

SUN HYDRAULICS CORP
Form 10-K
March 01, 2016
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended January 2, 2016

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

34243
(Zip Code)

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. []

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller Reporting Company	<input type="checkbox"/>

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 \$823,376,441. The Registrant had 26,795,733 shares of common stock, par value \$.001, outstanding as of February 19, 2016.

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PART 1

ITEM 1. BUSINESS

Overview

Sun Hydraulics Corporation (“Sun,” the “Company” or “We”) was founded in 1970, in Sarasota, FL, USA, and for the past 46 years has provided global capital goods industries with hydraulics components and systems used to transmit power and control force, speed and motion. Sun’s products typically add a fine degree of precision and safety to the machinery and equipment in which they are used.

On a component level, Sun designs and manufactures screw-in hydraulic cartridge valves, manifolds, and integrated fluid power packages and subsystems. The Company’s products provide an important control function within a hydraulic system, to control rates and direction of fluid flow and to regulate and control pressures.

Sun’s 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 Company’s cartridge valves, from the first models in the early 1970s, were designed to be able to operate reliably at higher pressures, making them equally suitable for both industrial and mobile applications. Until recently, most other companies’ screw-in cartridge valves were only suitable for use in mobile applications. Sun’s brand has grown and become identified as a product able to withstand the rigors of industrial use, where operating cycles and pressures are higher and more frequent.

To complement the high pressure, high duty cycle nature of its cartridge valves, Sun offers the broadest array of standard manifolds of any cartridge valve manufacturer. These products, available in both aluminum and ductile iron allow the Company’s cartridge valves to be easily and conveniently installed in machinery and equipment. Sun’s standard manifolds feature common interfaces, ports and industry standard patterns to make them applicable for use in any country.

All of Sun’s standard cartridge valves and manifolds are offered in multiple versions and size ranges. The product array features five different capacities (this represents flow rates or could conveniently be referenced as horsepower), with capacity doubling with each successive size. Each version offers a subtle variation of functionality. This allows machine designers to choose a product that is optimal to the operating conditions of the equipment they are designing. Sun is unique in the industry in approaching product development in this matrix manner, which yields a product line of extreme breadth and depth. Sun’s broad scope of product offering, coupled with the high performance characteristics of its cartridge valves, makes Sun a leader in its industry.

To fully leverage its cartridge product family, the Company routinely competes in the custom manifold and integrated package market. This activity entails designing custom manifolds which incorporate multiple standard cartridge valves to create a unique and machine specific solution for a particular customer. Because of the unique nature of Sun’s cartridge valve designs, manifolds may be designed and machined to make them significantly smaller, sometimes greater than 50% smaller, when compared to manifolds that use only industry common cartridge valves. The same design characteristics that allow manifolds to be smaller also allow them to operate more efficiently by incorporating angular drillings in the design. Integrated packages allow customers to order a single part number, reduce assembly and labor time on the factory floor, and easily locate a complete hydraulic control system anywhere on a machine. In recent years, the Company has aggressively expanded its offering of electrically-actuated cartridge valves. Despite being a late entrant in the industry with these types of products, Sun’s design approach has allowed the Company to quickly offer a full range of electrically-actuated cartridge valves, helping to increase the competitiveness of the integrated package offerings. Because hydraulics systems are increasingly taking signals from on-board electronic control systems, it is necessary for hydraulic products to be capable of digital communication.

To further augment its capabilities in the electronic area, the Company, in 2011, acquired High Country Tek, Inc. (“HCT”), which designs and manufactures a range of standard and customizable electronic control modules used to interpret electronic signals. In 2013, the Company acquired WhiteOak Controls Inc. (“WhiteOak”), which was merged into HCT. WhiteOak designed and produced complementary electronic control products. In 2014, the Company entered into a technology licensing agreement with Sturman Industries (“Sturman”) to utilize Sturman’s digital valve technology in fluid power markets. The addition of these capabilities with Sun’s legacy products and capabilities

expands the scope of unique product solutions the Company can offer its customers.

Sun's products are sold globally through a combination of wholly-owned companies, representative sales offices and independent and authorized distributors. Sun has operations in the United States, England, Germany, France, South Korea, China and India. Activities at these locations range from technical support, to inventory, to distributor management, to custom manifold design and manufacturing. Sun's global distribution network includes representation in almost all industrialized markets. Distributors are the local experts in Sun's products. They typically hold local inventory and transact all business with

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customers. This arrangement helps to keep selling, general and administrative costs to a minimum, with above industry average inventory turns and free cash flows.

In 2015, 49% of consolidated sales went to customers in the Americas, 30% to customers in Europe, the Middle East and Africa, and 21% to customers in the Asia/Pacific Region. In 2015, sales to any single customer or distributor did not exceed 6% of total net sales.

The Company has been profitable every year since 1972 and 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 its telephone number is (941) 362-1200. The Company's website is www.sunhydraulics.com.

Industry Background

Sun is part of the fluid power industry, in which either air (pneumatics) or oil (hydraulics) is used to transmit power and provide motion control for many types of machinery, equipment and vehicles. The modern fluid power industry developed around World War II as both hydraulics and pneumatics were widely adopted as effective means of motion control. Hydraulics, because of its mechanical advantage, is typically used when significant work needs to be accomplished or heavy loads need to be moved. Hydraulics systems also provide precise positioning and movement of lighter loads. Examples where hydraulics are routinely used include steering and braking activities in construction, agricultural and marine equipment; raising work platforms and ladders in construction and fire and rescue equipment; holding and clamping parts or moving machine elements in machine tools; and measuring in laboratory test equipment; controlling the direction and pitch of blades in windmills - the list of uses of hydraulics is wide and varied and encompasses almost all industries.

Valves are major components of a hydraulic system, along with pumps and actuators. These devices are complemented by a wide range of ancillary and supporting products that includes, but is not limited to, hoses, fittings, accumulators, regulators, heat exchangers, sensors and lubricants. Valves provide the function of directing the flow of fluid, setting the rate of its flow and regulating pressures in the system.

Screw-in hydraulic cartridge valves, the type of product the Company manufactures, were initially developed in the late 1950s and early 1960s as an alternative to the then existing technology, which we refer to as conventional valves. Conventional valves were typically single purpose devices made with cumbersome iron casting that were limited in how they could be installed in machinery and equipment. In times of economic expansion, these types of products could become difficult to obtain due to the inability to easily source castings. Screw-in cartridge valves are made from easily obtainable commercial steels, which make supply more consistent. More importantly, multiple cartridge valves can be combined together in a single block of machined aluminum, ductile iron or steel, to create a hydraulic integrated circuit, which in almost all respects is analogous to an electronic integrated circuit. The hydraulic integrated circuit provides significant benefits to the machine designer, including: ease of order and inventory control, ease of location in machinery and equipment, reduced labor and assembly time, proprietary control systems and a way to differentiate machinery and equipment.

The hydraulics industry is comprised of large, multi-national companies that make all the types of components that are needed to create a hydraulic system, companies that make specific components of a system, such as Sun, and companies that make specialty components.

The hydraulics industry is increasingly influenced by the electronic industry, as more machinery and equipment is equipped with on board electronic control systems. This affects purchasing decisions, hydraulic components, design criteria, machine and vehicle performance, safety and many other attributes and characteristics. The line between electronics and hydraulics is blurring and the two technologies must be able to digitally communicate. The Company expects this trend will continue in the future.

Strategy

Sun will continue to design, manufacture, market and support, on a worldwide basis, differentiated high-performance and high-quality products and systems. The Company believes this focus supports its business objectives of generating sustainable revenue growth that will consistently yield above-average returns on capital while achieving a high level of customer satisfaction. Key elements of the Company's strategy include the following:
Deliver Value Through High-Quality, High-Performance Products. The Company's products are designed with operating and performance characteristics that exceed those of many functionally similar products. The Company's products provide high value because they generally operate more reliably and at higher flow rates and pressures than competitive offerings of the same size.

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Achieve a High Level of Customer Satisfaction. Sun schedules orders to the customer's request date. The Company believes that its long-term success is dependent upon its reputation in the marketplace, which in turn is a result of its ability to service its customers. The Company tests 100% of its screw-in cartridge valves to ensure the highest level of performance on a consistent basis. Through our products and services, Sun will seek to create value for its customers by helping them differentiate their own product and service offerings.

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

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

Expand Electronics Capabilities. Through acquisition and internal development, the Company has continued to expand its electronics capabilities. This is important because many machines and vehicles have central electronic control systems which direct all system activities, including those of the hydraulics system. The Company will continue to foster the evolution of its electronic controls capabilities to support creating superior solutions for its customers.

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

Expand Global Presence. Sun intends to continue to expand its global presence in the areas of distribution and international operations. The Company has strong distributor representation in most developed and developing markets, including North and South America, Western Europe, Asia, Australia, and South Africa. The Company will continue to expand its presence in key areas including, but not limited to, Eastern Europe, Russia, China and India. A strong local presence helps the Company compete for integrated package business, where proximity to its customers is beneficial.

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

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

Sell Through Distributors. Due to the variety of potential customers and the Company's desire to avoid overhead costs, North America sales are made primarily through independent distributors. Sun's international locations sell both to

direct customers and through independent distributors. Many of the Company's distributors sell products manufactured by other companies and act as system integrators by providing complete hydraulic systems to customers.

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

Form Strategic Relationships/Acquisitions. When management deems it to be of strategic benefit, Sun may enter into relationships with other hydraulics manufacturers including, but not limited to, marketing, brand labeling and other non-exclusive or exclusive agreements. In the future the Company expects to expand its internally developed products and

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capabilities through investments in outside firms. These investments could be full acquisitions, joint ventures, partial ownership investments or other agreements.

Capture value for our stakeholders. Through our culture and organizational structure, we prudently manage our resources and strive to balance operational efficiencies with developing innovative products and services. This allows us to provide superior value to our customers by delivering high quality, reliable products to the customer's schedule which, in turn, has resulted in sustained profits for the Company. In addition to quarterly cash dividends, Sun has developed a shared distribution which allows stakeholders, including shareholders and employees, to participate in the profits Sun earns.

Products

Screw-in Hydraulic Cartridge Valves

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

Standard Manifolds

A manifold is a solid block of metal, usually aluminum or ductile iron, which is machined to create threaded cavities and channels into which screw-in cartridge valves can be installed and through which the hydraulic fluid flows. The variety of standard manifolds offered by Sun is unmatched by any screw-in cartridge valve or manifold competitor. These products allow customers to easily integrate the Company's screw-in cartridge valves into their machinery and equipment. Once designed, standard manifolds require minimal, if any, maintenance engineering over the life of the product and can be manufactured at each of the Company's manufacturing operations.

Integrated Packages (using custom designed manifolds)

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

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

Electronic Controllers

Sun, through its subsidiary High Country Tek ("HCT"), designs and manufactures electronic controllers, which manage the function of electrically actuated valves. HCT's 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.

HCT's products in combination with the Sun product line enable integration at the next level by optimizing manifolds, cartridge valves and electronic controllers into solutions for complete systems or as building blocks for our distributors and direct customers.

Engineering

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

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Manufacturing

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

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

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

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

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

Sales and Marketing

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

The Company currently has 87 distributors, 56 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 2015, sales to the Company's largest distributor represented less than 6% of net sales.

In addition to distributors, the Company sells directly to other companies within the hydraulics industry, including competitors, which incorporate the Company's products into their hydraulic products or systems. The Company believes that making it easy for other manufacturers to buy its products offers these manufacturers a better alternative to developing similar products themselves.

To a limited degree, the Company sells product directly to OEMs. The Company recognizes that, to gain access to certain large OEM accounts, it may have to deal directly with customers in the areas of sales and support.

The Company provides end users with technical information through its website and catalogues, including all information necessary to specify and obtain the Company's products. The Company believes this approach helps

stimulate demand for the Company's products. The Company's website is comprehensive and easy to use with product information available 24 hours a day, seven days a week around the world, in multiple languages.

Customers

Customers are broadly classified as mobile or industrial customers.

