

SUN HYDRAULICS CORP  
Form DEF 14A  
April 24, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

(Amendment No. )

Filed by the Registrant    Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

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Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material under §240.14a-12

SUN HYDRAULICS CORPORATION

(Name of registrant as specified in its charter)

(Name of person(s) filing proxy statement, if other than the registrant)

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SUN HYDRAULICS CORPORATION

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

Monday, June 5, 2017

Notice hereby is given that the Annual Meeting of Shareholders of Sun Hydraulics Corporation, a Florida corporation, will be held on Monday, June 5, 2017, at 10:00 a.m., Eastern Daylight Time, at the Company's manufacturing facility, located at 803 Tallevast Road, Sarasota, Florida 34243, for the following purposes:

1. To elect one Director to serve until the Annual Meeting in 2019, and two Directors to serve until the Annual Meeting in 2020, and until their successors are elected and qualified or until their earlier resignation, removal from office or death;
2. To ratify the appointment of Grant Thornton LLP as the Company's independent registered public accounting firm for the year 2017;
3. To conduct an advisory vote on executive compensation
4. To conduct an advisory vote on the frequency of the advisory vote on executive compensation; and
5. To transact such other business as properly may come before the Meeting or any adjournment thereof.

Shareholders of record at the close of business on March 31, 2017, are entitled to receive notice of and to vote at the Meeting and any adjournment thereof.

We sent a Notice of Internet Availability of Proxy Materials on or about April 24, 2017, and provided access to our proxy materials over the Internet, beginning April 24, 2017, for the holders of record and beneficial owners of our common stock as of the close of business on the record date. If you received a Notice of Internet Availability by mail, you will not receive a printed copy of the proxy materials in the mail. Instead, the Notice of Internet Availability instructs you on how to access and review this proxy statement and our annual report and authorize a proxy online to vote your shares. If you received a Notice of Internet Availability by mail and would like to receive a printed copy of our proxy materials, you should follow the instructions for requesting such materials included in the Notice of Internet Availability.

All shareholders are cordially invited to attend the Meeting. Whether or not you expect to attend, to assure the presence of a quorum at the Meeting, please authorize your proxy by Internet or, if you received a paper copy of the materials by mail, please mark, sign, date and return your proxy card, so that your shares will be represented at the Meeting. You may revoke your Proxy and vote in person at the Meeting if you desire.

If your shares are held in street name by a brokerage, your broker will supply the Notice of Internet Availability instructions on how to access and review this proxy statement and our annual report and authorize a proxy online to vote your shares. If you receive paper copies of the materials from your broker by mail, please mark, sign, date and return your proxy card to the brokerage. It is important that you return your proxy to the brokerage as quickly as possible so that the brokerage may vote your shares. You may not vote your shares in person at the Meeting unless you obtain a power of attorney or legal proxy from your broker authorizing you to vote the shares, and you present this power of attorney or proxy at the Meeting.

By Order of the Board of Directors,  
GREGORY C. YADLEY  
Secretary

Sarasota, Florida

April 24, 2017

**IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE  
SHAREHOLDERS MEETING TO BE HELD ON JUNE 5, 2017**

This Proxy Statement and our 2016 Annual Report to Shareholders are available at:

<https://materials.proxyvote.com/866942> and <http://www.sunhydraulics.com/annualreport/>

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SUN HYDRAULICS CORPORATION

1500 West University Parkway

Sarasota, Florida 34243

PROXY STATEMENT

This Proxy Statement is furnished by the Board of Directors of Sun Hydraulics Corporation (the “Company”) in connection with the solicitation of proxies to be voted at the Company’s 2017 Annual Meeting of Shareholders, which will be held on Monday, June 5, 2017, at 10:00 a.m., Eastern Daylight Time, at the Company’s manufacturing facility located at 803 Tallevast Road, Sarasota, Florida 34243 (the “Meeting”).

Any proxy delivered pursuant to this solicitation may be revoked, at the option of the person executing the proxy, at any time before it is exercised by delivering a signed revocation to the Company, by submitting a later-dated proxy, or by attending the Meeting in person and casting a ballot. If proxies are signed and returned without voting instructions, the shares represented by the proxies will be voted as recommended by the Board of Directors.

The cost of soliciting proxies will be borne by the Company. In addition to the use of the mail, proxies may be solicited personally or by telephone by regular employees of the Company. The Company does not expect to pay any compensation for the solicitation of proxies, but may reimburse brokers and other persons holding stock in their names, or in the names of nominees, for their expense in sending proxy materials to their principals and obtaining their proxies. The approximate date on which this Proxy Statement and enclosed form of proxy first has been mailed to shareholders is April 24, 2017.

The close of business on March 31, 2017, has been designated as the record date for the determination of shareholders entitled to receive notice of and to vote at the Meeting. As of March 31, 2017, 26,962,890 shares of the Company’s Common Stock, par value \$.001 per share, were issued and outstanding. Each shareholder will be entitled to one vote for each share of Common Stock registered in his or her name on the books of the Company on the close of business on March 31, 2017, on all matters that come before the Meeting. Abstentions will be counted as shares that are present and entitled to vote for purposes of determining whether a quorum is present. Shares held by nominees for beneficial owners will also be counted for purposes of determining whether a quorum is present if the nominee has the discretion to vote on at least one of the matters presented, even though the nominee may not exercise discretionary voting power with respect to other matters and even though voting instructions have not been received from the beneficial owner (a “broker non-vote”). Abstentions and broker non-votes are not counted in determining whether a proposal has been approved.

## PROPOSAL 1

### ELECTION OF DIRECTORS

The Board of Directors of the Company currently consists of nine members. The Board is divided into three classes of Directors serving staggered three-year terms. Directors hold their positions until the annual meeting of shareholders in the year in which their terms expire, and until their respective successors are elected and qualified or until their earlier resignation, removal from office or death.

The term of office of three of the Company's current nine Directors, Christine L. Koski, Alexander Schuetz, David N. Wormley, will expire at the Meeting. Dr. Wormley expressed his desire to retire from the Board and not stand for reelection at the Meeting. The Governance and Nominating Committee of the Board of Directors has selected Ms. Koski and Dr. Schuetz as nominees to stand for reelection to the Board at the Meeting, to serve until the Company's annual meeting in 2020. Douglas M. Britt was appointed as a Director in December 2016, to fill a newly-created vacancy in the class of Directors whose term will expire at the Company's annual meeting in 2019. Pursuant to Florida law, Mr. Britt also must stand for election by the shareholders at the Meeting. In making its nominations of Ms. Koski and Dr. Schuetz and its recommendation to the Board as to Mr. Britt's appointment, the Governance and Nominating Committee reviewed the backgrounds of the three individuals and believes that each of them (as well as each other continuing Director whose term does not expire at the Meeting) has valuable individual skills and experiences that, taken together, provide the Company with the diversity and depth of knowledge, judgment and vision necessary to provide effective oversight.

Biographical information for Ms. Koski, Dr. Schuetz and Mr. Britt is set forth below under "Directors and Executive Officers."

