendar year.

2. Election to permit Participants or Beneficiaries to elect 5-Year Rule or Life Expectancy Rule. Participants or beneficiaries may elect on an individual basis whether the 5-year rule or the life expectancy rule in this Section 7.16 applies to distributions after the death of a Participant who has a designated beneficiary. The election must be made no later than the earlier of September 30 of the calendar year in which distribution would be required to begin under subsection 7.16(b)(2), or by September 30 of the calendar year which contains the fifth anniversary of the Participant's (or, if applicable, surviving spouse's) death. If neither the Participant nor beneficiary makes an election under this paragraph, distributions will be made in accordance with subsections (b)(2) and (d)(2).

3. No Suspension of 2009 Required Minimum Distributions **.** This Plan has not been amended to suspend required minimum distributions for 2009 pursuant to Section 401(a)(9)(4) of the Code. Any participant or beneficiary who would have been required to receive required minimum distributions for 2009 but for the enactment of Section 401(a)(9)(H) of the Code ("2009 RMDs"), and who would have satisfied that requirement by receiving distributions that are equal to the 2009 RMDs shall receive those distributions for 2009. Notwithstanding Section 7.13(b)(1) of the Plan, and solely for purposes of applying the direct rollover provisions of the Plan, a direct rollover will be offered under Section 7.13 only for distributions that would be eligible rollover distributions without regard to Section 401(a)(9)(H).

ARTICLE VIII
AMENDMENT, TERMINATION, MERGERS AND LOANS

8.1 AMENDMENT

(a) The Employer shall have the right at any time to amend this Plan, subject to the limitations of this Section. However, any amendment which affects the rights, duties or responsibilities of the Trustee or Administrator may only be made with the Trustee's or Administrator's written consent. Any such amendment shall become effective as provided therein upon its execution. The Trustee shall not be required to execute any such amendment unless the amendment affects the duties of the Trustee hereunder.

(b) No amendment to the Plan shall be effective if it authorizes or permits any part of the Trust Fund (other than such part as is required to pay taxes and administration expenses) to be used for or diverted to any purpose other than for the exclusive benefit of the Participants or their Beneficiaries or estates; or causes any reduction in the amount credited to the account of any Participant; or causes or permits any portion of the Trust Fund to revert to or become property of the Employer.

(c) Except as permitted by Regulations (including Regulation 1.41l(d)-4) or other IRS guidance, no Plan amendment or transaction having the effect of a Plan amendment (such as a merger, plan transfer or similar transaction) shall be effective if it eliminates or reduces any "Section 411(d)(6) protected benefit" or adds or modifies conditions relating to "Section 41l(d)(6) protected benefits" which results in a further restriction on such benefits unless such "Section 411(d)(6) protected benefits" are preserved with respect to benefits accrued as of the later of the adoption date or effective date of the amendment. "Section 411(d)(6) protected benefits" are benefits described in Code Section 41l(d)(6)(A), early retirement benefits and retirement-type subsidies, and optional forms of benefit. A Plan amendment that eliminates or restricts the ability of a Participant to receive payment of the Participant's interest in the Plan under a particular optional form of benefit will be permissible if the amendment satisfies the conditions in (1) and (2) below:

(1) The amendment provides a single-sum distribution form that is otherwise identical to the optional form of benefit eliminated or restricted. For purposes of this condition (1), a single-sum distribution form is otherwise identical only if it is identical in all respects to the eliminated or restricted optional form of benefit (or would be identical except that it provides greater rights to the Participant) except with respect to the timing of payments after commencement.

(2) The amendment is not effective unless the amendment provides that the amendment shall not apply to any distribution with an annuity starting date earlier than the earlier of: (i) the ninetieth (90th) day after the date the Participant receiving the distribution has been furnished a summary that reflects the amendment and that satisfies the Act requirements at 29 CFR 2520.l04b-3 (relating

to a summary of material modifications) or (ii) the first day of the second Plan Year following the Plan Year in which the amendment is adopted.

8.2 TERMINATION

(a) The Employer shall have the right at any time to terminate the Plan by delivering to the Trustee and Administrator written notice of such termination. Upon any full or partial termination, all amounts credited to the affected Participants' Combined Accounts shall become 100% Vested as provided in Section 7.4 and shall not thereafter be subject to forfeiture, and all unallocated amounts, including Forfeitures, shall be allocated to the accounts of all Participants in accordance with the provisions hereof

(b) Upon the full termination of the Plan, the Employer shall direct the distribution of the assets of the Trust Fund to Participants in a manner which is consistent with and satisfies the provisions of Section 7.5. Distributions to a Participant shall be made in cash or in property allocated to the Participant's account or through the purchase of irrevocable nontransferable deferred commitments from an insurer except, however, for property distributions made prior to the earlier of (A) the effective date of an amendment limiting distribution in property to property allocated to the Participant's account, or (B) the adoption date of this amendment and restatement, distributions in property are not limited to property in the Participant's account. Except as permitted by Regulations, the termination of the Plan shall not result in the reduction of "Section 411(d)(6) protected benefits" in accordance with Section 8.1(c).