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

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

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

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

Competition

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

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

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

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

Employees

As of January 2, 2016, Sun had 680 full-time employees in the United States, 24 at HCT, 62 in England, 38 in Germany, one in France, 49 in Korea, two in India and 6 in China. Over 90% of its employees are engaged in manufacturing, distribution, and engineering functions. No employees are represented by a union in any of the Company's operating units, and management believes that relations with its employees are good. Employees are paid either hourly or with an annual salary at rates that are competitive with other companies in the industry and geographic areas in which they operate. Management believes that Sun's culture, competitive salaries and wages, above average health and retirement plans, and its safe and pleasant working environment discourage employee turnover and encourage efficient, high-quality production. Nevertheless, due to the nature of the Company's manufacturing business, it is sometimes difficult to attract skilled personnel. (See Risk Factors: We are dependent upon key employees and skilled personnel.)

Patents and Trademarks

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

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Available Information

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

ITEM 1A. - RISK FACTORS

FACTORS INFLUENCING FUTURE RESULTS - FORWARD-LOOKING STATEMENTS This Annual Report contains "forward-looking statements" (within the meaning of the Private Securities Litigation Reform Act of 1995) that are based on current expectations, estimates, forecasts, and projections, our beliefs, and assumptions made by us, including (i) our strategies regarding growth, including our intention to develop new products; (ii) our financing plans; (iii) trends affecting our financial condition or results of operations; (iv) our ability to continue to control costs and to meet our liquidity and other financing needs; (v) the declaration and payment of dividends; and (vi) our ability to respond to changes in customer demand domestically and internationally, including as a result of standardization. In addition, we may make other written or oral statements, which constitute forward-looking statements, from time to time. Words such as "may," "expects," "projects," "anticipates," "intends," "plans," "believes," "seeks," "estimates," variations of these words, and similar expressions are intended to identify such forward-looking statements. Similarly, statements that describe our future plans, objectives or goals also are forward-looking statements. These statements are not guarantees of future performance and are subject to a number of risks and uncertainties, including those discussed below and elsewhere in this report. Our actual results may differ materially from what is expressed or forecasted in such forward-looking statements, and undue reliance should not be placed on such statements. All forward-looking statements are made as of the date hereof, and we undertake no obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise.

Factors that could cause actual results to differ materially from what is expressed or forecasted in such forward-looking statements include, but are not limited to: (i) conditions in the capital markets, including the interest rate environment and the availability of capital; (ii) changes in the competitive marketplace that could affect our revenue and/or cost bases, such as increased competition, lack of qualified engineering, marketing, management or other personnel, and increased labor and raw materials costs; (iii) new product introductions, product sales mix and the geographic mix of sales nationally and internationally; and the following risk factors:

Sales in our industry are subject to economic cycles. The capital goods industry in general, and the hydraulics industry in particular, are subject to economic cycles, which directly affect customer orders, lead times and sales volume. Economic downturns generally have a material adverse effect on our business and results of operations, as they did in 2009. 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 future, continued weakening or improvement in the economy will directly affect orders and influence results of operations.

We are subject to intense competition. The hydraulic valve industry is intensely competitive, and competition comes from a large number of 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. A new class of competitor has recently emerged in low cost production areas such as Asia and Eastern Europe with look-alike products. We cannot assure that we will continue to be able to compete effectively with these companies.

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

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

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We are subject to risks relating to international sales. International sales represent a significant proportion of our consolidated sales. In 2015, approximately 58% of our net sales were outside of the United States. We will continue to expand the scope of operations outside the United States, both through direct investment and distribution, and expect that international sales will continue to account for a substantial portion of net sales in future periods. International sales are subject to various risks, including unexpected changes in regulatory requirements and tariffs, longer payment cycles, difficulties in receivable collections, potentially adverse tax consequences, trade or currency restrictions, and, particularly in emerging economies, potential political and economic instability and regional conflicts.

Furthermore, our international operations generate sales in a number of foreign currencies, particularly British pounds, the Euro, and the Korean Won. Therefore, our financial condition and results of operations can be affected by fluctuations in exchange rates between the United States dollar and these currencies. Any or all of these factors could have a material adverse effect on our business, financial condition and results of operations.

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

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

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 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 and 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. Continued success is dependent on the Company’s ability to attract and retain a skilled labor force at this location. There are no assurances that we will continue to be successful in attracting and retaining the personnel required to develop, manufacture and market our products and expand our operations. See “Item 1. - Business - Employees.”

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

increases do not adequately cover material cost increases, our operating results may be adversely affected.

We are dependent upon our parts suppliers. Our largest expense in cost of sales is the cost of purchasing cartridge valve parts. Our manufacturing costs and output could be materially and adversely affected by operational or financial difficulties experienced by, or cost increases from, one or more of our suppliers.

We are subject to risks relating to our information technology systems. We rely extensively on information technology systems to manage and operate our business. Our results of operations and financial condition could be materially and adversely affected if we experienced a significant business disruption due to the failure of these systems to function properly, or unauthorized access to our systems.

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

We are subject to 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.

The marketplace could adopt an industry standard cavity that would not accommodate our products. Our screw-in cartridge valves fit into a unique cavity for which, to date, few other manufacturers have designed products. Accordingly, our screw-in cartridge valves are not interchangeable with those of other manufacturers. Most competitive manufacturers produce screw-in cartridge valves that fit into an industry common cavity. There is an ongoing effort in the United States to produce a standard for screw-in hydraulic cartridge valve cavities based on the industry common cavity. Additionally, the International Standards Organization (“ISO”) has an existing industry standard for screw-in hydraulic cartridge valve cavities, which is different from our cavity and the industry common cavity. In our view, the industry common cavity, as well as the suggested standardized form of this cavity, and the ISO standard cavity, fail to address critical functional requirements, which could result in performance and safety problems of significant magnitude for end users. To our knowledge, no major competitor has converted its standard product line to fit the ISO standard cavity. Any move by a substantial number of screw-in cartridge valve and manifold manufacturers toward the adoption of ISO standard or another standard, based on the existing industry common cavity, could have a material adverse effect on our business, financial condition and results of operation. See “Item 1. - Business - Competition.”

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

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

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

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

We are subject to control by certain shareholders and management. Christine L. Koski, the daughter of the deceased founder of the Company, Robert E. Koski, is a member of the board of directors. She, along with other family members, own or control approximately 14% 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

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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 11% of the outstanding shares of our common stock.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

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

The Company owns a 69,000 square foot facility in Sarasota, Florida, which houses manufacturing, design, marketing and other administrative functions. The Sarasota facility is well suited for the design, testing and manufacture of the Company's products.

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

In 2013, the Company opened its third U.S. manufacturing facility. This facility, in Manatee County, is located adjacent to its existing Manatee County facility. The facility provides an additional 58,000 square feet of production space and 17,000 square feet of office space, dedicated to the design and manufacturing of our integrated package business.

The close proximity of the Florida facilities allows us to quickly shift resources, including machinery and people, to effectively meet changing business requirements.

The Company also owns vacant land in Manatee County, Florida, adjacent to its existing facilities for future expansion requirements. In total, the Company owns 27 acres of contiguous property.

The Company owns 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.

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

The Company leases an 11,500 square foot distribution and manufacturing facility in Incheon, Korea. In 2015, the Company sold its 10,000 square foot distribution and manufacturing facility in Incheon, Korea.

There is no mortgage or other significant encumbrance on any of the Company's properties. The Company believes that its properties have been adequately maintained, are generally in good condition, and are suitable and adequate for its business as presently conducted. The extent of utilization of the Company's properties varies from time to time and among its facilities.

ITEM 3. LEGAL PROCEEDINGS

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

position or results of operations.

ITEM 4. MINE SAFETY DISCLOSURE

Not applicable.

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PART II

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

Market Information

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

	High	Low	Dividends declared
2015			
First quarter	41.620	36.240	0.180
Second quarter	41.510	36.510	0.090
Third quarter	38.110	27.430	0.090
Fourth quarter	32.930	27.230	0.090
2014			
First quarter	44.740	34.990	0.180
Second quarter	44.310	36.660	0.090
Third quarter	42.110	35.910	1.090
Fourth quarter	42.940	33.840	0.090

Holders

There were 172 shareholders of record of Common Stock on February 19, 2016. The number of record holders was determined from the records of the Company's transfer agent and does not include beneficial owners of Common Stock whose shares are held in the names of securities brokers, dealers, and registered clearing agencies. The Company believes that there are approximately 12,000 beneficial owners of Common Stock.

Dividends

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

In addition to the regular quarterly dividends, the Company declared shared distribution cash dividends in 2015, 2014 and 2013 equal to \$0.09 per share. The 2015 dividend was paid on March 31, 2015, to shareholders of record on March 15, 2015, the 2014 dividend was paid on March 31, 2014, to shareholders of record on March 15, 2014, and the 2013 dividend was paid on March 31, 2013, to shareholders of record on March 15, 2013.

In light of the Company's strong cash position, ability to generate on-going cash, and strong financial performance in the first half of 2014, the Company declared a special cash dividend of \$1.00 per share that was paid on October 24, 2014, to shareholders of record as of October 10, 2014.

In February 2016, the Company's board of directors declared a shared distribution cash dividend of \$0.04 per share, payable on March 31, 2016, to shareholders of record as of March 15, 2016.

The Company's board of directors currently intends to continue to pay a quarterly dividend of \$0.09 per share during 2016. However, the declaration and payment of future dividends is subject to the sole discretion of the board of directors, and any determination as to the payment of future dividends will depend upon the Company's profitability, financial condition, capital needs, acquisition opportunities, future prospects and other factors deemed pertinent by the board of directors.

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Stock Split

On June 9, 2011, the Company declared a three-for-two stock split, effected in the form of a 50% stock dividend, to shareholders of record on June 30, 2011, payable on July 15, 2011. The Company issued approximately 8,500,000 shares of common stock as a result of the stock split.

The effect of this stock split on outstanding shares, earnings per share and dividends per share has been retroactively applied to all periods presented.

Equity Compensation Plans

Information called for by Item 5 is provided in Note 14 of our 2015 Audited Financial Statements (Item 8 of this report).

Issuer Purchases of Equity Securities

The Company did not repurchase any of its stock during the fourth quarter of 2015.

Five-Year Stock Performance Graph

The following graph compares cumulative total return among Sun, the Russell 2000 Index and the Value Line Machinery Industry Group, from January 1, 2011, to January 2, 2016, assuming \$100 invested in each on January 1, 2011. Total return assumes reinvestment of any dividends for all companies considered within the comparison. The stock price performance shown in the graph is not necessarily indicative of future price performance.

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	1/1/2011	12/31/2011	12/29/2012	12/28/2013	12/27/2014	1/2/2016
Sun Hydraulics Corporation	100.00	94.43	106.58	177.56	177.60	144.67
Russell 2000 Index	100.00	95.82	109.22	154.42	163.68	155.18
Value Line Machinery Industry Group	100.00	113.83	149.09	215.20	234.46	231.46

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

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

The Company reports on a fiscal year that ends on the Saturday closest to December 31st. Each quarter generally consists of thirteen weeks. 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				
	January 2, 2016	December 27, 2014	December 28, 2013	December 29, 2012	December 31, 2011
	(in thousands except per share data)				
Statement of Operations:					
Net Sales	\$200,727	\$227,673	\$205,267	\$204,367	\$204,171
Gross Profit	77,093	93,892	82,961	80,572	79,215
Operating Income	46,891	64,071	56,171	54,409	55,269
Income before income taxes	49,230	65,742	57,172	55,853	57,586
Net income	\$33,138	\$43,775	\$37,984	\$37,398	\$37,677
Basic net income per common share	\$1.24	\$1.65	1.45	1.44	1.47
Diluted net income per common share	\$1.24	\$1.65	1.45	1.44	1.47
Dividends per common share	\$0.45	\$1.45	0.45	1.48	0.40
Other Financial Data:					
Depreciation and amortization	\$9,557	\$8,718	\$7,227	\$7,186	\$6,721
Capital expenditures	6,106	10,667	17,935	13,359	10,143
Balance Sheet Data:					
Cash and cash equivalents	\$81,932	\$56,843	\$54,912	\$34,478	\$42,834
Working capital	145,336	119,815	115,038	90,198	89,744
Total assets	241,540	222,764	213,478	175,121	167,528
Total debt	—	—	—	—	—
Shareholders' equity	222,187	198,259	191,428	155,273	145,276

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

OVERVIEW

Sun is a leading designer and manufacturer of high-performance screw-in hydraulic cartridge valves and manifolds, which control force, speed and motion as integral components in fluid power systems. The Company sells its products globally through wholly owned subsidiaries and independent distributors. Sales outside the United States for the year ended January 2, 2016, were approximately 58% of total net sales.