Shareholders may vote for up to two nominees for the class of Directors who will serve until the Company's annual meeting in 2020, and for one nominee for the class of Directors who will serve until the Company's annual meeting in 2019. If a quorum is present at the meeting, Directors will be elected by a plurality of the votes cast. Shareholders may not vote cumulatively in the election of Directors. In the event any of the nominees should be unable to serve, which is not anticipated, the proxy committee, which consists of Philippe Lemaitre and Christine L. Koski, will vote for such other person or persons for the office of Director as the Board of Directors may recommend.

The Board of Directors recommends that you vote "FOR" Ms. Koski and Dr. Schuetz to serve until the Company's annual meeting in 2020, and "FOR" Mr. Britt to serve until the Company's annual meeting in 2019, or until their successors shall be duly elected and qualified or until their earlier resignation, removal from office or death. Executed proxies in the accompanying form will be voted at the Meeting in favor of the election as directors of the nominees named above, unless authority to do so is withheld.

## GOVERNANCE OF THE COMPANY

## Directors and Executive Officers

The following table sets forth the names and ages of the Company's Directors, nominees for Director, and executive officers and the positions they hold with the Company. Executive officers serve at the pleasure of the Board of Directors.

Name	Age	Position
Wolfgang H. Dangel	53	President, Chief Executive Officer and Director (term expiring in 2018)
Tricia L. Fulton	50	Chief Financial Officer
Gary A. Gotting	54	Global Lead, Product Development and Marketing
Kennon H. Guglielmo	50	Global Co-Lead, Electronic Controls
Craig Roser	59	Global Lead, Sales and Business Development
Marc Bertoneche	70	Director (term expiring in 2019), and a member of the Audit and Compensation Committees
Douglas M. Britt	52	Director since December 2016, Nominee for Director (term expiring in 2019) and a member of the Audit and Compensation Committees
Allen J. Carlson	66	Director (term expiring in 2018)
David W. Grzelak	67	Director (term expiring in 2018) and a member of the Audit and Governance and Nominating Committees
Christine L. Koski	59	Director (term expiring in 2017), Nominee for Director (term expiring in 2020), and a member of the Compensation and Governance and Nominating Committees
Philippe Lemaitre	67	Chairman of the Board, Director (term expiring in 2019)
Alexander Schuetz	50	Director (term expiring in 2017), Nominee for Director (term expiring in 2020), and a member of the Audit and Compensation Committees
David N. Wormley	77	Director (term expiring in 2017) and a member of the Compensation and Governance and Nominating Committees

Wolfgang Dangel became President and Chief Executive Officer of the Company on April 1, 2016. From January 2014 to March 2016, he was a consultant to the Schaeffler Holding Company. From September 2011 to December 2013, he served as President of Schaeffler Automotive Global and a member of the Executive Board of the Schaeffler Group and, from January 2007 to September 2011, as President of Schaeffler Group Asia/Pacific and a member of the Extended Management Board of Schaeffler Group (Global). Mr. Dangel previously served as President, CEO and CFO of Bosch Rexroth North America, from January 2001 to December 2006. Prior to that, he was affiliated with other Mannesmann and Rexroth companies, including as Managing Director and Chairman of the Management Board of Mannesmann Rexroth (China) Ltd. from June 1996 to December 2000. Mr. Dangel previously served as a member of the board of directors of the National Fluid Power Association. He holds a Masters Degree in Economics from the University of Applied Sciences in Rosenheim, Germany. Mr. Dangel has served as a



Director of the Company since June 2009. With more than a decade of direct experience working in the fluid power industry and extensive experience in Asia, Mr. Dangel brings a wealth of knowledge regarding the customers and markets in which the Company's products are sold.

Tricia Fulton joined the Company in March 1997 and held positions of increasing responsibility, including Corporate Controller, prior to being named Chief Financial Officer on March 4, 2006. From July 1995 to March 1997, Ms. Fulton served as the Director of Accounting for Plymouth Harbor. From November 1991 to July 1995, she served in various financial capacities for Loral Data Systems. From September 1989 to September 1991, Ms. Fulton was an auditor with Deloitte & Touche. Ms. Fulton is a graduate of Hillsdale College and the General Management Program at the Harvard Business School. She serves as chairman and a member of the board of directors of the National Fluid Power Association.

Gary Gotting joined the Company in November 2013 and prior to being named Global Lead, Product Development and Marketing, he had regional leadership responsibilities in sales and marketing in the Americas. From January 2008 to November 2013, he was VP of Sales and Marketing at High Country Tek, Inc., the Company's wholly-owned subsidiary and first venture into electronics. From 2007-2008, Mr. Gotting was senior product manager for the advanced technology and systems group of Eaton Corporation in Eden Prairie, MN. He was affiliated with Denison Hydraulics from 1993-2007, first managing electronics and systems development for Denison Hydraulics International in England, and then relocating to the company's U.S. corporate headquarters in Marysville Ohio, as global electronics and controls manager in 2000. When Denison Hydraulics Inc. was purchased by Parker Hannifin Corporation in 2003, he moved to a role in Parker's global mobile group, where he remained until 2007, when he joined Eaton. Mr. Gotting is a graduate of Brighton College of Technology in England and holds higher education certificates in electronics and communications engineering.

Kennon Guglielmo serves as Co-General Manager of Enovation Controls, LLC ("Enovation"), which was acquired by the Company on December 5, 2016, and operates as a separate, standalone subsidiary. He co-founded Enovation in September 2009, serving as its Chief Technology Officer and, since July 2016, as its Co Chief Executive Officer, along with co-founder Frank Murphy, III. Dr. Guglielmo also serves, along with Mr. Murphy, as Co-CEO of Genisys Controls, LLC, a segment of Enovation that was carved out prior to Enovation's acquisition by the Registrant. Dr. Guglielmo has been an independent director of Rush Enterprises, Inc. (NASDAQ:RUSHA) (NASDAQ:RUSHB) since January 2015. He holds a B.S. in Mechanical Engineering from Texas A&M University and an M.S. and Ph.D. in Mechanical Engineering from Georgia Institute of Technology.

Craig Roser joined the Company in 2009 and had regional leadership responsibilities in marketing, sales and business development in the Americas before becoming Global Sales and Business Development Lead in August of 2016. Mr. Roser graduated from the University of South Florida in 1979 with a mechanical engineering degree and worked in the textile and tire making industries until 1983, when he joined Gulf Controls Company LLC, a Sun Hydraulics Distributor. Mr. Roser last served as Vice President Engineering of Gulf Controls before being selected in 2001 as President of Hydro Air LLC, another fluid power component and systems distributor who then had the same owner as Gulf Controls. He is a licensed professional engineer and participates in committee activities of the National Fluid Power Association and the American Society of Mechanical Engineers. Mr. Roser also earned a law degree from The Florida State College of Law and is a member of The Florida Bar.

Marc Bertoneche is an Emeritus Professor in Business Administration at the University of Bordeaux in France, and was on the Faculty of INSEAD, the European Institute of Business Administration in Fontainebleau, France, for more than 20 years. He was a Visiting Professor of Finance at the Harvard Business School. He is an Associate Fellow at the University of Oxford and a Distinguished Visiting Professor at HEC Paris. He is a graduate of University of Paris and earned his MBA and PhD from Northwestern University. He has served as a Director of the Company since August 2001. As an academic and a consultant to universities and businesses throughout the world, Dr. Bertoneche is exposed to diverse business leaders and brings a global perspective and depth of experience in the finance area.