(c) Notwithstanding anything in the preceding paragraph to the contrary, amounts held in the Participant's Elective Deferral Account may not be distributed as a result of the termination of the Plan if a successor defined contribution plan is established by the Employer within the period ending twelve months after distribution of all assets from the Plan. For this purpose, a defined contribution plan is not treated as a successor defined contribution plan if the plan is an employee stock ownership plan (as defined in Code Section 4975(e)(7) or 409(a)), a simplified employee pension plan (as defined in Code Section 408(k)), a SIMPLE IRA plan (as defined in Code Section 408(p)), a plan or contract that satisfies the requirements of Code Section 403(b), or a plan that is described in Code Sections 457(b) or 457(f). Furthermore, if at all times during the 24-month period beginning 12 months before the date of the Plan's termination, fewer than 2% of the Participants in the Plan as of the date of Plan termination are eligible under the other defined contribution plan, then the other defined contribution plan is not a successor defined contribution plan.

8.3 MERGER, CONSOLIDATION OR TRANSFER OF ASSETS

This Plan and Trust may be merged or consolidated with, or its assets and/or liabilities may be transferred to any other plan and trust only if the benefits which would be received by a Participant of this Plan, in the event of a termination of the Plan immediately after such transfer, merger or consolidation, are at least equal to the benefits the Participant would have received if the Plan had terminated immediately before the transfer, merger or consolidation, and such transfer,

merger or consolidation does not otherwise result in the elimination or reduction of any "Section 41l(d)(6) protected benefits" in accordance with Section 8.1(c).

8.4 LOANS TO PARTICIPANTS

(a) The Trustee may, in the Trustee's discretion, make loans to Participants and Beneficiaries under the following circumstances: (1) loans shall be made available to all Participants and Beneficiaries on a reasonably equivalent basis; (2) loans shall not be made available to Highly Compensated Employees in an amount greater than the amount made available to other Participants and Beneficiaries; (3) loans shall bear a reasonable rate of interest; (4) loans shall be adequately secured; and (5) loans shall provide for periodic repayment over a reasonable period of time.

(b) Loans made pursuant to this Section (when added to the outstanding balance of all other loans made by the Plan to the Participant) may, in accordance with a uniform and nondiscriminatory policy established by the Administrator, be limited to the lesser of:

(1) $50,000 reduced by the excess (if any) of the highest outstanding balance of loans from the Plan to the Participant during the one year period ending on the day before the date on which such loan is made, over the outstanding balance of loans from the Plan to the Participant on the date on which such loan was made, or

(2) one-half (l/2) of the present value of the non-forfeitable accrued benefit of the Participant under the Plan.

For purposes of this limit, all plans of the Employer shall be considered one plan. Additionally, with respect to any loan made prior to January 1, 1987, the $50,000 limit specified in (1) above shall be unreduced.

(c) Loans shall provide for level amortization with payments to be made not less frequently than quarterly over a period not to exceed five (5) years. However, loans used to acquire any dwelling unit which, within a reasonable time, is to be used (determined at the time the loan is made) as a "principal residence" of the Participant shall provide for periodic repayment over a reasonable period of time that may exceed five (5) years, if the loan program provides for an extended repayment period for such "principal residence" loans. For this purpose, a "principal residence" has the same meaning as a "principal residence" under Code Section 1034. Loan repayments may be suspended under this Plan as permitted under Code Section 414(u)(4).

(d) Any loans granted or renewed shall be made pursuant to a Participant loan program. Such loan program shall be established in writing and must include, but need not be limited to, the following:

(1) the identity of the person or positions authorized to administer the Participant loan program;

(2) a procedure for applying for loans;

(3) the basis on which loans will be approved or denied;

(4) limitations, if any, on the types and amounts of loans offered;

(5) the procedure under the program for determining a reasonable rate of interest;

(6) the types of collateral which may secure a Participant loan; and

(7) the events constituting default and the steps that will be taken to preserve Plan assets.

Such Participant loan program shall be contained in a separate written document which, when properly executed, is hereby incorporated by reference and made a part of the Plan. Furthermore, such Participant loan program may be modified or amended in writing from time to time without the necessity of amending this Section.

(e) Notwithstanding anything in this Section to the contrary, any loans made prior to the date this amendment and restatement is adopted shall be subject to the terms of the plan in effect at the time such loan was made.

ARTICLE IX
TOP HEAVY

9.1 TOP HEAVY PLAN REQUIREMENTS

For any Top Heavy Plan Year, the Plan shall provide the special vesting requirements of Code Section 416(b) pursuant to Section 7.4 of the Plan and the special minimum allocation requirements of Code Section 416(c) pursuant to Section 4.5 of the Plan.

9.2 DETERMINATION OF TOP HEAVY STATUS

(a) This Plan shall be a Top Heavy Plan for any Plan Year in which, as of the Determination Date, (1) the Present Value of Accrued Benefits of Key Employees and (2) the sum of the Aggregate Accounts of Key Employees under this Plan and all plans of an Aggregation Group, exceeds sixty percent (60%) of the Present Value of Accrued Benefits and the Aggregate Accounts of all Key and Non-Key Employees under this Plan and all plans of an Aggregation Group.

If any Participant is a Non-Key Employee for any Plan Year, but such Participant was a Key Employee for any prior Plan Year, such Participant's Present Value of Accrued Benefit and/or Aggregate Account balance shall not be taken into account for purposes of determining whether this Plan is a Top Heavy Plan (or whether any Aggregation Group which includes this Plan is a Top Heavy Group). In addition, if a Participant or Former Participant has not performed any services for any Employer maintaining the Plan at any time during the one year period ending on the Determination Date, any accrued benefit for such Participant or Former Participant shall not be taken into account for the purposes of determining whether this Plan is a Top Heavy Plan.