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

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

In recent periods, the Company's products have been used by emerging markets that have characteristics of both the mobile and industrial markets and do not conveniently fit either classification exclusively. These markets include alternative energy equipment including wind, wave and solar equipment, animatronics and staging for theater and cinema. The Company sells to these markets the same products used in its traditional markets.

Management and Operations Philosophy

Since its inception, Sun has operated as an entrepreneurial enterprise, with an emphasis on individual employee empowerment and a disinclination to create bureaucracy, a formal management structure or administrative impediments to innovation, efficiency and customer service. Accordingly, the Company's organization, management structure, and reporting and decision-making systems are highly unified and unlayered.

In addition to representative and sales offices located throughout the world, Sun has three subsidiaries outside the United States (in the UK, Germany and Korea) and one U.S. subsidiary. These entity distinctions arose out of historical considerations or as the result of acquisitions. Nevertheless, and increasingly as it has developed into a global enterprise, the Company is operated and managed on a consolidated basis. Much of the Company's primary financial and operations data is reported from Sun's various legal entities, which are separate tax-payers and, in many cases, subject to statutory audits in the countries in which they are organized. This information from Sun locations around the world is then compiled and aggregated, with appropriate consolidating entries, on a monthly basis. However, we do not manage or make decisions based on the individual legal entity information. Instead, this is done on the basis of the consolidated information.

Sun has always employed a leadership model in which all management personnel have line responsibilities and participate across functional lines and in multiple areas, including geographical areas. Through a common vision, shared values and networks of informal, overlapping relationships, the Company has emphasized a unified approach. The CEO oversees the Company with a constant focus on consolidated results.

With oversight from its Board of Directors and an emphasis on transparent communication across the entire Company, Sun's operating strategy and business is based upon the creation and manufacture of a comprehensive line of functional products which are sold, through distribution and directly, worldwide for use in a host of mobile and industrial applications. This unified focus places a premium on the delivery of Sun products for fluid power solutions anywhere in the world in the most efficient manner, with little regard for traditional geographic or entity differentiation. Instead, Sun's management looks at where products are sold - the Americas, Europe (which includes the Middle East and Africa), and Asia/Pacific. Decisions as to resource allocation, expansion of facilities and personnel, and capital investment are all made based on information on "sales to" customers, not information about "sales from" Sun subsidiary entities. This reflects the fact that sales are routinely specified, originated or sold beyond and regardless of entity or geographic boundaries. In particular, many of the sales in Europe and Asia come directly from the US and never pass through one of Sun's subsidiary entities in those regions.

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Management's focus is on overall Company performance and the evaluation of opportunities for additional "sales to" customers. Sun's CEO truly acts as the chief executive for the entire business; he and the other management leaders oversee operations worldwide, without an intermediate reporting bureaucracy in each location in which Sun has a legal entity. Using "shared offices," leadership responsibilities are disbursed throughout the Company, with minimal formal reporting relationships and maximum collaboration among employees worldwide. By focusing on total net orders and total net sales, not individual legal entity performance, Sun is able to better serve its customers. This philosophy permeates not only the management approach to decision-making, but also the Company's compensation system, which is based on company-wide performance, and not individual or entity-level management-by-objective criteria.

Industry Conditions

Demand for the Company's products is dependent on demand for the capital goods into which the products are incorporated. The capital goods industries in general, and the fluid power industry specifically, are subject to economic cycles. According to the National Fluid Power Association (the fluid power industry's trade association in the United States), the United States index of shipments of hydraulic products decreased 16% in 2015, after increasing 6% in 2014 and decreasing 5% in 2013.

The Company's order trend has historically tracked closely to the United States Purchasing Managers Index (PMI), with the PMI providing a six to ten months leading indication of business conditions. A PMI above 50 indicates economic expansion in the manufacturing sector and when below 50, it indicates economic contraction. The index decreased to 48.2 in December 2015, from 55.1 in December 2014. The index in January 2016 was also 48.2, indicating the economic contraction may be stabilizing.

Results for the 2015 fiscal year
(in millions except net income per share)

	January 2, 2016	December 27, 2014	Increase/(Decrease)	
Twelve Months Ended				
Net sales	\$200.7	\$227.7	(12)%
Net income	\$33.1	\$43.8	(24)%
Net income per share:				
Basic	\$1.24	\$1.65	(25)%
Diluted	\$1.24	\$1.65	(25)%
Three Months Ended				
Net sales	\$44.3	\$54.8	(19)%
Net income	\$5.1	\$10.3	(50)%
Net income per share:				
Basic	\$0.19	\$0.39	(51)%
Diluted	\$0.19	\$0.39	(51)%

The fourth quarter was in line with management's expectations, resulting in sales of \$200.7 million for the year. While the 2015 financial results were sluggish coming off of a strong 2014, management feels the Company has weathered much of the storm with regard to contracting end markets and negative currency influences. Management believes macro-economic indicators appear to be leveling out.

Year over year, 2015 sales to the Americas decreased 13%, with demand in Asia/Pacific and Europe each down 9% and 11%, respectively. Currency accounted for much of the decline in Europe, while weakening OEM demand in Asia/Pacific specifically in the Korean construction market is responsible for the decrease in that region. In the Americas, vulnerable end markets drove reduced demand.

Sun continues to engage in various product and market expansion activities. Sun's development of electro-hydraulic cartridge valves is creating unique solutions for one of the fastest growing segments in the industry. Initiatives to add marketing resources to all regions are increasing Sun's global presence to further the brand and reach worldwide. Operationally, Sun remains dedicated to evolving processes to drive both quality and productivity. First quarter estimates indicate Sun may be nearing the bottom of this difficult cycle. While global capital goods indicators are not yet positive, Sun's orders rates show promise. The Company remains agile and ready to capitalize on early-cycle

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opportunities with efforts focused on satisfying customer demand, growing market share, and delivering strong financial results.

Shared Distribution

Recognizing both Sun's performance in a difficult year and the importance of the Company's employees and shareholders, the Board has again declared a shared distribution for 2015. The 2015 shared distribution totals approximately \$2.8 million. It

consists of a contribution to employees equal to 5% of wages, most of which will be paid into retirement plans in the form of

Sun Hydraulics stock, and a \$0.04 per share cash dividend to be paid to all shareholders. The shared distribution is in addition

to the normal quarterly dividend and is payable on March 31, 2016, to shareholders of record as of March 15, 2016.

Outlook

First quarter 2016 revenues are expected to be approximately \$50 million, down 8% from the first quarter of 2015.

Earnings

per share are estimated to be \$0.31 to \$0.33 compared to \$0.39 in the same period a year ago. Currency is responsible for

\$1.6M of the decline in revenues and \$0.04 of the decline in earnings per share in first quarter estimates.

Results of Operations

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

	For the year ended					
	January 2, 2016	December 27, 2014	December 28, 2013	December 29, 2012	December 31, 2011	
Net sales	100.0	% 100.0	% 100.0	% 100.0	% 100.0	%
Gross profit	38.4	% 41.2	% 40.4	% 39.4	% 38.8	%
Operating income	23.4	% 28.1	% 27.4	% 26.6	% 27.1	%
Income before income taxes	24.5	% 28.9	% 27.9	% 27.3	% 28.2	%

Comparison of Years Ended January 2, 2016 and December 27, 2014

Net Sales

Net sales were \$200.7 million, a decrease of \$26.9 million, compared to \$227.7 million in 2014. Demand for our products in 2015 decreased in all major global end markets, which primarily include capital goods equipment. A price increase, effective December 1, 2014, contributed approximately 2.6% to sales. Exchange rates had a negative impact on sales in 2015 of approximately \$6.4 million and a positive impact in 2014 of approximately \$1.6 million. New product sales (defined as products introduced within the last five years) continue to make up 10%-12% of total sales.

Asian/Pacific sales decreased 9.3% or \$4.3 million, to \$41.7 million in 2015, primarily related to demand from Korea. Exchange rates had a \$1.2 million negative impact on Asia/Pacific sales in 2015. EAME sales decreased 11.5% or \$7.9 million, to \$61.3 million in 2015, primarily related to demand in Germany and the United Kingdom. Significant decreases were also noted in Finland, Norway, and Ireland. Additionally, currency had a \$5.1 million negative impact to EAME sales in 2015. Sales to the Americas decreased 13.1% or \$14.8 million, to \$97.8 million in 2015, driven by weakened U.S. demand.

Gross Profit

Gross profit decreased \$16.8 million or 17.9% to \$77.1 million in 2015, compared to \$93.9 million in 2014. Gross profit as a percentage of net sales decreased to 38.4% in 2015, compared to 41.2% in 2014.

The decrease in gross profit was primarily attributable to decreased sales volume in the current period of approximately \$13.3 million. Pricing added approximately \$5.2 million to gross profit.

Selling, Engineering, and Administrative Expenses

Selling, engineering and administrative expenses in 2015 were \$30.2 million, a \$0.4 million, or 1.3%, increase, compared to \$29.8 million in 2014. The change for 2015 was related to increases in outside services of \$0.2 million and computer expense of \$0.2 million.

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Operating Income

Operating income decreased \$17.2 million or 26.8% to \$46.9 million in 2015, compared to \$64.1 million in 2014, with operating margins of 23.4% and 28.1% for 2015 and 2014, respectively.

The Company derives its operating 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 our sales and distribution channel. This structure results in different operating margins among the legal entities due to the mix of products, channels to market, and industries present in different geographic regions.

Products manufactured in the U.S. are sold worldwide. Pricing, operations and cost structure are the primary reasons that operating income in the U.S. is higher than foreign subsidiary operating income, which we expect will continue. Our German and UK entities act as value add distributors. These entities sell to both end use customers in their respective regions, as well as to third party distributors in certain parts of Europe. UK margins have historically been lower than margins in Germany. This is due to the fact that, in the UK, we manufacture iron manifolds for the European market. This results in higher overhead costs primarily related to machinery and equipment, and the employment of nearly twice as many people as in Germany. Margins are lowest in our Korean entity. Korea, more than any other subsidiary, sells direct to large OEM customers where pricing pressure is most pronounced.

The U.S. legal entity contributed \$45.6 million to our consolidated operating income during 2015 compared to \$52.3 million during 2014, a decrease of \$6.7 million. A decline in sales volume contributed to a decrease in operating income of \$4.8 million. Third party export sales from the US were \$58.2 million in 2015 compared to \$60.1 million in 2014.

Our Korean subsidiary experienced an operating loss of \$1.1 million during 2015 compared to operating income of \$1.2 million during 2014, a decrease of \$2.3 million. Margins contracted from 5.6% in 2014 to approximately -6.4% in 2015. The decrease was primarily related to a decrease in sales volume.

Our German subsidiary experienced a minimal operating loss during 2015 compared to contributing \$6.6 million to operating income during 2014, a decrease of \$6.6 million, relating to a decrease in sales volume. Operating margins were -0.1% and 23.2%, in 2015 and 2014, respectively.

Our U.K. subsidiary contributed \$2.4 million to our consolidated operating income during 2015 compared to \$3.9 million during 2014, a decrease of \$1.5 million, contributed to lower volume. Margins decreased from 19.8% in 2014 to 13.5% in 2015.

Interest Income, Net

Net interest income for 2015 was \$1.4 million compared to net interest income of \$1.6 million for 2014. Total average cash and marketable securities for 2015 was \$113.3 million compared to total average cash and marketable securities for 2014 of \$97.2 million. Interest derived from investments in corporate and municipal bonds, mutual funds, certificates of deposit, and money market funds decreased approximately \$0.2 million in 2015.

Foreign Currency Transaction (Gain) Loss, Net

Net foreign currency transaction gain was \$1.1 million in 2015 compared to a gain of \$0.8 million in 2014. The current year gain was primarily derived from a strengthening U.S. Dollar against the Euro and assets held in U.S. Dollars at our German subsidiary.