Doug Britt has been a Director of the Company since December 2016. Mr. Britt is President of Industrial and Emerging Industries at Flex (NASDAQ: FLEX), a leading sketch-to-scale™ solutions company that provides innovative design, engineering, manufacturing, real-time supply chain insight, and logistics services to companies of all sizes in various industries and end-markets. From May 2009 to November 2012, Mr. Britt served as Corporate Vice President and Managing Director of Americas for Future Electronics, and from November 2007 to May 2009, he was Senior Vice President of Worldwide Sales, Marketing, and Operations for Silicon Graphics. From January 2000 to October 2007, Mr. Britt held positions of increasing responsibility at Solectron Corporation, culminating his career there as Executive Vice President, and was responsible for Solectron's customer business segments including sales, marketing and account and program management functions. Mr. Britt earned a bachelor's degree in business administration from California State University, Chico, and attended executive education programs throughout Europe, including at the University of London. As an executive at multi-national companies, Mr. Britt has extensive global M&A experience and a deep understanding of customer relationships and supply chain networks. Mr. Britt came to our attention as a potential director candidate through a representative of Flex, whose CEO is an acquaintance of our Chairman.

Allen Carlson joined the Company in March 1996 and served as Vice President from January 2000 until May 2000, when he was named President and Chief Executive Officer, serving in those roles until his retirement on March 31, 2016. He currently serves as director of the University of Florida's Sarasota Innovation Station. From October 1977 to March 1996, Mr. Carlson held various engineering, marketing and management positions for Vickers Incorporated, a wholly-owned subsidiary of Trinova Corporation. He is a graduate of the Milwaukee School of Engineering and the Advanced Management Program at the Harvard Business School. Mr. Carlson is past chair and a member of the executive committee of the board of directors of the National Fluid Power Association, and he serves on the board of regents of the Milwaukee School of Engineering. He also is a director of Tervis Tumbler Company and Mayville Engineering Company, Inc. With over 40 years' experience in the fluid power industry and 20 years with the Company, nearly 16 as President and Chief Executive Officer, Mr. Carlson has deep institutional knowledge and perspective regarding the Company's strengths, challenges and opportunities.

Dave Grzelak has been a director of the Company since June 2015. He served as Chairman and Chief Executive Officer of Komatsu America Corporation from April 2002 until his retirement as Chief Executive Officer in April 2012 and as Chairman in July 2013. He then served as a consultant to Komatsu Ltd., Tokyo, Japan, until August 2015. With more than four decades of experience working in the industrial manufacturing sector and extensive experience in Asia, Mr. Grzelak brings a wealth of knowledge regarding the customers and markets in which the Company's products are sold. Mr. Grzelak brings to the Board valuable insights on distribution, marketing and sales of the Company's products as well as operational and financial expertise. Mr. Grzelak also serves as a director of Alamo Group Inc. (NYSE: ALG).

Chris Koski joined the executive team of nMetric, LLC as head of marketing in July 2006 and has served as its President and Chief Executive Officer since January 2011. Prior to joining nMetric, Ms. Koski founded Koski Consulting Group, Inc. in June 2001 to work with start-up companies in the area of business strategy and marketing. From 1980 through 2000, Ms. Koski held various positions in sales, product management, purchasing, sales management, and international marketing management with Celanese A.G. or its former affiliates, including Celanese Ltd., Hoechst AG and Hoechst Celanese Chemical Group Ltd. In June 2016 Ms. Koski purchased the probiotic business unit from Oragenics and is now the CEO of ProBiora Health LLC. Simultaneous to the acquisition, Ms. Koski resigned from the board of directors of Oragenics, Inc. (OGEN). Ms. Koski is also a member of the National Association of Corporate Directors, Dallas Chapter, and is an alumnus of Harvard's Corporate Board Effectiveness Program led by Professor Jay Lorsch. Ms. Koski has served as a Director of the Company since May 2000. As the daughter of the Company's founder, Ms. Koski has a unique understanding of the Company's culture. Her international sales and marketing background contribute to the Board's overall level of experience in these areas. Ms. Koski graduated from St. Lawrence University with a BS degree in chemistry and received an Executive MBA degree from Southern Methodist University.

Philippe Lemaitre retired in November 2006 as Chairman, President and Chief Executive Officer of Woodhead Industries, Inc., a publicly-held automation and electrical products manufacturer, upon its sale to Molex. Before joining Woodhead in 1999, Mr. Lemaitre was Corporate Vice President and Chief Technology Officer of AMP, Inc. and was also in charge of AMP Computer and Telecom Business Group Worldwide. Prior to joining AMP, Mr. Lemaitre was an Executive Vice President of TRW, Inc. and also General Manager of TRW Automotive Electronics Group Worldwide. He previously held various management and research engineering positions with TRW, Inc., International Technegroup, Inc., General Electric Company and Engineering Systems International. Mr. Lemaitre also served as Chairman of the Board of Directors of Multi-Fineline Electronix, Inc. from March 2011 until the sale of the company in July, 2016. He holds a Master of Civil Engineering degree from Ecole Spéciale des Travaux Publics, Paris, France, and a Master of Science degree from the University of California at Berkeley, California. Mr. Lemaitre has served as a Director of the Company since June 2007, and as Chairman of the Board since June 2013. Mr. Lemaitre's more than 32 years' experience in the development of technology and technology-driven businesses, his track record of successfully managing global business functions including sales, engineering, research and manufacturing operations, and his role as Chairman of another public company provide a wealth of experience in key areas of the Company's business and governance.

Alexander Schuetz serves as CEO of Knauf Engineering GmbH, an engineering company in the gypsum based construction materials industry. Prior to joining Knauf in February 2009, Dr. Schuetz held various management positions for more than 10 years in Finance, Business Development, Mergers & Acquisitions, Project Management and General Management in the fluid power industry at Mannesmann and Bosch Rexroth, including as CEO of Rexroth Mexico and Central America from August 2000 to August 2007. From 1998 to 2000, he was based in Beijing, China and was responsible for the Finance, Tax and Legal division at Mannesmann (China) Ltd., the holding company for a number of affiliated companies of the Mannesmann Group, including Rexroth, Demag, Sachs and VDO. Dr. Schuetz holds a Ph.D. in international commercial law from the University of Muenster, Germany. In 2003, Dr. Schuetz completed the Robert Bosch North America International General Management Program at Carnegie Mellon University. Dr. Schuetz has served as a Director of the Company since June 2014. With more than 10 years working in the fluid power industry and extensive experience in major growth regions of the world, including Asia and Latin America, Dr. Schuetz brings global insights into markets and customers to Sun.