(b) Aggregate Account: A Participant's Aggregate Account as of the Determination Date is the sum of:

(1) the Participant's Combined Account balance as of the most recent valuation occurring within a twelve (12) month period ending on the Determination Date. However, with respect to Employees not performing services for the Employer during the year ending on the Determination Date, the Participant's Combined Account balance as of the most recent valuation occurring within a twelve (12) month period ending on the Determination Date shall not be taken into account for purposes of this Section;

(2) an adjustment for any contributions due as of the Determination Date. Such adjustment shall be the amount of any contributions actually made after the Valuation Date but due on or before the Determination Date, except for the first Plan Year when such adjustment shall also reflect the amount of any contributions made after the Determination Date that are allocated as of a date in that first Plan Year.

(3) any Plan distributions made within the Plan Year that includes the Determination Date or, with respect to distributions made for a reason other than

severance from employment, disability or death, within the five (5) preceding Plan Years. The preceding sentence shall also apply to distributions under a terminated plan which, had it not been terminated, would have been aggregated with the Plan under Section 416(g)(2)(A)(i) of the Code. However, in the case of distributions made after the Valuation Date and prior to the Determination Date, such distributions are not included as distributions for top heavy purposes to the extent that such distributions are already included in the Participant's Aggregate Account balance as of the Valuation Date. Further, distributions from the Plan (including the cash value of life insurance policies) of a Participant's account balance because of death shall be treated as a distribution for the purposes of this paragraph.

(4) any Employee contributions, whether voluntary or mandatory. However, amounts attributable to tax deductible qualified voluntary employee contributions shall not be considered to be a part of the Participant's Aggregate Account balance.

(5) with respect to unrelated rollovers and plan-to-plan transfers (ones which are both initiated by the Employee and made from a plan maintained by one employer to a plan maintained by another employer), if this Plan provides the rollovers or plan-to-plan transfers, it shall always consider such rollovers or plan-to-plan transfers as a distribution for the purposes of this Section. If this Plan is the plan accepting such rollovers or plan-to-plan transfers, it shall not consider such rollovers or plan-to-plan transfers as part of the Participant's Aggregate Account balance. However, rollovers or plan-to-plan transfers accepted prior to January 1, 1984 shall be considered as part of the Participant's Aggregate Account balance.

(6) with respect to related rollovers and plan-to-plan transfers (ones either not initiated by the Employee or made to a plan maintained by the same employer), if this Plan provides the rollover or plan-to-plan transfer, it shall not be counted as a distribution for purposes of this Section. If this Plan is the plan accepting such rollover or plan-to-plan transfer, it shall consider such rollover or plan-to-plan transfer as part of the Participant's Aggregate Account balance, irrespective of the date on which such rollover or plan-to-plan transfer is accepted.

(7) For the purposes of determining whether two employers are to be treated as the same employer in (5) and (6) above, all employers aggregated under Code Section 414(b), (c), (m) and (o) are treated as the same employer.

(c) "Aggregation Group" means either a Required Aggregation Group or a Permissive Aggregation Group as hereinafter determined.

(1) Required Aggregation Group: In determining a Required Aggregation Group hereunder, each plan of the Employer in which a Key Employee is a participant in the Plan Year containing the Determination Date or any of the four preceding Plan Years, and each other plan of the Employer which enables any plan in which a Key Employee participates to meet the requirements of

Code Sections 401(a)(4) or 410, will be required to be aggregated. Such group shall be known as a Required Aggregation Group.

In the case of a Required Aggregation Group, each plan in the group will be considered a Top Heavy Plan if the Required Aggregation Group is a Top Heavy Group. No plan in the Required Aggregation Group will be considered a Top Heavy Plan if the Required Aggregation Group is not a Top Heavy Group.

(2) Permissive Aggregation Group: The Employer may also include any other plan not required to be included in the Required Aggregation Group, provided the resulting group, taken as a whole, would continue to satisfy the provisions of Code Sections 401(a)(4) and 410. Such group shall be known as a Permissive Aggregation Group.

In the case of a Permissive Aggregation Group, only a plan that is part of the Required Aggregation Group will be considered a Top Heavy Plan if the Permissive Aggregation Group is a Top Heavy Group. No plan in the Permissive Aggregation Group will be considered a Top Heavy Plan if the Permissive Aggregation Group is not a Top Heavy Group.

(3) Only those plans of the Employer in which the Determination Dates fall within the same calendar year shall be aggregated in order to determine whether such plans are Top Heavy Plans.

(4) An Aggregation Group shall include any terminated plan of the Employer if it was maintained within the last five (5) years ending on the Determination Date.

(d) "Determination Date" means (a) the last day of the preceding Plan Year, or (b) in the case of the first Plan Year, the last day of such Plan Year.

(e) Present Value of Accrued Benefit: In the case of a defined benefit plan, the Present Value of Accrued Benefit for a Participant other than a Key Employee, shall be as determined using the single accrual method used for all plans of the Employer and Affiliated Employers, or if no such single method exists, using a method which results in benefits accruing not more rapidly than the slowest accrual rate permitted under Code Section 41l(b)(l)(C). The determination of the Present Value of Accrued Benefit shall be determined as of the most recent Valuation Date that falls within or ends with the 12-month period ending on the Determination Date except as provided in Code Section 416 and the Regulations thereunder for the first and second plan years of a defined benefit plan.