Miscellaneous (Income) Expense, Net

Net miscellaneous expense was \$0.2 million in 2015 compared to net miscellaneous expense of \$0.7 million in 2014. The current year amount included a gain on the sale of our Korean facility of approximately \$1.3 million, partially offset by impairment of marketable securities of \$0.8 million. The prior year period included losses on the disposal of assets.

Income Taxes

The provision for income taxes for the year ended January 2, 2016, was 32.7% of pretax income compared to a provision of 33.4% for the year ended December 27, 2014. 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

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related to a reserve for uncertain tax positions from previous years. Excluding these discrete items, the effective rate would have been approximately 32.3% and 33.1% for the years ended January 2, 2016, and December 27, 2014, respectively.

Comparison of Years Ended December 27, 2014 and December 28, 2013

Net Sales

Net sales were \$227.7 million, an increase of \$22.4 million, compared to \$205.3 million in 2013. Demand for our products in 2014 was primarily driven by increased demand in all major global end markets, which primarily include capital goods equipment. Price increases, effective October 1, 2013, and December 1, 2014, contributed approximately 2% to sales. Exchange rates had a positive impact on sales in both 2014 and 2013 of approximately \$1.6 million and \$1.1 million, respectively. New product sales (defined as products introduced within the last five years) continue to make up 10%-15% of total sales.

Asian/Pacific sales increased 8.5% or \$3.6 million, to \$45.9 million in 2014, primarily related to demand from Korea and China. Exchange rates had a \$0.8 million positive impact on Asia/Pacific sales in 2014. EAME sales increased 13.1% or \$8.0 million, to \$69.2 million in 2014, primarily related to demand in Germany and the United Kingdom. Significant increases were also noted in Austria, Ireland, and Spain. Additionally, currency had a \$0.8 million positive impact to EAME sales in 2014. Sales to the Americas increased 10.6% or \$10.8 million, to \$112.5 million in 2014, driven by U.S. demand.

Gross Profit

Gross profit increased \$10.9 million or 13.2% to \$93.9 million in 2014, compared to \$83.0 million in 2013. Gross profit as a percentage of net sales increased to 41.2% in 2014, compared to 40.4% in 2013.

The increase in gross profit was primarily attributable to increased sales volume in the current period of approximately \$7.0 million. Pricing added approximately \$5.0 million to gross profit. This was partially offset by increased material and overhead expenses, related to indirect labor costs including overtime, building maintenance and repairs, and depreciation on our new facility.

Selling, Engineering, and Administrative Expenses

Selling, engineering and administrative expenses in 2014 were \$29.8 million, a \$3.0 million, or 11.3%, increase, compared to \$26.8 million in 2013. The change for 2014 was related to increases in compensation, including stock compensation and currency effects, of approximately \$1.0 million. The remainder is primarily made up of outside services of \$0.6 million and marketing efforts in Asia and R&D, each totaling approximately \$0.5 million.

Operating Income

Operating income increased \$7.9 million or 14.1% to \$64.1 million in 2014, compared to \$56.2 million in 2013, with operating margins of 28.1% and 27.4% for 2014 and 2013, respectively.

The Company derives its operating 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 our sales and distribution channel. This structure results in different operating margins between the legal entities due to the mix of products, channels to market, and industries present in different geographic regions.

Products manufactured in the U.S. are sold worldwide. Pricing, operations and cost structure are the primary reasons that operating income in the U.S. is higher than foreign subsidiary operating income, which we expect will continue. Our German and UK entities act as value add distributors. These entities sell to both end use customers in their

respective regions, as well as to third party distributors in certain parts of Europe. UK margins have historically been lower than Germany margins. This is due to the fact that, in the UK, we manufacture iron manifolds for the European market. This results in higher overhead costs primarily related to machinery and equipment, and the employment of nearly twice as many people as in Germany. Margins are lowest in our Korean entity. Korea, more than any other subsidiary, sells direct to large OEM customers where pricing pressure is most pronounced.

The U.S. legal entity contributed \$52.3 million to our consolidated operating income during 2014 compared to \$45.5 million during 2013, an increase of \$6.8 million. Increased revenue contributed approximately \$4.7 million to operating income, while margin expansion, primarily related to pricing, contributed \$2.1 million. Increased revenue volume was driven by sales to North America, China, and to Europe, specifically Spain. Increasingly, the US legal entity ships products directly to customers

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around the world. Third party export sales from the US were \$60.1 million in 2014 compared to \$54.2 million in 2013. As demand strengthens internationally, the US legal entity will benefit from these direct export sales.

Our Korean subsidiary contributed \$1.2 million to our consolidated operating income during 2014 compared to \$1.8 million during 2013, a decrease of \$0.6 million. Margins contracted from 9.3% in 2013 to approximately 5.6% in 2014, representing a \$0.8 million decrease in operating income. The decrease was primarily related to increased material, labor and overhead costs. The decrease in operating income was partially offset by higher revenue.

Our German subsidiary contributed \$6.6 million to our consolidated operating income during 2014 compared to \$5.5 million during 2013, an increase of \$1.1 million. Higher volume added approximately \$0.6 million, with the remainder resulting from margin expansion. Operating margins were 23.2% and 21.2%, in 2014 and 2013, respectively. The margin growth was attributable to material cost decreases related to purchases of material in U.S. Dollars and a strengthening Euro during the first half of the year.

Our U.K. subsidiary contributed \$3.9 million to our consolidated operating income during 2014 compared to \$3.5 million during 2013, an increase of \$0.4 million. Higher volume contributed \$0.6 million, which was partially offset by a decrease in margins from 19.8% to 18.9%.

Interest Income, Net

Net interest income for 2014 was \$1.6 million compared to net interest income of \$1.0 million for 2013. Total average cash and marketable securities for 2014 was \$97.2 million compared to total average cash and marketable securities for 2013 of \$82.9 million. Interest derived from investments in corporate and municipal bonds, mutual funds, certificates of deposit, and money market funds increased approximately \$0.3 million in 2014. The remaining increase is related to interest received on a tax refund at our German subsidiary.

Foreign Currency Transaction (Gain) Loss, Net

Net foreign currency transaction gain was \$0.8 million in 2014 compared to a minimal gain in 2013. The current year gain was primarily derived in the fourth quarter, which resulted from a strengthening U.S. Dollar against the Euro and assets held in U.S. Dollars at our German subsidiary.

Miscellaneous (Income) Expense, Net

Net miscellaneous expense was \$0.7 million in 2014 compared to minimal income in 2013. The current and prior year periods included losses on the disposal of assets. The prior year amounts were offset by a gain resulting from the acquisition of WhiteOak Controls, and an incentive received for the activation of our thermal storage energy building on our new facility.

Income Taxes

The provision for income taxes for the year ended December 27, 2014, was 33.4% of pretax income compared to a provision of 33.6% for the year ended December 28, 2013. 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 33.1% and 33.3% for the years ended December 27, 2014, and December 28, 2013, respectively.

Liquidity and Capital Resources

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

making capital expenditures, and servicing debt.

Net cash flow from operations in 2015 was \$49.9 million, compared to \$62.8 million in 2014 and \$47.1 million in 2013. The \$12.9 million decrease in the Company's net cash flow from operations in 2015 was due primarily to decreased net income of \$10.1 million. Changes in inventory and accounts receivable increased cash \$5.2 million in the current year compared to a decrease in cash of \$0.7 million in the prior year. Days sales outstanding were remained flat at 28 days in 2015. Inventory turns decreased to 9.2 in 2015 from 9.6 in 2014. Cash on hand increased \$25.1 million from \$56.8 million in 2014 to \$81.9 million in 2015. Investments in marketable securities increased \$0.8 million from \$43.4 million in 2014 to \$44.2 million in 2015.

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The \$15.7 million increase in the Company’s net cash flow from operations in 2014 was due primarily to increased net income of \$5.8 million. Changes in aggregate tax balances increased cash \$2.8 million in the current year, compared to a minimal change in the prior year. Changes in inventory and accounts receivable decreased cash \$0.7 million in the current year compared to a decrease in cash of \$4.4 million in the prior year. The change is related to better management of days sales outstanding and inventory turns with improved business conditions.

Capital expenditures were \$6.1 million in 2015, compared to \$10.7 million in 2014 and \$17.9 million in 2013. In 2014 approximately \$3.2 million was for improvements to, and reconfiguring of, the Company's Manatee County facility originally constructed in 1997. The remainder was made up primarily of purchases of machinery and equipment. Included in capital expenditures for 2014 and 2013 were approximately \$10.7 million and \$10.6 million, respectively, relating to the new Sarasota facility. Additionally, approximately \$1.4 million for an expansion and update of our U.K. facility was included in 2013.

Capital expenditures for 2016 are estimated to be \$6.0 million, primarily consisting of purchases of machinery and equipment.

Effective August 1, 2011, the Company entered into a credit and security agreement in the U.S. with Fifth Third Bank (the “Bank”). The agreement provided for three separate credit facilities totaling \$50 million. As noted below, at January 2, 2016, two of the original facilities remained available.

Facility A is a \$15 million unsecured revolving line of credit and requires monthly payments of interest. Facility A has a floating interest rate of 1.45% over the 30-day LIBOR Rate (as defined).

Facility B is an accordion feature to increase the revolving line of credit to a \$35 million secured revolving line of credit. Facility B will be secured by the Company’s U.S. assets, including its manufacturing facilities, and requires monthly payments of interest. Facility B will bear interest at the 30-day LIBOR Rate or the Bank’s Base Rate (as defined), at the Company’s discretion, plus a margin based on the Borrower’s Funded Debt to EBITDA Leverage Ratio (as defined). The LIBOR Margin ranges from 1.45% to 2.25% and the Bank’s Base Rate ranges from -0.25% to 0.00%.

Facility C provided for a \$15 million construction and term loan. The Company did not activate Facility C for the construction of its new Sarasota factory and access to this facility is now expired.

Facility A or Facility B (if activated) is payable in full on August 1, 2016. Maturity may be accelerated by the Bank upon an Event of Default (as defined). Prepayment may be made without penalty or premium at any time upon the required notice to the Bank.

Facility A is subject to debt covenants (capitalized terms are defined therein) including: 1) Minimum Tangible Net Worth of not less than \$92 million, increased annually by 50% of Net Income, and 2) Minimum EBITDA of not less than \$5 million; and requires the Company to maintain its primary domestic deposit accounts with the bank.

If Facility B is activated, covenant 2 above will automatically terminate and two additional covenants will be required: 1) Funded Debt to EBITDA ratio equal to or less than 3.0:1.0, and 2) EBIT to Interest Expense ratio of not less than 2.5:1.0.

The Company did not have any amounts drawn on Facilities A, B, or C for the periods ended January 2, 2016, and December 27, 2014.

Except as noted below, the Company declared the following regular quarterly dividends to shareholders of record on the last calendar day of the respective quarter, paid on the 15th day of each month following the date of declaration:

2015	2014	2013
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First quarter	\$ 0.090	\$ 0.090	\$ 0.090
Second quarter	0.090	0.090	0.090
Third quarter	0.090	0.090	0.090
Fourth quarter	0.090	0.090	0.090

In addition to the regular quarterly dividends, the Company declared shared distribution cash dividends in 2015, 2014 and 2013, equal to \$0.09, \$0.09 and \$0.09, respectively. The 2015 dividend was paid on March 31, 2015, to shareholders of record on March 15, 2015, the 2014 dividend was paid on March 31, 2014, to shareholders of record on March 15, 2014, the 2013 dividend was paid on March 31, 2013, to shareholders of record on March 15, 2013. The shared distribution was introduced in 2008 as a way to reward both shareholders and employees when the Company has a successful year. The Board of Directors

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also declared a shared distribution cash dividend of \$0.04 per share, payable on March 31, 2016, to shareholders of record as of March 15, 2016.

The Board of Directors in 2014, declared a special one-time cash dividend of \$1.00 per share, payable October 24, 2014 to shareholders of record as of October 10, 2014. In declaring the special dividend, the Board of Directors cited the Company's strong cash position, ability to generate on-going cash, and strong financial performance in the first half of 2014 as reasons for its decision.