David Wormley, after nearly 25 years of service to the Company, will retire from the Board at the Meeting. He served as the Dean of the Engineering College at the Pennsylvania State University from June 1992 until he was named Dean Emeritus on January 1, 2014. Dr. Wormley previously served as Associate Dean of Engineering at the Massachusetts Institute of Technology (MIT) from 1991 to 1992, and Head of MIT's Department of Mechanical Engineering from 1982 to 1991. He is past president of the American Society for Engineering Education and is a fellow in the American Society of Mechanical Engineers. Dr. Wormley has served as a Director of the Company since December 1992. He also served as a director of Michael Baker Corporation from May 2008 until October 2013. He is an engineer and earned his Ph.D. from the Massachusetts Institute of Technology. Highly regarded in the engineering community, domestically and internationally, Dr. Wormley brings to the Board strong administrative and leadership skills developed as the dean of one of the nation's premier engineering colleges. As the Company's longest-serving Director, he also has an institutional knowledge that contributes to the Company's ability to exploit its historical strengths as it explores future opportunities.

#### Board Leadership Structure and the Board's Role in Risk Oversight

The Board of Directors acts as a collaborative body that encourages broad participation of each of the Directors at Board meetings and in the committees, described below, on which they serve. The Board believes that a majority of Directors should be independent. Prior to each Board meeting the independent directors meet informally, and they also meet in regular executive sessions of the Board of Directors. The Company currently separates the functions of Chairman of the Board and Chief Executive Officer. The Chairman of the Board, who is a non-management, independent Director chairs the meetings of the Board and also serves as a nonvoting ex officio member of each of the Board committees. He sets the agenda for each meeting, after soliciting suggestions from management and the other Directors. Given the size of the Company, its international operations and its culture of individual initiative and responsibility, the Board believes that its leadership structure is appropriate. The Board believes that a governing body comprised of relatively small number of individuals with diverse backgrounds in terms of geographic, cultural and subject matter experience, strong leadership and collaborative skills, is best equipped to oversee the Company and its management.

The Company's culture emphasizes individual integrity, initiative and responsibility, and employs a horizontal leadership structure in which there are not rigid reporting requirements. Compensation is not based on financial or productivity metrics or on other objective criteria that would encourage individuals undertaking undue risk for personal financial gain. The Board has delegated to the Audit Committee the responsibility for financial risk and fraud oversight, to consider for approval all transactions involving conflicts of interest and to monitor compliance with the Company's Code of Ethics. The Board has determined that a separate risk oversight committee is not necessary to monitor other risks. Instead, the Chief Executive Officer reports to the full Board, at least annually, regarding material risks facing the Company risks it may face in the future, measures that management has employed to address those risks and other information regarding how risk analysis is incorporated into the Company's corporate strategy and day-to-day business operations. The Governance and Nominating Committee also addresses non-financial risks, including development and succession of leadership, and makes recommendations to the Board with respect to those and other risks facing the Company.

#### Independence and Committees of the Board of Directors

**Independence of Directors.** At its meeting in March 2017, the Board undertook a review of Director independence. It determined that there were no transactions or relationships between any of the Directors or any member of the Director's immediate family and the Company and its subsidiaries and affiliates. The purpose of this review was to determine the independence of each of the Directors under the rules of the Nasdaq Stock Market and, for audit committee members, also under the rules of the Securities and Exchange Commission. The Board determined that, other than the current and the recently-retired CEO, all of the Company's Directors (Messrs. Bertoneche, Britt, Grzelak, Lemaitre, Schuetz and Wormley, and Ms. Koski, except with respect to the audit committee,) qualify as independent.

The Board of Directors has the three standing committees listed below. In addition to the standing committees, in November 2012 the Board established an ad hoc Strategy Committee to facilitate collaboration between the Board and management with respect to the Company's strategy review. This committee was chaired by Mr. Dangel and also included Mr. Carlson, Ms. Koski and Dr. Schuetz. With a framework for the Company's future growth established, the Committee recommended, and the other Directors agreed, in March 2016 that the work of the Committee was concluded, that the projects would be integrated into the general operational flow of the Company, and that the full Board would resume its strategy oversight role.

#### Audit Committee.

The Audit Committee, comprised of Marc Bertoneche (Chair), Doug Britt, David W. Grzelak, and Alexander Schuetz, held nine meetings in 2016. The Board of Directors determined, under applicable SEC and NASDAQ rules, that all of the members of the Audit Committee are independent and that Dr. Bertoneche meets the qualifications as an Audit Committee Financial Expert and he has been so designated. The functions of the Audit Committee are to select the independent public accountants who will prepare and issue an audit report on the annual financial statements of the Company and a report on the Company's internal controls over financial reporting, to establish the scope of and the fees for the prospective annual audit with the independent public accountants, to review the results thereof with the independent public accountants, to review and approve non-audit services of the independent public accountants, to review compliance with existing major accounting and financial policies of the

Company, to review the adequacy of the financial organization of the Company, to review management's procedures and policies relative to the adequacy of the Company's internal accounting controls, to review areas of financial risk and provide fraud oversight, to review compliance with federal and state laws relating to accounting practices and to review and approve transactions, if any, with affiliated parties. It also invites and investigates reports regarding accounting, internal accounting controls or auditing irregularities or other matters.

The Audit Committee is responsible for review of management's monitoring of the Company's compliance with its Code of Ethics and the periodic review and update of the code. No waivers of the Company's Code of Ethics were requested or granted during the year ended December 31, 2016. The Code of Ethics is available on the Investor Relations page of our Web site [www.sunhydraulics.com](http://www.sunhydraulics.com) and from the Company upon written request sent to Corporate Secretary, 1500 West University Parkway, Sarasota, Florida 34243.

The Audit Committee is governed by a written charter approved by the Board of Directors. The charter was revised in March 2012 and is available on the Investor Relations page of our Web site [www.sunhydraulics.com](http://www.sunhydraulics.com) and from the Company upon written request sent to the Corporate Secretary, 1500 West University Parkway, Sarasota, Florida 34243.

#### Compensation Committee.

The Compensation Committee, comprised of Marc Bertoneche, Doug Britt, Christine Koski (Chair) and David Wormley, oversees the Company's compensation program, including executive compensation and the review, approval and recommendation to the Board of Directors of the terms and conditions of all employee benefit plans or changes thereto. The Committee administers the Company's restricted stock and stock option plans and carries out the responsibilities required by the rules of the Securities and Exchange Commission. The Committee met four times during 2016.

The Compensation Committee is governed by a written charter approved by the Board of Directors. The charter was revised in May 2013 and is available on the Investor Relations page of our Web site [www.sunhydraulics.com](http://www.sunhydraulics.com) and from the Company upon written request sent to the Corporate Secretary, 1500 West University Parkway, Sarasota, Florida 34243.

#### Governance and Nominating Committee.

The Governance and Nominating Committee, comprised of David Grzelak, Christine Koski, Alexander Schuetz and David Wormley (Chair), held four meetings in 2016. The primary purpose of the Committee is to identify and recommend to the Board individuals qualified to become members of the Board of Directors, consistent with criteria approved by the Board, develop and recommend to the Board corporate governance guidelines and policies for the Company, and monitor the Company's compliance with good corporate governance standards. The Committee also addresses non-financial risks, including development and succession of leadership, and makes recommendations to the Board with respect to those and other risks facing the Company.