(f) "Top Heavy Group" means an Aggregation Group in which, as of the Determination Date, the sum of:

(1) the Present Value of Accrued Benefits of Key Employees under all defined benefit plans included in the group, and

(2) the Aggregate Accounts of Key Employees under all defined contribution plans included in the group, exceeds sixty percent (60%) of a similar sum determined for all Participants.

9.3 DETERMINATION OF TOP HEAVY STATUS FOR PLAN YEARS BEGINNING AFTER DECEMBER 31, 2001

This Section 9.3 shall apply for purposes of determining whether the Plan is a top-heavy plan under Code Section 416(g) for Plan Years beginning after December 31, 2001.

(a) Key employee. Key employee means any Employee or former Employee (including any deceased Employee) who at any time during the Plan Year that includes the determination date was an officer of the Employer having "415 Compensation" greater than $130,000 (as adjusted under Code Section 416(i)(1) for Plan Years beginning after December 31, 2002), a 5-percent owner of the Employer, or a 1 -percent owner of the Employer having "415 Compensation" of more than $150,000. The determination of who is a key employee will be made in accordance with Code Section 416(i)(1) and the applicable regulations and other guidance of general applicability issued thereunder.

(b) Determination of present values and amounts. This section (b) shall apply for purposes of determining the present values of accrued benefits and the amounts of account balances of Employees as of the determination date.

(1) Distributions during year ending on the determination date. The present values of accrued benefits and the amounts of account balances of an Employee as of the determination date shall be increased by the distributions made with respect to the Employee under the Plan and any plan aggregated with the Plan under Code Section 416(g)(2) during the 1-year period ending on the determination date. The preceding sentence shall also apply to distributions under a terminated plan which, had it not been terminated, would have been aggregated with the Plan under Code Section 416(g)(2)(A)(i). In the case of a distribution made for a reason other than separation from employment, death, or disability, this provision shall be applied by substituting "5-year period" for "1-year period."

(2) Employees not performing services during year ending on the determination date. The accrued benefits and accounts of any individual who has not performed services for the Employer during the 1-year period ending on the determination date shall not be taken into account.

9.4 MINIMUM BENEFITS FOR PLAN YEARS BEGINNING AFTER DECEMBER 31, 2001

This Section shall apply for purposes of determining whether the Plan satisfies the minimum benefits requirements of Code Section 416(c) for Plan Years beginning after December 31, 2001. Employer matching contributions shall be taken into account for purposes of satisfying the minimum contribution requirements of Code Section 416(c)(2) and the Plan. The preceding

sentence shall apply with respect to matching contributions under the Plan or, if the Plan provides that the minimum contribution requirement shall be met in another plan, such other plan. Employer matching contributions that are used to satisfy the minimum contribution requirements shall be treated as matching contributions for purposes of the actual contribution percentage test and other requirements of Code Section 401(m).

ARTICLE X
MISCELLANEOUS

10.1 PARTICIPANT'S RIGHTS

This Plan shall not be deemed to constitute a contract between the Employer and any Participant or to be a consideration or an inducement for the employment of any Participant or Employee. Nothing contained in this Plan shall be deemed to give any Participant or Employee the right to be retained in the service of the Employer or to interfere with the right of the Employer to discharge any Participant or Employee at any time regardless of the effect which such discharge shall have upon the Employee as a Participant of this Plan.

10.2 ALIENATION

(a) Subject to the exceptions provided below, and as otherwise permitted by the Code and the Act, no benefit which shall be payable out of the Trust Fund to any person (including a Participant or the Participant's Beneficiary) shall be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, or charge, and any attempt to anticipate, alienate, sell, transfer, assign, pledge, encumber, or charge the same shall be void; and no such benefit shall in any manner be liable for, or subject to, the debts, contracts, liabilities, engagements, or torts of any such person, nor shall it be subject to attachment or legal process for or against such person, and the same shall not be recognized by the Trustee, except to such extent as may be required by law.

(b) Subsection (a) shall not apply to the extent a Participant or Beneficiary is indebted to the Plan, by reason of a loan made pursuant to Section 8.4. At the time a distribution is to be made to or for a Participant's or Beneficiary's benefit, such proportion of the amount to be distributed as shall equal such indebtedness shall be paid to the Plan, to apply against or discharge such indebtedness. Prior to making a payment, however, the Participant or Beneficiary must be given written notice by the Administrator that such indebtedness is to be so paid in whole or part from the Participant's Combined Account. If the Participant or Beneficiary does not agree that the indebtedness is a valid claim against the Vested Participant's Combined Account, the Participant or Beneficiary shall be entitled to a review of the validity of the claim in accordance with procedures provided in Sections 2.10 and 2.11.

(c) Subsection (a) shall not apply to a "qualified domestic relations order" defined in Code Section 414(p), and those other domestic relations orders permitted to be so treated by the Administrator under the provisions of the Retirement Equity Act of 1984. The Administrator shall establish a written procedure to determine the qualified status of domestic relations orders and to administer distributions under such qualified orders. Further, to the extent provided under a "qualified domestic relations order," a former spouse of a Participant shall be treated as the spouse or surviving spouse for all purposes under the Plan.

(d) Subsection (a) shall not apply to an offset to a Participant's accrued benefit against an amount that the Participant is ordered or required to pay the Plan with respect to a judgment, order, or decree issued, or a settlement entered into, on or after August 5, 1997, in accordance with Code Sections 401(a)(13)(C) and (D).