In light of the Company's cash position, its current and perceived uses for cash, and an anticipated increase in income tax rates on corporate dividends as of January 1, 2013, the Board of Directors in December 2012 declared a special one-time cash dividend of \$1.00 per share to shareholders of record as of December 14, 2012. In anticipation of the expected tax law changes in 2013, the payment date for both the special dividend and the regular quarterly dividend of \$0.09 per share was December 28, 2012.

The Company paid dividends totaling \$12.0 million, \$38.4 million, and \$9.4 million for the years ended January 2, 2016, December 27, 2014, and December 28, 2013, 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 the Company's profitability, financial condition, capital needs, acquisition opportunities, future prospects and other factors deemed pertinent by the board of directors.

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

OTHER MATERIAL COMMITMENTS. Our contractual obligations and debt obligations as of January 2, 2016, are summarized in the table below (in thousands):

CONTRACTUAL OBLIGATIONS	Payments due by period				
	TOTAL	2016	2017-2018	2019-2020	Thereafter
Operating Leases	\$810	\$415	\$323	\$43	\$29
Other long-term liabilities (1)	850	850	—	—	—
Total contractual obligations	\$1,660	\$1,265	\$323	\$43	\$29

(1) Other long-term liabilities consist of additional recognition of intangible assets relating to the Sturman Industries, Inc. licensing agreement.

Critical Accounting Policies and Estimates

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

Revenue Recognition

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

Company has not experienced any material product liabilities in the past.

Short-term Investments

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

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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 (income) expense in the Consolidated Statements of Operations.

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 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. 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.

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.

Inventory

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

Goodwill

Goodwill, which represents the excess of the purchase price of 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. 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.

Accruals

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

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The Company accrues for health care benefit costs under a self-funded plan. The Company purchases re-insurance for both specific and aggregate stop losses on claims that exceed \$175 thousand on an individual basis and approximately \$7.0 million on an aggregate basis.

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. 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 2005 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 2005 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 the Company will resolve some or all of the matters presently under consideration for 2005 through 2012 with the IRS and that there could be significant increases or decreases to unrecognized tax benefits. See Note 13 to the Financial Statements for income tax amounts, including reserves.

Off Balance Sheet Arrangements

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

The Company used the equity method of accounting to account for its 40% equity investment in WhiteOak until April 2013 when the Company acquired the remaining 60% of the capital stock of WhiteOak. WhiteOak was merged into HCT. This investment was not material to the financial statements of the Company for the year ended December 28, 2013.

Seasonality

The Company generally has experienced increased sales during the second quarter of the year, largely as a result of the order patterns of our customers. As a result, the Company's second quarter net sales, income from operations and net income historically are the highest of any quarter during the year.

Inflation

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to market risk from changes in interest rates on borrowed funds, which could affect its results of operations and financial condition. The Company's interest rate on its debt financing remains variable based

upon the Company's leverage ratio. The Company had no variable-rate debt outstanding at January 2, 2016, and December 27, 2014.

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

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated balance sheets of Sun Hydraulics Corporation (a Florida Corporation) and subsidiaries (collectively, the Company) as of January 2, 2016 and December 27, 2014, and the related consolidated statements of operations, comprehensive income (loss), shareholders' equity, and cash flows for each of the years in the three-year period ended January 2, 2016. We also have audited Sun Hydraulics Corporation and subsidiaries' internal control over financial reporting as of January 2, 2016 based on criteria established in Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the company's internal control over financial reporting based on our audits.

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

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

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Sun Hydraulics Corporation and subsidiaries as of January 2, 2016 and December 27, 2014, and the results of its operations and its cash flows for each of the years in the three-year period ended January 2, 2016, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, Sun

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Hydraulics Corporation and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of January 2, 2016, based on criteria established in Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

/s/ Mayer Hoffman McCann P.C.

March 1, 2016
Clearwater, Florida

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

	January 2, 2016	December 27, 2014
Assets		
Current assets:		
Cash and cash equivalents	\$81,932	\$56,843
Restricted cash	44	319
Accounts receivable, net of allowance for doubtful accounts of \$184 and \$172	13,531	17,501
Inventories	13,047	14,098
Income taxes receivable	123	—
Deferred income taxes	460	467
Short-term investments	44,174	43,353
Other current assets	3,707	2,966
Total current assets	157,018	135,547
Property, plant and equipment, net	74,121	77,716
Goodwill	4,988	5,141
Other assets	5,413	4,360
Total assets	\$241,540	\$222,764
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable	\$4,422	\$4,873
Accrued expenses and other liabilities	4,849	7,908
Income taxes payable	—	559
Dividends payable	2,411	2,392
Total current liabilities	11,682	15,732
Deferred income taxes	7,411	8,501
Other noncurrent liabilities	260	272
Total liabilities	19,353	24,505
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, 26,786,518 and 26,572,774 shares outstanding	27	27
Capital in excess of par value	82,265	73,499
Retained earnings	149,938	128,818
Accumulated other comprehensive income (loss)	(10,043	) (4,085
Total shareholders' equity	222,187	198,259
Total liabilities and shareholders' equity	\$241,540	\$222,764

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

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

	For the year ended		
	January 2, 2016	December 27, 2014	December 28, 2013
Net sales	\$200,727	\$227,673	\$205,267
Cost of sales	123,634	133,781	122,306
Gross profit	77,093	93,892	82,961
Selling, engineering and administrative expenses	30,202	29,821	26,790
Operating income	46,891	64,071	56,171
Interest (income) expense, net	(1,422	) (1,592	) (967
Foreign currency transaction (gain) loss, net	(1,104	) (764	) (27
Miscellaneous (income) expense, net	187	685	(7
Income before income taxes	49,230	65,742	57,172
Income tax provision	16,092	21,967	19,188
Net income	\$33,138	\$43,775	\$37,984
Basic net income per common share	\$1.24	\$1.65	\$1.45
Weighted average basic shares outstanding	26,687	26,456	26,206
Diluted net income per common share	\$1.24	\$1.65	\$1.45
Weighted average diluted shares outstanding	26,687	26,456	26,206
Dividends declared per share	\$0.450	\$1.450	\$0.450

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

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

	Year ended		
	January 2, 2016	December 27, 2014	December 28, 2013
Net income	\$33,138	\$43,775	\$37,984
Other comprehensive income (loss)			
Foreign currency translation adjustments	(5,555	) (6,005	) 2,010
Unrealized gain (loss) on available-for-sale securities	(403	) (671	) (22
Total other comprehensive income (loss)	\$(5,958	) \$(6,676	) \$1,988
Comprehensive income	\$27,180	\$37,099	\$39,972

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

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Sun Hydraulics Corporation
Consolidated Statement 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	Total
Balance, December 29, 2012	—	\$—	26,095	\$26	\$57,402	\$97,242	\$ 603	\$155,273
Shares issued, Restricted Stock			90					
Shares issued, other comp			27					
Shares issued, ESPP			35		859			859
Shares issued, shared distribution			106		3,486			3,486
Stock-based compensation					3,341			3,341
Tax benefit of stock-based compensation					303			303
Dividends declared						(11,806)		(11,806)
Net income						37,984		37,984
Other comprehensive income (loss)							1,988	1,988
Balance, December 28, 2013	—	\$—	26,353	\$26	\$65,391	\$123,420	\$ 2,591	\$191,428
Shares issued, Restricted Stock			102	1				1
Shares issued, other comp			19					
Shares issued, ESPP			25		846			846
Shares issued, shared distribution			74		3,226			3,226
Stock-based compensation					3,899			3,899
Tax benefit of stock-based compensation					137			137
Dividends declared						(38,377)		(38,377)
Net income						43,775		43,775
Other comprehensive income (loss)							(6,676)	(6,676)
Balance, December 27, 2014	—	\$—	26,573	\$27	\$73,499	\$128,818	\$(4,085)	\$198,259
Shares issued, Restricted Stock			61	—				—
			25					

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Shares issued, other comp									
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 benefit/(expense) of stock-based compensation					(112)				(112)
Dividends declared						(12,018)			(12,018)
Net income						33,138			33,138
Other comprehensive income (loss)							(5,958)		(5,958)
Balance, January 2, 2016	—	\$—	26,786	\$27	\$82,265	\$149,938	\$(10,043)		\$222,187

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

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

	For the year ended		
	January 2, 2016	December 27, 2014	December 28, 2013
Cash flows from operating activities:			
Net income	\$33,138	\$43,775	\$ 37,984
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	9,557	8,718	7,227
(Gain)Loss on disposal of assets	(171	) 171	462
Gain on investment in business	—	—	(528
Stock-based compensation expense	4,324	3,899	3,047
Deferred director and phantom stock unit expense (income)	17	35	70
Stock compensation income tax benefit	112	(137	) (303
Allowance for doubtful accounts	12	55	(7
Provision for slow moving inventory	(193	) (37) —
Provision for deferred income taxes	(846	) 1,265	291
(Increase) decrease in, net of acquisition:			
Accounts receivable	3,958	(572	) (3,210
Inventories	1,244	(208	) (1,226
Income taxes receivable	(235	) 1,091	77
Other current assets	(741	) (150	) (167
Other assets	289	69	383
Increase (decrease) in, net of acquisition:			
Accounts payable	(451	) 243	24
Accrued expenses and other liabilities	476	4,118	3,155
Income taxes payable	(559	) 559	—
Other noncurrent liabilities	(29	) (48	) (156
Net cash provided by operating activities	49,902	62,846	47,123
Cash flows from investing activities:			
Investment in business, net of cash acquired	—	—	(923
Investment in licensed technology	(1,425	) (1,075) —
Capital expenditures	(6,106	) (10,667	) (17,935
Proceeds from dispositions of equipment	1,645	37	230
Purchases of short-term investments	(30,125	) (51,236	) (28,356
Proceeds from sale of short-term investments	26,698	44,765	26,764
Net cash used in investing activities	(9,313	) (18,176	) (20,220
Cash flows from financing activities:			
Stock compensation income tax benefit	(112	) 137	303
Proceeds from stock issued	1,019	846	859
Dividends to shareholders	(11,999	) (38,357	) (9,435
Change in restricted cash	275	15	(5
Net cash used in financing activities	(10,817	) (37,359	) (8,278
Effect of exchange rate changes on cash and cash equivalents	(4,683	) (5,380	) 1,809
Net increase (decrease) in cash and cash equivalents	25,089	1,931	20,434
Cash and cash equivalents, beginning of period	56,843	54,912	34,478
Cash and cash equivalents, end of period	\$81,932	\$56,843	\$ 54,912

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Supplemental disclosure of cash flow information:

Cash paid:

Income taxes	\$ 17,857	\$ 19,693	\$ 19,123
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Supplemental disclosure of noncash transactions:

Common stock issued for shared distribution through accrued expenses and other liabilities	\$3,535	\$3,226	\$ 3,486
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Common stock issued for deferred director's compensation through other noncurrent liabilities	\$—	\$—	\$ 294
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Unrealized gain (loss) on available for sale securities	\$(403)	\$(671)	\$(22)
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The accompanying Notes to the Consolidated Financial Statements are an integral part of these financial statements.