The Governance and Nominating Committee is governed by a written charter approved by the Board of Directors. The charter was revised in March 2012 and is available on the Investor Relations page of our Web site [www.sunhydraulics.com](http://www.sunhydraulics.com) and from the Company upon written request sent to the Corporate Secretary, 1500 West University Parkway, Sarasota, Florida 34243. The Committee met four times during 2016.

The Board has adopted a Statement of Policy Regarding Director Nominations, setting forth qualifications of Directors, procedures for identification and evaluation of candidates for nomination, and procedures for recommendation of candidates by shareholders. As set forth in the Statement of Policy, a candidate for Director should meet the following criteria:

- must, above all, be of proven integrity with a record of substantial achievement;
- must have demonstrated ability and sound judgment that usually will be based on broad experience;
- must be able and willing to devote the required amount of time to the Company's affairs, including attendance at Board and committee meetings and the annual shareholders' meeting;
- must possess a judicious and somewhat critical temperament that will enable objective appraisal of management's plans and programs; and
- must be committed to building sound, long-term Company growth.

Other than the foregoing, the Board does not believe there is any single set of qualities or skills that an individual must possess to be an effective Director or that it is appropriate to establish any specific, minimum qualifications for a candidate for election as a Director. Rather, the Committee will consider each candidate in light of the strengths of the other members of the Board of Directors and the needs of the Board and the Company at the time of the election.

The Company does not have a formal policy with regard to the consideration of diversity in identifying Director nominees, but the Governance and Nominating Committee strives to nominate Directors with diverse backgrounds in terms of geographic, cultural and subject matter experience that are complementary to those of the other Directors so that, as a group, the Board will possess the appropriate talent, skills and expertise to oversee the Company's business.

The Committee will take whatever actions it deems necessary under the circumstances to identify qualified candidates for nomination for election as a member of the Board of Directors, including the use of professional search firms, recommendations from Directors, members of senior management and security holders. All such candidates for any particular seat on the Board shall be evaluated based upon the same criteria, including those set forth above and such other criteria as the Committee deems suitable under the circumstances existing at the time of the election.

Shareholder recommendations for Nomination as a Director. In order for the Committee to consider a candidate recommended by a shareholder, the shareholder must provide to the Corporate Secretary, at least 120, but not more than 150, days prior to the date of the shareholders' meeting at which the election of Directors is to occur, a written notice of such security holder's desire that such person be nominated for election at the upcoming shareholders meeting; provided, however, that in the event that less than 120 days' notice or prior public disclosure of the date of the meeting is given or made to shareholders, notice by the shareholder to be timely must be received not later than the close of business on the tenth business day following the day on which such notice of the date of the meeting was mailed or such public disclosure was made, whichever first occurs.

A shareholder's notice of recommendation must set forth:

- (a) as to each person whom the shareholder proposes be considered for nomination for election as a Director,
  - (i) the name, age, business address and residence address,
  - (ii) his or her principal occupation or employment during the past five years,
  - (iii) the number of shares of Company common stock he or she beneficially owns,
  - (iv) any other information relating to the person that is required to be disclosed in solicitations for proxies for election of Directors pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended, and
  - (v) the consent of the person to serve as a Director, if so elected; and

(b) as to the shareholder giving the notice

- (i) the name and record address of shareholder,
  - (ii) the number of shares of Company common stock beneficially owned by the shareholder,
  - (iii) a description of all arrangements or understandings between the shareholder and each proposed nominee and any other person pursuant to which the nominations are to be made, and
  - (iv) a representation that the shareholder intends to appear in person or by proxy at the meeting to nominate the person(s) named.

#### Director Participation and Relationships

The Board of Directors held five meetings during 2016, with all of the Directors present at each meeting. Each Director attended all of the meetings of each committee of which he or she was a member in 2016, except that two Directors missed one meeting each.

The Board of Directors has adopted a policy stating that it is in the best interests of the Company that all Directors and nominees for Director attend each annual meeting of the shareholders of the Company. The policy provides that the Board, in selecting a date for the annual shareholders meeting, will use its best efforts to schedule the meeting at a time and place that will allow all Directors and nominees for election as Directors at such meeting to attend the meeting. The policy further provides that an unexcused absence under the policy should be considered by the Governance and Nominating Committee in determining whether to nominate a Director for re-election at the end of his or her term of office. All of the Directors attended last year's annual meeting of shareholders.



No family relationships exist between any of the Company's Directors and executive officers. There are no arrangements or understandings between Directors and any other person concerning service as a Director.

#### Compensation Committee Interlocks and Insider Participation

None.

#### Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's Directors, officers and holders of more than 10% of the Company's Common Stock to file with the Securities and Exchange Commission initial reports of ownership and reports of changes in ownership of Common Stock and any other equity securities of the Company. To the Company's knowledge, based solely upon a review of the forms, reports and certificates filed with the Company by such persons, all of them complied with the Section 16(a) filing requirements in 2016.

#### Communications with the Board of Directors

Shareholders and other parties interested in communicating with our Board of Directors may do so by writing to the Board of Directors, Sun Hydraulics Corporation, 1500 West University Parkway, Sarasota, Florida 34243. Under the process for such communications established by the Board of Directors, the Chairman of the Board reviews all such correspondence and regularly forwards it, or a summary of the correspondence, to all of the other members of the Board. Directors may at any time review a log of all correspondence received by the Company that is addressed to the Board or any member of the Board and request copies of any such correspondence. Additionally, correspondence that, in the opinion of the Chairman, relates to concerns or complaints regarding accounting, internal accounting controls and auditing matters is forwarded to the Chair of the Audit Committee.

## AUDIT COMMITTEE REPORT

The following report shall not be deemed to be incorporated by reference into any filings made by the Company under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent that the Company specifically incorporates it by reference, or to be “soliciting material” or to be “filed” with the Securities and Exchange Commission or subject to Regulations 14A or 14C or to the liabilities of Section 18 of the Securities Exchange Act of 1934.

Management is responsible for the Company’s internal controls, financial reporting process, compliance with laws and regulations and ethical business standards. The independent accountants are responsible for performing an independent audit of the Company’s consolidated financial statements and internal controls over financial reporting based on criteria established in the 2013 Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The primary purpose of the Audit Committee is to oversee the Company’s financial reporting activities. The Audit Committee selects the Company’s independent accountants and meets regularly with them to review and approve the scope of their audit, report, recommendations and fees.

The Audit Committee has reviewed and discussed the audited consolidated financial statements of the Company for the fiscal year ended December 31, 2016, with the Company’s management and with Grant Thornton LLP (“Grant Thornton”). Management represented to the Committee that the Company’s consolidated financial statements were prepared in accordance with generally accepted accounting principles. The Audit Committee also reviewed and discussed with the Company’s management and Grant Thornton their respective reports on the effectiveness of the Company’s internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act as of December 31, 2016. The Audit Committee has discussed with Grant Thornton the matters required to be discussed by PCAOB Auditing Standard No. 16 (Communication With Audit Committees).

The Audit Committee has received from Grant Thornton written disclosures and the letter required by the Public Company Accounting Oversight Board regarding the independent accountant’s communications with the Committee concerning independence, and has discussed with Grant Thornton its independence. The Audit Committee has considered the provision of all non-audit services by Grant Thornton and has determined that such services are compatible with the firm maintaining its independence from the Company.