10.3 CONSTRUCTION OF PLAN

This Plan shall be construed and enforced according to the Code, the Act and the laws of the State of Florida, other than its laws respecting choice of law, to the extent not pre-empted by the Act.

10.4 GENDER AND NUMBER

Wherever any words are used herein in the masculine, feminine or neuter gender, they shall be construed as though they were also used in another gender in all cases where they would so apply, and whenever any words are used herein in the singular or plural form, they shall be construed as though they were also used in the other form in all cases where they would so apply.

10.5 LEGAL ACTION

In the event any claim, suit, or proceeding is brought regarding the Trust and/or Plan established hereunder to which the Trustee, the Employer or the Administrator may be a party, and such claim, suit, or proceeding is resolved in favor of the Trustee, the Employer or the Administrator, they shall be entitled to be reimbursed from the Trust Fund for any and all costs, attorney's fees, and other expenses pertaining thereto incurred by them for which they shall have become liable.

10.6 PROHIBITION AGAINST DIVERSION OF FUNDS

(a) Except as provided below and otherwise specifically permitted by law, it shall be impossible by operation of the Plan or of the Trust, by termination of either, by power of revocation or amendment, by the happening of any contingency, by collateral arrangement or by any other means, for any part of the corpus or income of any Trust Fund maintained pursuant to the Plan or any funds contributed thereto to be used for, or diverted to, purposes other than the exclusive benefit of Participants, Former Participants, or their Beneficiaries.

(b) In the event the Employer shall make an excessive contribution under a mistake of fact pursuant to Act Section 403(c)(2)(A), the Employer may demand repayment of such excessive contribution at any time within one (1) year following the time of payment and the Trustees shall return such amount to the Employer within the one (1) year period. Earnings of the Plan attributable to the contributions may not be returned to the Employer but any losses attributable thereto must reduce the amount so returned.

(c) Except for Sections 3.5, 3.6, and 4.1(g), any contribution by the Employer to the Trust Fund is conditioned upon the deductibility of the contribution by the Employer under the Code and, to the extent any such deduction is disallowed, the Employer may, within one (1) year following the final determination of the disallowance, whether by agreement with the Internal Revenue Service or by final decision of a competent jurisdiction, demand repayment of such disallowed contribution and the Trustee shall return such contribution within one (1) year following the disallowance. Earnings of the Plan attributable to the contribution may not be returned to the Employer, but any losses attributable thereto must reduce the amount so returned.

10.7 EMPLOYER'S AND TRUSTEE'S PROTECTIVE CLAUSE

The Employer, Administrator and Trustee, and their successors, shall not be responsible for the validity of any Contract issued hereunder or for the failure on the part of the insurer to make payments provided by any such Contract, or for the action of any person which may delay payment or render a Contract null and void or unenforceable in whole or in part.

10.8 INSURER'S PROTECTIVE CLAUSE

Except as otherwise agreed upon in writing between the Employer and the insurer, an insurer which issues any Contracts hereunder shall not have any responsibility for the validity of this Plan or for the tax or legal aspects of this Plan. The insurer shall be protected and held harmless in acting in accordance with any written direction of the Trustee, and shall have no duty to see to the application of any funds paid to the Trustee, nor be required to question any actions directed by the Trustee. Regardless of any provision of this Plan, the insurer shall not be required to take or permit any action or allow any benefit or privilege contrary to the terms of any Contract which it issues hereunder, or the rules of the insurer.

10.9 RECEIPT AND RELEASE FOR PAYMENTS

Any payment to any Participant, the Participant's legal representative, Beneficiary, or to any guardian or committee appointed for such Participant or Beneficiary in accordance with the provisions of the Plan, shall, to the extent thereof, be in full satisfaction of all claims hereunder against the Trustee and the Employer, either of whom may require such Participant, legal representative, Beneficiary, guardian or committee, as a condition precedent to such payment, to execute a receipt and release thereof in such form as shall be determined by the Trustee or Employer.

10.10 ACTION BY THE EMPLOYER

Whenever the Employer under the terms of the Plan is permitted or required to do or perform any act or matter or thing, it shall be done and performed by a person duly authorized by its legally constituted authority.

10.11 NAMED FIDUCIARIES AND ALLOCATION OF RESPONSIBILITY

The "named Fiduciaries" of this Plan are (1) the Employer, (2) the Administrator, (3) the Trustee, and (4) any Investment Manager appointed hereunder. The named Fiduciaries shall have

only those specific powers, duties, responsibilities, and obligations as are specifically given them under the Plan including, but not limited to, any agreement allocating or delegating their responsibilities, the terms of which are incorporated herein by reference. In general, the Employer shall have the sole responsibility for making the contributions provided for under Section 4.1; and shall have the authority to appoint and remove the Trustee and the Administrator; to formulate the Plan's "funding policy and method"; and to amend or terminate, in whole or in part, the Plan. The Administrator shall have the sole responsibility for the administration of the Plan, including, but not limited to, the items specified in Article II of the Plan, as the same may be allocated or delegated thereunder. The Administrator shall act as the named Fiduciary responsible for communicating with the Participant according to the Participant Direction Procedures. The Trustee shall have the sole responsibility of management of the assets held under the Trust, except to the extent directed pursuant to Article II or with respect to those assets, the management of which has been assigned to an Investment Manager, who shall be solely responsible for the management of the assets assigned to it, all as specifically provided in the Plan. Each named Fiduciary warrants that any directions given, information furnished, or action taken by it shall be in accordance with the provisions of the Plan, authorizing or providing for such direction, information or action. Furthermore, each named Fiduciary may rely upon any such direction, information or action of another named Fiduciary as being proper under the Plan, and is not required under the Plan to inquire into the propriety of any such direction, information or action. It is intended under the Plan that each named Fiduciary shall be responsible for the proper exercise of its own powers, duties, responsibilities and obligations under the Plan as specified or allocated herein. No named Fiduciary shall guarantee the Trust Fund in any manner against investment loss or depreciation in asset value. Any person or group may serve in more than one Fiduciary capacity.