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SUN HYDRAULICS CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands except per share data)

1. BUSINESS

Sun Hydraulics Corporation, and its wholly-owned subsidiaries, design, manufacture, and sell screw-in cartridge valves and manifolds used in hydraulic systems. The Company has facilities in the United States, the United Kingdom, Germany, South Korea, France, China, and India. Sun Hydraulics Corporation (“Sun Hydraulics”), with its main offices located in Sarasota, Florida, designs, manufactures, and sells its products primarily through distributors. Sun Hydraulik Holdings Limited (“Sun Holdings”), a wholly-owned subsidiary of Sun Hydraulics, was formed to provide a holding company for the European market operations; its wholly-owned subsidiaries are Sun Hydraulics Limited (a British corporation, “Sun Ltd.”) and Sun Hydraulik GmbH (a German corporation, “Sun GmbH”). Sun Ltd. operates a manufacturing and distribution facility located in Coventry, England, and Sun GmbH operates a manufacturing and distribution facility located in Erkelenz, Germany. Sun Hydraulics Korea Corporation (“Sun Korea”), a wholly-owned subsidiary of Sun Hydraulics, located in Incheon, South Korea, operates a manufacturing and distribution facility. In 2012, Sun Korea acquired Seungwon Solutions Corporation (“Seungwon”), also located in Incheon, South Korea, a component supplier to Sun Korea and third parties. Sun Hydraulics (France) (“Sun France”), a liaison office located in Bordeaux, France, is used to service the French market. Sun Hydraulics established Sun Hydraulics China Co. Ltd, a representative office in Shanghai in January 2011, to develop new business opportunities in the Chinese market. Sun Hydraulics (India), a liaison office in Bangalore, India, is used to develop new business opportunities in the Indian market. In 2011, Sun Hydraulics purchased the outstanding shares of High Country Tek, Inc. (“HCT”) it did not already own. HCT, now a wholly-owned subsidiary of Sun Hydraulics, is located in Nevada City, California, and designs and manufactures ruggedized electronic/hydraulic control solutions for mobile equipment markets. In 2013, Sun Hydraulics purchased the remaining 60% of WhiteOak Controls Inc. (“WhiteOak”), which was merged into HCT (see Note 8). WhiteOak, designed and produced complementary electronic control products.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts and operations of Sun Hydraulics and its direct and indirect subsidiaries. All significant intercompany accounts and transactions are eliminated in consolidation. The Company used the equity method of accounting for its investment in WhiteOak until April 1, 2013, when it acquired the remaining 60% of WhiteOak (see Note 8). The Company did not have a majority ownership in or exercise control over this entity prior to that date.

Critical Accounting Policies and 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. Significant estimates are used in the determination of impairment of long-lived assets, inventory, goodwill, accruals, income taxes, and fair value of short-term investments.

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.

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 (income) expense in the Consolidated Statements of Operations.

Accounts Receivable

The Company sells to most of its customers on a recurring basis, primarily through distributors with which the Company maintains long-term relationships. As a result, bad debt experience has not been material. The allowance for doubtful accounts is determined

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on a specific identification basis by a review of those accounts that are significantly in arrears. There can be no assurance that a distributor or a large direct sale customer with overdue accounts receivable balances will not develop financial difficulties and default on payment. See the consolidated balance sheets for allowance amounts.

Inventory

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

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	4 - 10
Leasehold and land improvements	10 - 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 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. 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.

Goodwill

Goodwill, which represents the excess of the purchase price of 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. 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.

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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.

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.

Accruals

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

The Company accrues for health care benefit costs under a self-funded plan. The Company purchases re-insurance for both specific and aggregate stop losses on claims that exceed \$175 on an individual basis and approximately \$7,000 on an aggregate basis.

Revenue Recognition

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

Shipping and Handling Costs

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

Foreign Currency Translation and Transactions

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

Income Taxes

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

The Company reports a liability for unrecognized tax benefits resulting from 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.

Stock-Based Compensation

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

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3. 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 January 2, 2016, and December 27, 2014.

	January 2, 2016			
	Adjusted Cost	Unrealized Gains	Unrealized Losses	Fair Value
Assets				
Level 1:				
Equity securities	\$1,318	\$ 28	\$ (36)	\$1,310
Mutual funds	2,611	1	(238)	2,374
Subtotal	\$3,929	\$ 29	\$ (274)	\$3,684
Level 2:				
Corporate fixed income	\$35,936	\$ 8	\$ (1,682)	\$34,262
Municipal bonds	2,897	—	(94)	2,803
Certificates of deposit and time deposits	2,947	—	—	2,947
Asset backed securities	498	—	(20)	478
Subtotal	\$42,278	\$ 8	\$ (1,796)	\$40,490
Total	\$46,207	\$ 37	\$ (2,070)	\$44,174
Liabilities				
Level 1:				
Phantom stock units	\$17	\$ —	\$ —	\$17
Total	\$17	\$ —	\$ —	\$17

	December 27, 2014			
	Adjusted Cost	Unrealized Gains	Unrealized Losses	Fair Value
Assets				
Level 1:				
Equity securities	\$2,145	\$ 65	\$ (282)	\$1,928
Mutual funds	3,106	2	(227)	2,881
Subtotal	\$5,251	\$ 67	\$ (509)	\$4,809
Level 2:				
Corporate fixed income	\$33,740	\$ 6	\$ (868)	\$32,878
Municipal bonds	2,441	—	(33)	2,408
Certificates of deposit and time deposits	2,439	—	—	2,439
Asset backed securities	842	—	(23)	819
Subtotal	\$39,462	\$ 6	\$ (924)	\$38,544
Total	\$44,713	\$ 73	\$ (1,433)	\$43,353
Liabilities				
Level 1:				
Phantom stock units	\$30	\$ —	\$ —	\$30
Total	\$30	\$ —	\$ —	\$30

The Company recognized a net realized loss on investments during the twelve months ended January 2, 2016 of \$1,102 and a net realized gain of \$182 during the twelve months ended December 27, 2014. As of January 2, 2016, gross unrealized losses related to individual securities that had been in a continuous loss position for 12 months or longer were not significant. The Company considers these unrealized losses in market value of its investments to be temporary in nature. 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 January 2, 2016, the Company recognized an impairment charge of \$875, which is included in the net realized loss for the

period. This resulted from the deterioration of the financial condition of a corporate bond security issuer and the fair market value of equity securities.

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Maturities of investments at January 2, 2016 are as follows:

	Adjusted Cost	Fair Value
Due in less than one year	\$16,286	\$16,091
Due after one year but within five years	18,528	17,636
Due after five years but within ten years	4,329	3,846
Due after ten years	3,135	2,917
Equity securities	1,318	1,310
Mutual Funds	2,611	2,374
Total	\$46,207	\$44,174

The Company reports deferred director stock units and phantom stock units as a liability. All remaining deferred stock units were issued in 2013. The Company recognized expense relating to these liabilities of \$17 and \$35, for the periods ended January 2, 2016, and December 27, 2014, respectively. Phantom stock units vest over a period of three years.

The Company did not have any fair value adjustments for assets and liabilities measured at fair value on a nonrecurring basis during the period ended January 2, 2016.

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4. RESTRICTED CASH

On January 2, 2016 and December 27, 2014, the Company had restricted cash of \$44 and \$319, respectively. Restricted cash reserves for customs and excise taxes in the U.K. operation were \$44 and \$47 at January 2, 2016 and December 27, 2014, respectively. The restricted amount was calculated as an estimate of two months of customs and excise taxes for items coming into the Company's U.K. operations and is held with Lloyds TSB in the U.K. Restricted cash of \$0 and \$272 at January 2, 2016 and December 27, 2014, respectively, represents the holdback of the purchase price associated with the acquisition of Seungwon on October 18, 2012. The holdback amount was paid out in 2015.

5. INVENTORIES

	January 2, 2016	December 27, 2014
Raw materials	\$5,555	\$6,329
Work in process	4,478	3,979
Finished goods	3,464	4,433
Provision for slow moving inventory	(450)	(643)
Total	\$13,047	\$14,098

6. PROPERTY, PLANT, AND EQUIPMENT

	January 2, 2016	December 27, 2014
Machinery and equipment	\$97,552	\$94,702
Office furniture and equipment	9,983	9,417
Buildings	41,652	45,604
Leasehold and land improvements	5,666	2,664
Land	9,956	10,104
	\$164,809	\$162,491
Less: Accumulated depreciation	(93,826)	(91,375)
Construction in progress	3,138	6,600
Total	\$74,121	\$77,716

Depreciation expense for the years ended January 2, 2016, December 27, 2014, and December 28, 2013 totaled \$8,442, \$7,717, and \$6,511, respectively.

7. GOODWILL AND INTANGIBLE ASSETS

A summary of changes in goodwill at January 2, 2016 and December 27, 2014 is as follows:

Balance, December 28, 2013	\$5,221	
Acquisitions	—	
Currency translation	(80))
Balance, December 27, 2014	\$5,141	
Acquisitions	—	
Currency translation	(153))
Balance, January 2, 2016	\$4,988	

Valuation models reflecting the expected future cash flow projections are used to value reporting units. A valuation of the reporting unit at January 2, 2016, indicated that there was no impairment of the carrying value of the goodwill at Sun Korea. A valuation of the reporting unit at September 26, 2015 indicated that there was no impairment of the carrying value of the goodwill at HCT. As of January 2, 2016, no factors were identified that indicated impairment of the carrying value of goodwill at HCT.

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In 2014, the Company entered into a licensing agreement with Sturman Industries, Inc., recognizing an intangible asset of \$1,075 in 2014 and \$1,425 in 2015. The agreement is for licensed technology to be used with the Company's electrically actuated hydraulic cartridge valves. Royalties will be paid from the date of the first commercial sale and continue for fifteen years thereafter, or until the last related licensed patent expires, whichever is the later date. The Company recognized \$2,658 and \$746 in identifiable intangible assets as a result of the acquisitions of HCT and WhiteOak, respectively. Intangible assets are held in other assets on the balance sheet. At January 2, 2016, and December 27, 2014, intangible assets consisted of the following:

	January 2, 2016			December 27, 2014		
	Gross carrying amount	Accumulated amortization	Net carrying amount	Gross carrying amount	Accumulated amortization	Net carrying amount
Definite-lived intangibles:						
Trade Name	\$774	\$(340)	) \$434	\$774	\$(264)	) \$510
Non-compete agreement	11	(11)	) —	11	(10)	) 1
Technology	935	(304)	) 631	868	(216)	) 652
Customer Relationships	1,751	(363)	) 1,388	1,751	(272)	) 1,479
Licensing Agreement	2,500	(140)	) 2,360	1,075	(11)	) 1,064
	\$5,971	\$(1,158)	) \$4,813	\$4,479	\$(773)	) \$3,706

Total estimated amortization expense for the years 2016 through 2020 is presented below.

Year:	
2016	472
2017	472
2018	472
2019	472
2020	472
Total	\$2,360

Intangible assets are evaluated for impairment whenever events or circumstances indicate that the undiscounted net cash flows to be generated by their use over their expected useful lives and eventual disposition may be less than their net carrying value. No such events or circumstances occurred during the twelve months ended January 2, 2016.

8. ACQUISITIONS

On April 1, 2013, the Company acquired the remaining 60% of the capital stock of WhiteOak that it did not already own for \$1,000. WhiteOak has been merged into HCT and relocated to HCT's facility in California. HCT manufactures, markets, sells and has design control for all current WhiteOak products. The combination of HCT and WhiteOak gives Sun full ownership of the technology to develop the next generation of Sun's electronic control products.

The Company recorded approximately \$726 in goodwill, \$746 in definite lived intangible assets, and \$12 in transaction costs related to the acquisition. Of the \$746 of acquired intangible assets, \$18 was assigned to the WhiteOak trade name (1 year useful life), \$11 was assigned to non-compete agreements (2 year useful life), \$276 was assigned to customer relationships (15 year useful life), and \$441 was assigned to technology (10 year useful life). Additionally, the Company recorded a gain of \$528 as a result of remeasuring to fair value its 40% equity interest in WhiteOak held before the business combination. This gain is included in miscellaneous income on the Company's Consolidated Statement of Operations.

On October 18, 2012, the Company, through Sun Korea, purchased all of the outstanding stock of Seungwon Solutions Corporation ("Seungwon") for approximately \$1,458. Seungwon is a component supplier, and approximately 80% of its sales are to Sun Korea.

The Company recorded approximately \$1,731 in goodwill and approximately \$80 in transaction costs related to the acquisition.

The results of operations of WhiteOak and Seungwon have been included in the Company's consolidated results since the dates of acquisition. Supplemental pro forma information and disclosure of acquired assets and liabilities have not been provided as these acquisitions did not have a material impact on the consolidated financial statements individually or in the aggregate.