Based on its review and discussions noted above, the Audit Committee recommended to the Board of Directors, and the Board has approved, the inclusion of the audited financial statements in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2016, for filing with the Securities and Exchange Commission.

## AUDIT COMMITTEE

Marc Bertoneche, Chair

Doug Britt

David W. Grzelak

Alexander Schuetz

## CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

During 2016, except as described below, the Company had no material relationships or transactions with any of the Directors or executive officers, or their affiliates. Under the Company's Code of Ethics, all employees, including the CEO, the CFO and persons performing the functions of a controller, are instructed to avoid any personal activity, investment or association which could appear to interfere with their good judgment concerning the Company's best interests. The Company's policy is that if an employee or Director is related in any way to a vendor or customer, someone other than that employee or Director should be the one to decide whether the Company will do business with that person. The Audit Committee must approve all transactions in which an officer or Director, or any member of such person's family, may have a personal interest.

On December 5, 2016, the Company acquired Enovation Controls, LLC ("Enovation Controls") and its power controls and vehicle technologies businesses, which comprised two of its four lines of business prior to closing. One of the two former owners of Enovation Controls, EControls Group, Inc. ("EControls"), is wholly owned by Kennon Guglielmo. Mr. Guglielmo currently serves as the Company's Global Co-Lead, Electronic Controls, and also as Co-General Manager of Enovation Controls. Prior to consummation of the Company's acquisition of Enovation Controls, its natural gas production controls and engine controls and fuel systems business segments were spun off to Genisys Controls, LLC ("Genisys"), which is owned by Mr. Guglielmo and Frank Murphy, III. At the same time, Enovation Controls and Genisys entered into an agreement whereby each company provides certain transition services to the other for a post-closing period of 180 days. EControls received approximately \$70 million from the Company for its equity ownership of Enovation Controls at closing and may receive up to \$17.5 million in earn-out payments over the 27 months period following the closing.

Mr. Guglielmo's employment agreement has a 28 month term requiring him to devote 20% of his total work time to his position with Enovation Controls and acknowledges that the remainder of his time will be devoted to Genisys. His employment agreement provides for an annual salary of \$41,200 and additional aggregate bonus potential of 40% of his base salary. Mr. Guglielmo also is entitled to participate in benefit plans and programs made available to similarly situated employees generally. If his employment is terminated by Enovation Controls without cause or by him with good reason, Mr. Guglielmo is entitled to severance equal to six months of his base salary in effect on the date of termination.

## SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS

The following table sets forth as of March 31, 2017, information as to the beneficial ownership of the Company's Common Stock by (i) each person or entity known by the Company to be the beneficial owner of more than 5% of the outstanding shares of Common Stock, (ii) each Director and nominee for Director, (iii) each Named Executive Officer of the Company, and (iv) all Directors and executive officers of the Company as a group.

Name and Address of Beneficial Owner <sup>(1)</sup>	Amount and Nature of Beneficial Ownership <sup>(2)</sup>	Percent of Class
Brown Capital Management, LLC and The Brown Capital Management Small Company Fund <sup>(3)</sup>	4,192,774	15.6%
1201 N. Calvert Street		
Baltimore, MD 21202		
T. Rowe Price Associates, Inc. <sup>(4)</sup>	2,609,869	9.7%
100 E. Pratt Street		
Baltimore, MD 21202		
Thomas L. Koski <sup>(5)(6)</sup>	2,601,212	9.6%
4995 Ashley Parkway		
Sarasota, FL 34241		
Beverly Koski <sup>(5)</sup>	2,505,476	9.3%
5135 Willow Leaf Drive		
Sarasota, FL 34241		
Christine L. Koski <sup>(5)</sup>	2,399,012	8.9%
3525 Turtle Creek Boulevard #19B		
Dallas, TX 75219		
Robert C. Koski <sup>(5)</sup>	2,228,493	8.3%
7362 Hawkins Road		
Sarasota, FL 34241		
Royce & Associates, LLC <sup>(7)</sup>	2,161,129	8.0%
745 Fifth Avenue		

New York, NY 10151

Koski Family Limited Partnership	2,128,493	7.9%
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3525 Turtle Creek Boulevard #19B

Dallas, TX 75219

The Vanguard Group <sup>(8)</sup>	1,729,735	6.4%
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100 Vanguard Blvd.

Malvern, PA 19355

Blackrock, Inc. <sup>(9)</sup>	1,452,701	5.4%
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55 East 52<sup>nd</sup> Street

New York, NY 10055

Allen J. Carlson <sup>(10)</sup>	71,651	*
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Tricia L. Fulton <sup>(11)</sup>	68,205	*
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Tim A. Twitty <sup>(12)</sup>	56,819	*
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David N. Wormley	35,125	*
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Philippe Lemaitre	31,113	*
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Wolfgang H. Dangel <sup>(13)</sup>	30,765	*
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Name and Address of Beneficial Owner <sup>(1)</sup>	Amount and Nature of Beneficial Ownership <sup>(2)</sup>	Percent of Class
Steven Hancox <sup>(14)</sup>	30,076	*
Mark B. Bokorney <sup>(15)</sup>	29,485	*
Marc Bertoneche	20,649	*
Craig Roser <sup>(16)</sup>	14,468	*
Gary A. Gotting <sup>(17)</sup>	10,913	*
Alexander Schuetz	5,615	*
David W. Grzelak	5,250	*
Doug Britt	750	*
Kennon H. Guglielmo	0	*
All Directors and Executive Officers as a Group (13 persons) <sup>(18)</sup>	2,693,517	10.0%

\*Less than 1%.

<sup>(1)</sup>Unless otherwise indicated, the address of each of the persons listed who own more than 5% of the Company's Common Stock is 1500 West University Parkway, Sarasota, Florida 34243.

<sup>(2)</sup>This column sets forth shares of the Company's Common Stock which are deemed to be "beneficially owned" by the persons named in the table under Rule 13d-3 of the Securities and Exchange Commission. Except as otherwise indicated, the persons listed have sole voting and investment power with respect to all shares of Common Stock owned by them, except to the extent such power may be shared with a spouse. A portion of the shares owned by certain executive officers and Directors is held in margin accounts at brokerage firms. Under the terms of the margin account agreements, stocks and other assets held in the account may be pledged to secure margin obligations under the account. As of the date of this proxy statement, none of the executive officers and Directors have any outstanding margin obligations under any such accounts.

<sup>(3)</sup>According to Amendment No. 9 to Schedule 13G, filed February 9, 2017, by Brown Capital Management, LLC, Brown Capital Management, LLC beneficially owned 4,192,774 shares, which include 1,853,028 shares beneficially owned by The Brown Capital Management Small Company Fund, a registered investment company, which is managed by Brown Capital Management, LLC. Brown Capital Management, LLC has sole voting power with respect to 2,333,126 shares and sole dispositive power with respect to 4,192,774 shares. The Brown Capital Management Small Company Fund has sole voting power and sole dispositive power with respect to 1,853,028 shares.

<sup>(4)</sup>According to Amendment No. 8 to Schedule 13G, filed February 7, 2017, by T. Rowe Price Associates, Inc., T. Rowe Price Associates, Inc. has sole voting power with respect to 693,316 shares and sole dispositive power with respect to 2,609,869 shares.