10.12 HEADINGS

The headings and subheadings of this Plan have been inserted for convenience of reference and are to be ignored in any construction of the provisions hereof

10.13 ELECTRONIC MEDIA

The Administrator may use telephonic or electronic media to satisfy any notice requirements required by this Plan, to the extent permissible under regulations (or other generally applicable guidance). In addition, a Participant's consent to an immediate distribution may be provided through telephonic or electronic means, to the extent permissible under regulations (or other generally applicable guidance). The Administrator also may use telephonic or electronic media to conduct plan transactions such as enrolling participants, making (and changing) deferral elections, electing (and changing) investment allocations, applying for Plan loans, and other transactions, to the extent permissible under regulations (or other generally applicable guidance).

10.14 PLAN CORRECTION

The Administrator in conjunction with the Employer may undertake such correction of Plan errors as the Administrator deems necessary, including correction to preserve tax qualification of the Plan under Section 401(a) of the Code or to correct a fiduciary breach under the Act. Without limiting the Administrator's authority under the prior sentence, the Administrator, as it determines to be reasonable and appropriate, may undertake correction of Plan document, operational,

demographic and employer eligibility failures under a method described in the Plan or under the IRS Employee Plans Compliance Resolution System ("EPCRS") or any successor program to EPCRS. The Administrator, as it determines to be reasonable and appropriate, also may undertake or assist the appropriate fiduciary or plan official in undertaking correction of a fiduciary breach, including correction under the DOL Voluntary Fiduciary Correction Program ("VFC") or any successor program to VFC.

10.15 APPROVAL BY INTERNAL REVENUE SERVICE

Notwithstanding anything herein to the contrary, if, pursuant to an application for qualification filed by or on behalf of the Plan by the time prescribed by law for filing the Employer's return for the taxable year in which the Plan is adopted, or such later date that the Secretary of the Treasury may prescribe, the Commissioner of Internal Revenue Service or the Commissioner's delegate should determine that the Plan does not initially qualify as a tax-exempt plan under Code Sections 401 and 501, and such determination is not contested, or if contested, is finally upheld, then if the Plan is a new plan, it shall be void ab initio and all amounts contributed to the Plan by the Employer, less expenses paid, shall be returned within one (1) year and the Plan shall terminate, and the Trustee shall be discharged from all further obligations. If the disqualification relates to an amended plan, then the Plan shall operate as if it had not been amended.

10.16 UNIFORMITY

All provisions of this Plan shall be interpreted and applied in a uniform, nondiscriminatory manner. In the event of any conflict between the terms of this Plan and any Contract purchased hereunder, the Plan provisions shall control.

IN WITNESS WHEREOF, the Company has caused this amended and restated Sun Hydraulics Corporation 401(k) and ESOP Retirement Plan to be signed by its duly authorized officer as of this ___ day of January, 2013.

ATTEST: **SUN HYDRAULICS CORPORATION**

______________________________ By:

Title: ___________________________________

1/15/2013

Exhibit 10.16

FIRSTAMENDMENT TO SUN HYDRAULICS CORPORATION 401(k) AND ESOP RETIREMENT PLAN

The Sun Hydraulics Corporation 401(k) and ESOP Retirement Plan (hereinafter referred to as the "Plan") provides in Section 8.1 for subsequent plan amendments. Sun Hydraulics Corporation ("Company") now wishes to amend the Plan in the manner described below to provide basic matching contributions for employees of High Country Tek ("HCT"). The Plan is therefore amended effective as of April 1, 2016, as follows:

1. Section 1.25 of the Plan, defining the term "ESOP Account," is amended to read as follows:

> "ESOP Account" means the account established and maintained by the Administrator for each Participant (other than, prior to April 1, 2016, an HCT Employee) with respect to such Participant's total interest in the Plan and Trust resulting from Employer Non-Elective Contributions that are made in Employer Stock or that resulted in an allocation of Employer Stock or allocations of Employer Stock Forfeitures, and which currently is invested in Employer Stock. A separate accounting shall be maintained with respect to those portions (if any) of the Company Stock Account attributable to Elective Contributions and to employer contributions. A separate accounting shall also be maintained with respect to that portion of the ESOP Account attributable to the Participant's election pursuant to Section 5.10 below to reinvest cash dividends in Employer Stock.

2. Section 1.53 of the Plan, defining the term "Participant's Account," is amended to read as follows:

> "Participant's Account" means the account established and maintained by the Administrator for each Participant (other than, prior to April 1, 2016, an HCT Employee) with respect to such Participant's total interest in the Plan and Trust (if any) resulting from the Employer Non-Elective Contributions. Notwithstanding the foregoing, the Participant's Account shall not include Employer Stock resulting from Employer Non-Elective Contributions.