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9. OTHER ASSETS

	January 2, 2016	December 27, 2014
Definite-lived intangibles, net of amortization of \$1,158 and \$773	\$4,813	\$3,706
Loan acquisition costs, net of amortization of \$69 and \$59	10	27
Deposits with suppliers	316	425
Notes receivable	—	106
Other	274	96
Total	\$5,413	\$4,360

10. ACCRUED EXPENSES AND OTHER LIABILITIES

	January 2, 2016	December 27, 2014
Compensation and benefits	\$3,200	\$5,878
Self insurance liability	630	744
Other	1,019	1,286
Total	\$4,849	\$7,908

11. LONG-TERM DEBT

Effective August 1, 2011, the Company entered into a credit and security agreement in the U.S. with Fifth Third Bank (the "Bank"). The agreement initially provided for three separate credit facilities totaling \$50,000. As noted below, at January 2, 2016, two of the original facilities remained available.

Facility A is a \$15,000 unsecured revolving line of credit and requires monthly payments of interest. Facility A has a floating interest rate of 1.45% over the 30-day LIBOR Rate (as defined).

Facility B is an accordion feature to increase the revolving line of credit to a \$35,000 secured revolving line of credit. Facility B will be secured by the Company's U.S. assets, including its manufacturing facilities, and requires monthly payments of interest. Facility B will bear interest at the 30-day LIBOR Rate or the Bank's Base Rate (as defined), at the Company's discretion, plus a margin based on the Borrower's Funded Debt to EBITDA Leverage Ratio (as defined). The LIBOR Margin ranges from 1.45% to 2.25% and the Bank's Base Rate ranges from (0.25)% to 0.00%. Facility C is a \$15,000 construction and term loan. The Company did not activate Facility C for the construction of its new Sarasota factory and access to this facility is now expired.

Facility A or Facility B (if activated) is payable in full on August 1, 2016. Maturity may be accelerated by the Bank upon an Event of Default (as defined). Prepayment may be made without penalty or premium at any time upon the required notice to the Bank.

Facility A is subject to debt covenants (capitalized terms are defined therein) including: 1) Minimum Tangible Net Worth of not less than \$92,000, increased annually by 50% of Net Income, and 2) Minimum EBITDA of not less than \$5,000; and requires the Company to maintain its primary domestic deposit accounts with the bank. At January 2, 2016, the Company was in compliance with all debt covenants related to Facility A as follows:

Covenant	Required Ratio/Amount	Actual Ratio/Amount
Minimum Tangible Net Worth	\$186,961	\$219,490
Minimum EBITDA	Not less than \$5 million	\$57,515

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If Facility B is activated, covenant 2 above will automatically terminate and two additional covenants will be required: 1) Funded Debt to EBITDA ratio equal to or less than 3.0:1.0, and 2) EBIT to Interest Expense ratio of not less than 2.5:1.0. As of January 2, 2016, the Company had not activated Facility B.

The Company did not have any amounts drawn on Facilities A, B, or C for the periods ended January 2, 2016, and December 27, 2014.

12. DIVIDENDS TO SHAREHOLDERS

The Company declared dividends of \$12,018, \$38,377, and \$11,806 to shareholders in 2015, 2014, and 2013, respectively.

Except as noted below, the Company declared the following 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:

	2015	2014	2013
First quarter	\$0.090	\$0.090	\$0.090
Second quarter	0.090	0.090	0.090
Third quarter	0.090	0.090	0.090
Fourth quarter	0.090	0.090	0.090

In addition to the regular quarterly dividends, the Company declared shared distribution cash dividends in 2015, 2014 and 2013, equal to \$0.09, \$0.09 and \$0.09, respectively. The 2015 dividend was paid on March 31, 2015, to shareholders of record on March 15, 2015, the 2014 dividend was paid on March 31, 2014, to shareholders of record on March 15, 2014, and the 2013 dividend was paid on March 31, 2013, to shareholders of record as of March 15, 2013. The shared distribution was introduced in 2008 as a way to reward both shareholders and employees when the Company has a successful year. In February 2016, the Board of Directors declared a shared distribution cash dividend of \$0.04 per share, payable on March 31, 2016, to shareholders of record as of March 15, 2016.

In 2014, the Company declared a special one-time cash dividend of \$1.00 per share paid on October 24, 2014, to shareholders of record as of October 10, 2014. In declaring the special dividend, the Board of Directors cited the Company's strong cash position, ability to generate on-going cash, and strong financial performance in the first half of 2014 as reasons for its decision.

13. INCOME TAXES

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

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

	For the year ended		
	January 2, 2016	December 27, 2014	December 28, 2013
United States	\$45,964	\$52,713	\$46,314
Foreign	3,266	13,029	10,858
Total	\$49,230	\$65,742	\$57,172

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 our 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 entity had third party export sales of \$58,207, \$60,052, and \$54,213 for the years 2015, 2014, and 2013, 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.

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

	For the year ended		
	January 2, 2016	December 27, 2014	December 28, 2013
Current tax expense (benefit):			
United States	\$ 14,538	\$ 17,897	\$ 15,634
State and local	948	1,249	950
Foreign	1,359	2,574	2,466
Total Current	16,845	21,720	19,050
Deferred tax expense (benefit):			
United States	(781	) 112	158
State and local	(58	) (7	) 6
Foreign	86	142	(26
Total Deferred	(753	) 247	138
Total income tax provision	\$ 16,092	\$ 21,967	\$ 19,188

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

	For the year ended		
	January 2, 2016	December 29, 2014	December 28, 2013
U.S. federal taxes at the statutory rate	\$ 17,231	\$ 23,010	\$ 20,010
Increase (decrease)			
Foreign tax credit	(310	) (432	) (433
Domestic production activity deduction	(1,699	) (1,793	) (1,632
Foreign income taxed at lower rate	(420	) (957	) (1,013
Nondeductible items	—	392	302
State and local taxes, net	890	1,242	957
Change in reserve	304	193	168
Other	96	312	829
Income tax provision	\$ 16,092	\$ 21,967	\$ 19,188

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income taxes. The temporary differences that give rise to significant portions of the deferred tax assets and liabilities as of January 2, 2016, and December 27, 2014 are presented below:

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	January 2, 2016	December 27, 2014
Deferred tax assets:		
Current:		
Accrued expenses and other	\$460	\$467
Total current deferred tax assets	460	467
Noncurrent:		
Accrued expenses and other	2,157	2,863
Total noncurrent deferred tax assets	2,157	2,863
Deferred tax liabilities:		
Noncurrent:		
Depreciation	(8,708	)(10,265
Other	(860	)(1,099
Total noncurrent deferred tax liabilities	(9,568	)(11,364
Net noncurrent deferred tax liability	\$(7,411	)\$ (8,501

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 2015 and 2014, management has determined that a valuation allowance was not required.

The Company intends and has the ability to indefinitely reinvest the earnings of its non-U.S. subsidiaries, which reflect full provision for non-U.S. income taxes, to expand its international operations. These earnings relate to ongoing operations and, at January 2, 2016, cumulative earnings were approximately \$74 million. Accordingly, no provision has been made for U.S. income taxes that might be payable upon repatriation of such earnings. In the event any earnings of non-U.S. subsidiaries are repatriated, the Company will provide 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 29, 2012	\$1,195
Increases from positions taken during prior periods	168
Settled Positions	(241
Lapse of statute of limitations	—
Unrecognized tax benefits - December 28, 2013	\$1,122
Increases from positions taken during prior periods	193
Settled positions	(159
Lapse of statute of limitations	—
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

At January 2, 2016, the Company had an unrecognized tax benefit of \$2,049 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

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been recognized and included in income tax expense. Interest accrued as of January 2, 2016, 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 2005 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 2005 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 2005 through 2012 with the IRS and that there could be significant increases or decreases to unrecognized tax benefits.

14. STOCK-BASED COMPENSATION

The Company's 2006 Stock Option Plan ("2006 Plan") provides for the grant of incentive stock options and nonqualified stock options for the purchase of up to an aggregate of 1,125,000 shares of the Company's common stock by officers, employees and directors of the Company. Under the terms of the plan, incentive stock options may be granted to employees at an exercise price per share of not less than the fair value per common share on the date of the grant (not less than 110% of the fair value in the case of holders of more than 10% of the Company's voting stock). Nonqualified stock options may be granted at the discretion of the Company's Board of Directors. The maximum term of an option may not exceed 10 years, and options become exercisable at such times and in such installments as determined by the Board of Directors. No awards have been granted under the 2006 Plan.

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 January 2, 2016, 566,412 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 January 2, 2016, and December 27, 2014, totaled \$3,254 and \$2,961 respectively.

The following table summarizes restricted stock activity for the years ended January 2, 2016, December 27, 2014, and December 28, 2013:

	Number of shares	Weighted average grant-date fair value
Nonvested balance at December 29, 2012	169	\$25.81
Granted	90	37.64
Vested	(81	) 28.08
Forfeitures	(2	) 26.50
Nonvested balance at December 28, 2013	176	\$32.13
Granted	103	35.79
Vested	(87	) 30.60
Forfeitures	(1	) 25.41
Nonvested balance at December 27, 2014	191	\$34.81
Granted	70	29.89
Vested	(88) 33.19

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Forfeitures	(9) 34.06
Nonvested balance at January 2, 2016	164	\$33.54

The Company had \$4,386 of total unrecognized compensation cost related to restricted stock awards granted under the 2011 Plan as of January 2, 2016. That cost is expected to be recognized over a weighted average period of 1.41 years.

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The Company maintains an Employee Stock Purchase Plan (“ESPP”), in which most 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 34,053 shares at a weighted average price of \$29.94, and 25,238 shares at a weighted average price of \$33.52, under the ESPP during the twelve months ended January 2, 2016, and December 27, 2014, respectively. The Company recognized \$199 and \$173 of compensation expense during the twelve months ended January 2, 2016 and December 27, 2014, respectively. At January 2, 2016, 619,340 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 as initially adopted, as compensation for attendance at each Board meeting and each meeting of each committee of the Board on which he or she serves when the committee meeting is not held within one day of a meeting of the Board, each Nonemployee Director was paid 500 shares of Common Stock. The Chairman’s fee was twice that of a regular director, and the fee for the chairs of each Board committee is 125% that of a regular director. 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 25,000 Shares. The 2012 Directors Plan authorizes the issuance of up to 270,000 shares of common stock. At January 2, 2016, 199,374 shares remained available for issuance under the 2012 Directors Plan. Directors were granted 24,375 and 17,500 shares for the twelve months ended January 2, 2016, and December 27, 2014, respectively. The Company recognized director stock compensation expense of \$829 and \$677 for the twelve months ended January 2, 2016, and December 27, 2014, respectively.

15. EARNINGS PER SHARE

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

	January 2, 2016	December 27, 2014	December 28, 2013
Net income	\$33,138	\$43,775	\$37,984
Basic weighted average number of common shares outstanding	26,687	26,456	26,206
Basic net income per common share	\$1.24	\$1.65	\$1.45
Effect of dilutive stock options and deferred director stock units	—	—	—

Diluted weighted average number of common shares outstanding	26,687	26,456	26,206
Diluted net income per common share	\$1.24	\$1.65	\$1.45

16. EMPLOYEE BENEFITS

The Company has a defined contribution retirement plan covering substantially all of its eligible United States employees. Employer contributions under the retirement plan amounted to approximately \$2,757, \$4,325, and \$4,066 during 2015, 2014, and 2013, respectively.

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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 \$416, \$415, and \$327 during 2015, 2014, and 2013, respectively.

The Company uses an Employee Stock Ownership Plan (“ESOP”) as the discretionary match portion of its 401(k) retirement plan. The Company contributes to the ESOP for all eligible United States employees. Under the ESOP, which is 100% company funded, the Company allocates common stock to each 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.

In May 2008, the Board introduced the concept of a shared distribution dividend. The shared distribution dividend rewards the majority of employees through a contribution into their retirement accounts and concurrently rewards shareholders with a special cash dividend. As a result of the shared distribution, the Company contributed 82,269 and 63,647 shares into the ESOP in March 2015 and March 2014, respectively. In 2015, the Company accrued an amount equal to 5.0% of eligible wages in accordance with the shared distribution dividend announced in February 2016.

The Company incurred retirement benefit expense under the ESOP of approximately \$1,432, \$3,021, and \$2,881 during 2015, 2014 and 2013, 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 \$336, \$673, and \$551 in 2015, 2014, and 2013, respectively, relating to shared distributions. The Company’s U.K. employees received 5,516 and 5,643 shares in March 2015 and March 2014, 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 4,504 and 4,699 shares in March 2015 and March 2014, respectively. The remainder was paid in cash.