<sup>(5)</sup>Includes 2,128,493 shares owned by the Koski Family Limited Partnership, over which Christine L. Koski, Robert C. Koski, Thomas L. Koski, and Beverly Koski share voting and investment power as the general partners in the Partnership. Christine L. Koski, Robert C. Koski and Thomas L. Koski are the adult children of Beverly Koski.

<sup>(6)</sup>Includes 160,000 shares owned by Mr. Koski's spouse.

<sup>(7)</sup>According to Amendment No. 19 to Schedule 13G, filed January 18, 2017, by Royce & Associates, LLC, Royce & Associates, LLC has sole voting and dispositive power with respect to 2,161,129 shares.

<sup>(8)</sup>According to Amendment No. 2 to Schedule 13G, filed February 10, 2017, by The Vanguard Group, The Vanguard Group has sole voting power with respect to 44,665 shares, shared voting power with respect to 4,659 shares, sole dispositive power with respect to 1,681,561 shares, and shared dispositive power with respect to 48,174 shares.

<sup>(9)</sup>According to Schedule 13G, filed January 30, 2017, by Blackrock, Inc., Blackrock, Inc. has sole voting power with respect to 1,402,713 shares and sole dispositive power with respect to 1,452,701 shares.



- (10) Includes 35,000 shares of unvested restricted stock, as to which the restrictions lapsed on April 1, 2017.
- (11) Includes 23,001 shares of unvested restricted stock.
- (12) Includes 11,001 shares of unvested restricted stock. Mr. Twitty resigned as an Officer of the Company effective March 3, 2017.
- (13) Includes 12,000 shares of unvested restricted stock.
- (14) Includes 3,250 shares of unvested restricted stock. Mr. Hancox resigned as an Officer of Sun Hydraulics Corporation effective October 3, 2016.
- (15) Includes 8,667 shares of unvested restricted stock. Mr. Bokorney resigned as an Officer of the Company effective March 3, 2017.
- (16) Includes 5,400 shares of unvested restricted stock.
- (17) Includes 3,900 shares of unvested restricted stock.
- (18) Does not include shares held by Messrs. Bokorney, Hancox and Twitty, who were not executive officers on March 31, 2017.



## EXECUTIVE COMPENSATION

### Compensation Discussion and Analysis

#### Compensation Philosophy and Objectives

The goals of our compensation program are to attract and retain highly qualified leadership personnel, providing them attractive long-term career opportunities. Our compensation philosophy is to provide executives with a competitive total compensation package which motivates superior job performance, the achievement of our business objectives, and the enhancement of shareholder value. Rather than basing compensation strictly on a series of specific financial metrics, we encourage initiative, teamwork and innovation, and each executive is enabled to use his or her abilities and particular area of responsibility to strengthen our overall performance. An individual executive's leadership and contribution to the accomplishment of the Company's strategic goals is part of his or her performance evaluation. Our general approach to compensating executive officers is to pay cash salaries which generally are competitive within ranges of salaries paid to executives of other manufacturing companies, particularly those of similar size and those in our geographic areas. Our compensation committee sets overall compensation at a level it believes to be fair, based upon an objective review as well as a subjective analysis of the individual executive's experience and past and potential contributions to us.

#### The Compensation Process

Our compensation program is overseen by a compensation committee (the "Committee") comprised of independent directors which operates pursuant to a charter that was approved by the Board of Directors on May 29, 2013. Compensation of our executive officers on an individual basis is reviewed annually by the Committee. The Committee also makes equity awards under compensation plans approved by the Board of Directors and, where required, by the shareholders, to the chief executive officer and to other key management employees upon the recommendation of the chief executive officer. All changes in the compensation of the Company's executive officers are required to be reported promptly to the full Board of Directors.

To assist in determining appropriate overall compensation, the Committee reviews from time to time information regarding revenues, income, and executive compensation for other public manufacturing companies and for other businesses operating in Florida and the southeast United States and selected businesses in the U.S. of similar size and scope. The Committee also considers selected information regarding compensation practices, including employee benefits, from manufacturing companies in other countries in which we operate in an effort to ensure that we maintain competitiveness locally in the markets in which our executive officers reside.

## Components of Executive Compensation

**Salary.** Our general approach to compensating executive officers is to pay cash salaries which generally are competitive within ranges of salaries paid to executives of other manufacturing companies, particularly in our geographic areas. Bonuses are awarded for superior performance on an individual basis, but have not been utilized frequently in the past. Therefore, salary, along with various forms of equity compensation described below, is the primary component of executive compensation. Our overall financial performance influences the general level of salary increases and there are no pre-arranged annual increases or established ranges for salary increases. The chief executive officer, after seeking input from other key managers and reviewing selected market data, recommends increases for the other executive officers based upon his analysis of the individual executive's experience and past and potential contributions to the Company.

**Equity Compensation.** We utilize equity awards as long-term compensation incentives for executive officers and other key managers. The Committee determined that the long-term compensation program would be related to Company performance but that it would not move automatically in lock-step with such performance. The Committee has recognized that, at different periods in the economic cycle, long-term compensation might have greater or lesser importance in relationship to salary adjustments. Each year, the Committee establishes a pool of shares to be used for long-term compensation. The level of the pool varies with our performance, although the Committee believes that it is important to reward and incentivize employees even in difficult times. The chief executive officer recommends awards for executive officers and other key employees. The Committee reviews those recommendations, approves or revises them, and determines long-term compensation for the chief executive officer and the other named executive officers.

The principal element of our long-term compensation program is the use of restricted shares of Company common stock, granted under a written plan approved by our shareholders. The Committee believes that this form of long-term compensation, tied to value creation for the Company, best aligns the interests of key employees with those of shareholders. The objectives of the program are to award the high achievers, to identify key employees within the Company (including those who demonstrate leadership) and, because it is long-term, to promote equity ownership in the Company. Criteria used by the Committee in these awards include individual responsibilities and performance results and the individual's years of experience in the industry, with the emphasis on subjective measures such as sustained contributions to the Company, initiative, the effect of the individual on the attitudes and performance of others, and the amount of management required for the individual. No specific weight is given to any specific criterion although leadership and performance are of particular importance. Equity awards are "time based" so that, in order to earn the full award, an employee must remain in our employ for a specified period of time, typically one to three years. The Committee in the past has granted stock options, vesting over a specified period of time, under a Company stock option plan. Since 2005, in part due to stock compensation accounting rules, no stock options have been awarded.

Equity awards are primarily made under the Company's 2011 Equity Incentive Plan (the "2011 Equity Plan"), an omnibus plan designed to provide great flexibility in making a variety of equity or equity-based awards. The 2011 Equity Plan was approved by the Company's shareholders at the 2012 Annual Meeting. The purpose of the 2011 Equity Plan is to attract and retain officers, employees and directors of outstanding competence and to provide additional incentives to achieve long-term corporate objectives by giving them direct or indirect equity interests in the Company.

Because of the differences in tax treatment for employees of our foreign subsidiaries, stock appreciation rights (referred to in our plan document as performance shares) sometimes have been used for long-term compensation purposes for non-US employees, including executive officers.