3. Section 1.60 of the Plan, defining the term "Period of Service," is amended by revising its first sentence to read as follows:

> "Period of Service" means the aggregate of all periods commencing with the Employee's first day of employment or reemployment with the Employer or Affiliated Employer and ending on the date a 1-Year Break in Service begins. The first day of employment or reemployment is the first day the Employee performs an Hour of Service (or, for an HCT Employee, the first day on which he or she performed an Hour of Service for High Country Tek).

4. Section 4.1 of the Plan, entitled "Formula for Determining Employer Contribution," is hereby amended to replace the present Subsection 4.1(h) with the following Subsections 4.1(h), (i) and (j), to read as follows:

(h) An HCT Employee shall not be considered a Participant eligible for matching contributions pursuant to Section 4.1(b) and Section 4.1(c) or for discretionary employer profit sharing contributions pursuant to Section 4.1(e), except as provided below. However, effective on and after April 1, 2016, a Participant who is an HCT Employee shall be eligible for employer matching contributions pursuant to Subsection (i) below and employer profit sharing contributions to the extent provided in Subsection (j) below.

(i) For periods beginning on an after April 1, 2016, a Participant who is an HCT Employee shall be eligible to have matching contributions made to the Plan on his or her behalf for payroll periods ending after April 1, 2016 to the extent specified in Section 4.5(b), in an amount equal to 50% of the Deferred Compensation such HCT Employee makes to the Plan for the payroll period (up to the maximum percentage of pay deferred specified in the following paragraph). Such matching contribution shall be deemed an Employer Non-Elective Contribution. Such matching contributions shall be made in cash.

Except, however, in applying the matching percentage specified in the preceding paragraph, only salary reductions up to the following percentage of payroll period Compensation, based on the HCT Employee's whole year Periods of Service, shall be considered.

Periods of Service	**% of Compensation**
Less than 3 years	3%
At least 3 years but less than 5 years	4%
At least 5 years but less than 7 years	5%
7 or more years	6%

(j) In addition, effective on and after April 1, 2016, a Participant who is an HCT Employee shall be eligible for employer profit sharing contributions equivalent to the employer discretionary employer profit sharing contributions pursuant to Section 4.1(e). The exact amount, if any, of such discretionary profit-sharing contribution shall be determined each year by the Employer, and may (but need not be) determined as the same percentage of Compensation or other formula the Employer is using to determine the discretionary employer profit sharing contributions to be made for other Participants for the same Plan Year pursuant to Section 4.1(e) above. Such discretionary profit-sharing contribution may be made in Employer Stock or cash, as determined by the Board, and will be allocated to the HCT Employee's ESOP Account.

5. Section 4.5 of the Plan, entitled "Allocations," is revised by replacing Subsection 4.5(b)(4) with the following, effective on and after April 1, 2016.

(4) Notwithstanding the foregoing, an HCT Employee shall be a Participant for purposes of Subsection 4.1(a) and for purposes of matching contributions described in Subsection 4.1(i) and employer profit sharing contributions, as described in Subsection 4.1(j), but shall not be considered a Participant eligible for discretionary matching or profit sharing contributions under Subsections 4.1(b), (c) and (e). For purposes of Subsection 4.1(i), effective on and after April 1, 2016, a Participant who is an HCT Employee during the Plan Year shall be eligible for the matching contributions described in Subsection 4.1(i) for each payroll period in which he or she is actively employed as an HCT Employee, regardless of

whether he or she continues to be employed on the last day of the Plan Year or has completedat least 1,000 Hours of Service during the Plan Year.

Effective on and after April 1, 2016, HCT Employees (but only those HCT Employees who are actively employed by the Employer on the last day of the Plan Year) shall be eligible to share in the discretionary employer profit sharing contributions described in Subsection 4.1(j) for the Plan Year.

6. Section 4.8 of the Plan, entitled "Actual Contribution Percentage Tests," is amended by revising Subsection 4.8(b)(1) to read as follows:

(1) the sum of Employer matching contributions made pursuant to Section 4.1(b), Section 4.1(c) and/or Subsection 4.1(i) on behalf of each such Participant for such Plan Year; to

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

IN WITNESS WHEREOF, Sun Hydraulics Corporation has caused this First Amendment to the Plan to be executed by its duly authorized representative this __ day of March, 2016.

SUN HYDRAULICS CORPORATION

Witness:

By:

Tricia L. Fulton, Chief Financial Officer

SLK_TOL: #2689148v.3

SECOND AMENDMENT TO
SUN HYDRAULICS CORPORATION
401(k) AND ESOP RETIREMENT PLAN
(as restated effective January 1, 2012)

The Sun Hydraulics Corporation 401(k) and ESOP Retirement Plan (hereinafter referred to as the "Plan") provides in Section 8.1 for subsequent plan amendments. Sun Hydraulics Corporation (the "Company") now wishes to amend the Plan in the manner described below to permit hardship distributions to be made to participants who have been affected by Hurricane Irma, as provided under IRS Announcement 2017-13. The Plan is therefore amended effective as of September 4, 2017, as follows:

1. Section 7.11 of the Plan, entitled " Advanced Distribution for Hardship," is hereby amended to add a new subsection 7.11(f) to the end thereof, effective as of September 4, 2017, to read as follows:

(f) **Special Rules for Hurricane Irma-Related Hardship Distributions.** The following provisions shall apply to distributions on account of a financial hardship to qualified Plan Participants as a result of Hurricane Irma (a "Qualified Hurricane Irma-related Distribution"). The normal rules in this Section 7.11 relating to hardship distributions apply to a Qualified Hurricane Irma-related Distribution, except as provided in this subparagraph (f).