Due to tax provisions in some foreign jurisdictions which make stock awards difficult, the Company sometimes awards deferred cash bonuses to key employees of its foreign operations. The deferred cash bonuses are similar to phantom stock units, in that such bonuses are tied to the value of the Company’s common stock. Awards are recognized over the deferral period as variable plan awards. The Company recognized approximately \$17, \$35 and \$70 of compensation expense in 2015, 2014 and 2013, respectively, related to the awards.

17. ACCUMULATED OTHER COMPREHENSIVE INCOME

Changes in Accumulated Other Comprehensive Income by Component
Twelve Months Ended January 2, 2016

	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 income (loss) before reclassifications	(1,097)	) (5,555)	) (6,652)
Amounts reclassified from accumulated other comprehensive income	694	—	694

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Net current period other comprehensive income (loss)	(403)	(5,555)	(5,958)
Balance at January 2, 2016	\$(1,262)	\$(8,781)	\$(10,043)
Reclassifications out of Accumulated Other Comprehensive Income						

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Details about Accumulated Other Comprehensive Income Components	Twelve months ended January 2, 2016	Affected Line Item in the Consolidated Statements of Operations
Unrealized gains and losses on available-for-sale securities		
Realized gain/(loss) on sale of securities	\$(227	) Miscellaneous (income) expense, net
Other than temporary impairment	(875	) Miscellaneous (income) expense, net
	(1,102	) Total before tax
	408	Tax benefit
	\$(694	) Net of tax
Total reclassifications for the period	\$(694)

18. SEGMENT REPORTING

The individual subsidiaries comprising the Company operate 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 is managed, the Company determined that it has only one operating and reporting segment for both internal and external reporting purposes.

Geographic Region Information:

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

	2015	2014	2013
Net sales			
Americas	\$97,741	\$112,515	\$101,690
Europe	61,307	69,241	61,246
Asia/Pacific	41,679	45,917	42,331
Total	\$200,727	\$227,673	\$205,267
Total assets			
Americas	\$168,662	\$145,816	\$138,828
Europe	56,720	59,439	58,388
Asia/Pacific	16,158	17,509	16,262
Total	\$241,540	\$222,764	\$213,478
Long-lived assets			
Americas	\$72,529	\$73,315	\$70,479
Europe	7,923	9,233	9,745
Asia/Pacific	4,070	4,669	4,198
Total	\$84,522	\$87,217	\$84,422

19. 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, excluding operating leases, for the years ended 2015, 2014 and 2013 was

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approximately \$55, \$137 and \$265, respectively. The following table summarizes our minimum lease payments in excess of one year as of January 2, 2016.

Future minimum lease payments on operating leases are as follows:

2016	415
2017	303
2018	20
2019	21
2020	22
Thereafter	29
Total minimum lease payments	\$810

INSURANCE - The Company accrues for health care benefit costs under a self-funded plan. The Company purchases re-insurance for both specific and aggregate stop losses on claims that exceed \$175 on an individual basis and approximately \$7,000 on an aggregate basis. The Company records a liability for all unresolved claims at the anticipated cost to the Company at the end of the period based on management's assessment. The Company believes it has adequate reserves for all self-insurance claims.

20. UNAUDITED QUARTERLY FINANCIAL INFORMATION

Quarterly Results of Operations

(In thousands, except per share data)

	For the quarter ended			
	Jan 2, 2016	Sep 26, 2015	Jun 27, 2015	Mar 28, 2015
Net sales	\$44,289	\$48,036	\$54,016	\$54,386
Gross profit	15,794	18,500	21,404	21,394
Operating income	7,671	11,037	14,075	14,108
Income before income taxes	7,356	12,543	13,974	15,358
Net income	\$5,103	\$8,410	\$9,248	\$10,377
Basic net income per common share	\$0.19	\$0.32	\$0.35	\$0.39
Diluted net income per common share	\$0.19	\$0.32	\$0.35	\$0.39
	For the quarter ended			
	Dec 27, 2014	Sep 27, 2014	Jun 28, 2014	Mar 29, 2014
Net sales	\$54,803	\$55,011	\$61,050	\$56,809
Gross profit	21,778	22,291	25,756	24,067
Operating income	14,333	14,635	18,377	16,726
Income before income taxes	15,370	15,001	18,424	16,947
Net income	\$10,327	\$9,877	\$12,186	\$11,385
Basic net income per common share	\$0.39	\$0.37	\$0.46	\$0.43
Diluted net income per common share	\$0.39	\$0.37	\$0.46	\$0.43

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21. NEW ACCOUNTING PRONOUNCEMENTS

In January 2016, the FASB issued guidance on changes to the accounting for financial instruments that primarily affect equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. This standard is effective in 2018 with certain provisions allowing for early adoption. The Company is currently evaluating the effects, if any, adoption of this guidance will have on the Company's consolidated financial statements.

In July 2015, the FASB issued guidance on Simplifying the Measurement of Inventory. The guidance requires 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 is effective for reporting periods beginning after December 15, 2016 and interim periods within those fiscal years with early adoption permitted. The guidance should be applied prospectively. The Company does not expect the adoption of this guidance to have a material impact on the Company's consolidated financial statements.

In August 2014, the FASB issued guidance on Disclosure of Uncertainties About an Entity's Ability to Continue as a Going Concern. The guidance requires management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year of the date the financial statements are issued and provides guidance on determining when and how to disclose going concern uncertainties in the financial statements. Certain disclosures will be required if conditions give rise to substantial doubt about an entity's ability to continue as a going concern. The guidance applies to all entities and is effective for annual and interim reporting periods ending after December 15, 2016, with early adoption permitted. The Company does not expect that the adoption of this guidance to have a material impact on the Company's consolidated financial statements.

In May 2014, the FASB issued guidance on Revenue from Contracts with Customers, to clarify the principles used to recognize revenue for all entities. 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 after December 15, 2016. The FASB has subsequently delayed this standard by one year. Early adoption is permitted as of the original effective date. The Company is currently evaluating the effects, if any, adoption of this guidance will have on the Company's consolidated financial statements.

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

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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 January 2, 2016.

Changes in Internal Control Over Financial Reporting

There were no changes in the Company's internal control over financial reporting during the quarter ended January 2, 2016, that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Attestation Report of Independent Registered Public Accounting Firm

Mayer Hoffman McCann P.C., our independent registered public accounting firm, has issued an attestation report on our internal control over financial reporting. This report appears on page 27.

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 2016 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 2016 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 2016 Proxy Statement under the caption "Compliance with Section 16(a) of the Securities Exchange Act of 1934" and is incorporated herein by reference.

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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 2016 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 2016 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 2016 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 2016 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 2016 Proxy Statement and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this item is set forth under the caption "Independent Registered Public Accounting Firm" in our 2016 Proxy Statement and is incorporated herein by reference.

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PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

	Page
1. The following financial statements are included in Part II, Item 8:	
<u>Report of Independent Registered Public Accounting Firm</u>	<u>27</u>
<u>Consolidated Balance Sheets as of January 2, 2016 and December 27, 2014</u>	<u>28</u>
<u>Consolidated Statements of Operations for the Years Ended January 2, 2016, December 27, 2014, and December 28, 2013</u>	<u>29</u>
<u>Consolidated Statements of Comprehensive Income (Loss) for the Years Ended January 2, 2016, December 27, 2014, and December 28, 2013</u>	<u>30</u>
<u>Consolidated Statement of Changes in Shareholders' Equity for the Years Ended January 2, 2016, December 27, 2014, and December 28, 2013</u>	<u>31</u>
<u>Consolidated Statements of Cash Flows for the Years Ended January 2, 2016, December 27, 2014, and December 28, 2013</u>	<u>32</u>
<u>Notes to the Consolidated Financial Statements</u>	<u>33</u>

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

2. Exhibits:

Exhibit Number	Exhibit Description
3.1	Amended and Restated Articles of Incorporation of the Company (previously filed as Exhibit 3.1 in the Pre-Effective Amendment No. 4 to the Company's Registration Statement on Form S-1 filed on December 19, 1996 (File No. 333-14183) and incorporated herein by reference).
3.2	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	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).
3.4	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).

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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 Amended and Restated Credit and Security Agreement dated August 11, 2011, between the Company as Borrower, and Fifth Third Bank, as Lender (previously filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed on November 5, 2013, and incorporated herein by reference).

10.5 Construction and Term Note, dated August 11, 2011, made by the Company in favor of Fifth Third Bank (previously filed as Exhibit 10.8 to the Company's Annual Report on Form 10-K filed on March 13, 2012, and incorporated herein by reference).

10.6 Amended and Restated Revolving Line of Credit Note, dated August 11, 2011, made by the Company in favor of Fifth Third Bank (previously filed as Exhibit 10.9 to the Company's Annual Report on Form 10-K filed on March 13, 2012, and incorporated herein by reference).

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- 10.10+ Sun Hydraulics Corporation 2006 Stock Option Plan (previously filed as Exhibit 99.2 to the Company's Form 8-K filed on September 14, 2006 and incorporated herein by reference).
- 10.11+ Sun Hydraulics Corporation Employee Stock Award Program (previously filed as Exhibit 4 to the Company's registration statement on Form S-8 filed on July 20, 1999, and incorporated herein by reference).
- 10.12+ 2001 Sun Hydraulics Corporation Restricted Stock Plan (previously filed as Exhibit 4 to the Company's registration statement on Form S-8 filed on June 12, 2001 (file No. 333-62816), and incorporated herein by reference).
- 10.13+ Form of agreement for grants of restricted shares under the Sun Hydraulics Corporation Restricted Stock Plan (previously filed as Exhibit 10.14+ to the Company's Annual Report on Form 10-K filed on March 15, 2010, and incorporated herein by reference).
- 10.14+ 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).
- 10.15+ 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).
- 10.16+ 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).
- 10.17+ 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).
- 10.18+ 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).
- 10.19+ 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).
- 10.20+ 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).
- 10.21+ The Sun Hydraulics Corporation 401(k) and ESOP Retirement Plan dated December 12, 2007 (previously filed as Exhibit 10.17 to the Company's Form 10-K filed on March 11, 2009 and incorporated herein by reference).

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- 10.22+ First, Second, Third, Fourth, Fifth and Sixth Amendments to Sun Hydraulics Corporation 401(k) and ESOP Retirement Plan (previously filed as Exhibit 10.22+ to the Company's Annual Report on Form 10-K filed on March 13, 2012, and incorporated herein by reference).
- 10.23+ 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).
- 10.25+ Steven Hancox Employment Agreement dated January 1, 1994 (previously filed as Exhibit 10.2+ to the Company's Quarterly Report on Form 10-Q for the quarter ended April 2, 2011, and incorporated herein by reference).
- 10.26+ Executive Continuity Agreement, dated December 7, 2009, between Sun Hydraulics Corporation and Allen J. Carlson (previously filed as Exhibit 99.1 to the Company's Form 8-K filed on December 11, 2009 and incorporated herein by reference).
- 10.27+ 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).

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10.28	Securities Purchase Agreement between Sun Hydraulics Corporation and High Country Tek, Inc., dated November 30, 2007 (previously filed as Exhibit 99.1 in the Company's Form 8-K filed on November 30, 2007 and incorporated herein by reference).
10.29+	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).
14	Code of Ethics (previously filed as Exhibit 14 in the Company's Annual Report on Form 10-K for the year ended December 31, 2005 and incorporated herein by reference).
21	Subsidiaries of the Registrant (previously filed as Exhibit 21 to the Company's Annual Report on Form 10-K filed on March 13, 2012, and incorporated herein by reference).
23.1	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.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Sarasota, State of Florida on March 1, 2016.

SUN HYDRAULICS CORPORATION

By: /s/ Allen J. Carlson
Allen J. Carlson, President and
Chief Executive Officer

Pursuant to requirements of the Securities Exchange Act of 1934, this Report has been signed by the following persons on behalf of the Registrant and in the capacities indicated as of March 1, 2016.

Signature	Title
/s/ Allen J. Carlson Allen J. Carlson	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/ Wolfgang H. Dangel Wolfgang H. Dangel	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/ David N. Wormley David N. Wormley	Director