(1) A Qualified Hurricane Irma-related Distribution may be made on or after September 4, 2017 and before February 1, 2018.

(2) A Qualified Hurricane Irma-related Distribution shall be available to a Participant whose principal residence or primary place of employment on September 4, 2017 was in one of the following counties in Florida identified for individual assistance by the Federal Emergency Management Agency (FEMA): Alachua, Baker, Bradford, Brevard, Broward, Charlotte, Citrus, Clay, Collier, Columbia, DeSoto, Duval, Flagler, Gilchrist, Glades, Hardee, Hendry, Hernando, Highlands, Hillsborough, Indian River, Lake, Lee, Levy, Manatee, Marion, Martin, Miami-Dade, Monroe, Nassau, Okeechobee, Orange, Osceola, Palm Beach, Pasco, Pinellas, Polk, Putnam, Sarasota, Seminole, St. Johns, St. Lucie, Sumter, Suwannee, Union, and Volusia. A Qualified Hurricane Irma-related Distribution shall also be available to a Participant who had an ascendant, descendant, dependent or spouse who had a primary residence or principal place of employment in one of those counties on September 4, 2017.

(3) A Qualified Hurricane Irma-related Distribution may be made for any immediate and heavy financial need arising from Hurricane Irma, and is not restricted to the reasons specified in subparagraph 7.11(a).

(4) The six-month suspension of elective deferrals and after-tax voluntary Employee contributions to the Plan and all other plans maintained by the Employer, as required in subparagraph 7.11(b)(3), does not apply to a Participant who receives a Qualified Hurricane Irma-related Distribution.

(5) A Participant may obtain a Qualified Hurricane Irma-related Distribution even if the Participant is eligible to obtain a loan under the Plan or any other plan maintained by the Employer.

(6) A Qualified Hurricane Irma-related Distribution shall be deemed to not violate the prohibitions on early distribution under Section 4.2 that apply to elective contributions made to Code Section 401(k) plans.

IN WITNESS WHEREOF, Sun Hydraulics Corporation has caused this Second Amendment to the Plan to be executed by its duly authorized representative this ____ day of September, 2017.

SUN HYDRAULICS CORPORATION

Witness:

By:
Tricia L. Fulton, Chief Financial Officer

SLK_TOL: #2689148v.3

Exhibit 21

SUBSIDIARIES OF THE COMPANY

Name of Subsidiary	Organized under the laws of	Additional Name Under Which Subsidiary Does Business
Sun Hydraulik Holdings Limited	England and Wales	Sun Hydraulics
Sun Hydraulics Limited	England and Wales	Sun Hydraulics
Sun Hydraulik GmbH	The Federal Republic of Germany	Sun Hydraulics
Sun Hydraulics Korea Corporation	Korea	Sun Hydraulics
Enovation Controls, LLC	Oklahoma	Murphy, Zero Off
Enovation Controls Europe, Ltd.	United Kingdom	
Enovation Controls, Ltd.	United Kingdom	
Enovation Controls India Private Limited	India	
Sun Murphy International Trading (Shanghai) Co., Ltd.	China	

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have issued our reports dated February 27, 2018, with respect to the consolidated financial statements, and internal control over financial reporting included in the Annual Report of Sun Hydraulics Corporation and subsidiaries on Form 10-K for the year ended December 30, 2017. We consent to the incorporation by reference of said reports in the Registration Statements of Sun Hydraulics Corporation and subsidiaries on Form S-3 (file number 333-222760, effective January 29, 2018) and on Form 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, File No. 333-158245, effective March 27, 2009, File No. 333-177448, effective October 21, 2011, and File No. 333-184840, effective November 9, 2012).

/s/ GRANT THORNTON LLP
Tampa, Florida
February 27, 2018

Exhibit 23.2

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in this Registration Statements of Sun Hydraulics Corporation on Form S-3ASR (File No. 333-222760) and 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, File No. 333-158245, effective March 27, 2009, File No. 333-177448, effective October 21, 2011, and File No. 333-184840, effective November 9, 2012) of our report dated March 1, 2016, relating to the 2015 consolidated financial statements of Sun Hydraulics Corporation and subsidiaries (the “Company”), which report expresses an unqualified opinion on the consolidated financial statements appearing in the Annual Report on Form 10-K of the Company for the year ended December 30, 2017.

/s/ Mayer Hoffman McCann P.C.
February 27, 2018
Clearwater, Florida

Exhibit 31.1

CERTIFICATION

I, Wolfgang H. Dangel, certify that:

1. I have reviewed this Annual Report on Form 10-K for the year ended December 30, 2017, 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: February 27, 2018

/s/ Wolfgang H. Dangel

Wolfgang H. Dangel
President, Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Tricia L. Fulton, certify that:

1. I have reviewed this Annual Report on Form 10-K for the year ended December 30, 2017, 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: February 27, 2018

/s/ Tricia L. Fulton

Tricia L. Fulton
Chief Financial Officer

Exhibit 32.1

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

I, Wolfgang H. Dangel, 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 December 30, 2017 (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/ Wolfgang H. Dangel

Chief Executive Officer
February 27, 2018

Exhibit 32.2

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

I, Tricia L. Fulton, the Chief Financial Officer of Sun Hydraulics Corporation (the "Company"), certify that (i) the Annual Report on Form 10-K for the Company for the year ended December 30, 2017 (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
February 27, 2018