**Retirement Plan and ESOP.** All of our U.S. executives, along with all of our other U.S. employees, are eligible to participate in the Sun Hydraulics Corporation 401(k) and ESOP Retirement Plan (the "Plan"). Under the tax-qualified Plan, all U.S. based employees are able to contribute the lesser of up to 100% of their annual salary or the limit prescribed by the Internal Revenue Service to the Plan on a before-tax basis. Based on years of service, we match 100% of up to the first 6% of pay that is contributed to the Plan. All employee contributions are fully vested upon contribution. Our matching contributions vest over a five year period – 20% after one year, 40% after two years, 60% after three years, 80% after four years and 100% after five years. Each year, the Board of Directors determines, based on the Company's performance and other factors it deems relevant, whether to make an additional contribution, and if so, in what amount. Since 2004, when an employee stock ownership plan ("ESOP") was incorporated into the Plan, these additional contributions have been made in shares of Company common stock and all eligible employees, regardless of whether they make voluntary contributions to the Plan, participate pro rata, based upon their pay as a percentage of total pay for all U.S. employees.

**Special Shared Distribution.** As part of the Company's culture and as a means of maintaining a highly productive workforce to sustain its growth and profitability, the Company believes it is important to share its success with both employees and shareholders. In furtherance of this philosophy, in May 2008, the Company declared its first "shared distribution," comprised of a special cash dividend to shareholders and concurrent contributions for employees equal to a percentage of their wages. Similar special shared distribution dividends were paid in each subsequent year, based upon prior year financial results, except for 2010, because of the poor economy and its impact on the Company's 2009 financial performance. In February 2017, based on its 2016 revenues and profitability, the Company declared a special cash dividend of \$0.02 per share to shareholders and made contributions for employees worldwide (primarily in the form of Company stock into qualified retirement accounts) equal to 2.0% of their 2016 wages.

**Other Compensation.** We do not use other forms of compensation on a regular basis. Cash and equity bonuses have been used periodically to reward significant and unusual contributions. Because of the broad responsibilities given to employees and the encouragement of individual initiative, we have educational assistance policies for all employees, including executive officers. Educational assistance has been given to executive officers in the past for graduate study leading to masters and other degrees, and more specialized training, including management training at the Harvard Business School. Senior management participates in our benefit plans on the same terms as other employees. These plans include medical and dental insurance, group life insurance, and charitable gift matching. Under our employee stock purchase

plan, approved by the shareholders in 2001, employees including executive officers may purchase shares of Company common stock at a discount of 15% from market price on the first or last day of the quarterly purchase period, whichever is lower, on a tax-favored basis under Section 423 of the Internal Revenue Code.

We provide only limited perquisites and other personal benefits.

**Risks Arising from Compensation Policies and Practices.** We do not frequently use cash bonuses or include short-term incentives in our compensation program. Therefore, the Board has determined that its compensation policy and practices do not motivate imprudent risk-taking or encourage Company leaders to make decisions that might be beneficial in the short term at the expense of creating long-term Company value. The Company's long-term compensation program, as described above, relies on general criteria that are not primarily focused on the achievement of short-term objectives but, rather, what is in the long-term best interest of the Company. The equity awards granted under the program are generally determined towards the end of the year, although for 2016 they were granted at the first compensation committee meeting after the end of the fiscal year. Most awards are "time based" so that, to earn the full award, an employee must remain in our employ for one or more years. The shared distribution dividend introduced in 2008 is entirely discretionary with the Board of Directors and, when declared, is by its nature long-term because it rewards most employees through a contribution into their retirement accounts rather than through cash bonuses.

We had a 89.78% favorable advisory vote on our executive compensation program at our 2016 Annual Meeting. The Committee reviewed these results and intends to continue following the above principles and practices.

#### 2016 Executive Compensation

At its September 2016 meeting, the Compensation Committee reviewed our compensation program and financial performance over the past several years. At the Committee's request, the chief executive officer, who assumed his position in April 2016, presented his views and proposal for a modified approach to long-term compensation to further align the leaders of the Company with its strategic vision and its financial performance. Following discussion with senior operational and human resources leaders, he came to the conclusion that, for many (particularly younger) employees, cash is more meaningful than stock awards due to debt repayment, medical, education and other family obligations. Recognizing this, the chief executive officer proposed a compensation approach to better align compensation with the different segments of the Company's global leadership structure. The size of each group will vary over time, based upon the Company's needs and individual contributions, rather than by reference to any hierarchical structure or organizational chart.

For the key global leadership group, currently less than 10, restricted stock awards, as in the past, will continue to be the primary source of long-term compensation. For the Company's key employees, approximately 30 currently, some discretion is provided to the individual whether to receive an award in stock or in cash. As part of the implementation of the new program, for several dozen upcoming and future leaders, salaries will be increased in an amount equal to 25% of their 2015 long-term compensation awards. This provides an immediate salary increase and also a continuing benefit in that future cost-of-living and performance increases, as well as 401(k) matching contributions and shared dividend distributions, are based on the increased salary amount.

In December 2016, the Committee again met with the chief executive officer to review his recommendations for salary adjustments for the executive officers other than himself and special bonuses for a broader group of key leaders for their hard work, diligence and contributions to the acquisition of Enovation Controls and other strategic initiatives. After discussion with the chief executive officer, the Committee approved a \$30,000 bonus for CFO Tricia L. Fulton and the following salary increases for the executive officers, other than the chief executive officer:

	Salary Increase	Annual Salary
Mark B. Bokorney	\$5,000	\$185,000
Tricia L. Fulton	\$12,000	\$262,000
Tim A. Twitty	\$7,000	\$259,000

At its December 2016 meeting, the Committee also continued its prior discussions regarding the benefits of using restricted stock as part of the incentive and long-term compensation (“LTC”) program. While the benefits include quarterly dividends and long-term gain through share price appreciation, thereby aligning the interests of employees with the Company’s other stakeholders, the use of restricted shares has also presented challenges, including a lack of transparency, up-front tax payment and the inflexibility of a “one size fits all” approach. The Committee discussed further with the chief executive officer his restructured approach for more effective use of equity awards to achieve the Company’s strategic objectives. There was agreement that, as in the past, the key global leaders would be eligible to receive restricted stock grants (“RSGs”) that would be awarded to reflect achievements in meeting the Company’s financial goals and strategic objectives. The chief executive officer emphasized the importance of transparency in the program, including who was eligible to receive RSGs and a process for notification of awards, including the recipients themselves, their supervisors and the entire organization. For the Company’s key employees, a cash option will be offered at a reduced valuation and discounted according to the time of payment. Approximately 30 individuals who received LTC awards in 2015 but would not receive them going forward will receive a one-time cash payment equivalent to approximately 25% of their prior awards. Following the departure of the chief executive officer from the meeting, the Committee discussed further the size of the long-term compensation pool and timing of awards, which would be deferred until early 2017.

At meetings in February and March 2017, the Committee further discussed and, on March 3, 2017, finalized, its incentive and long-term compensation awards, including grants of restricted shares of Company stock to the current executive officers and those who served as executive officers in 2016, as follows:

	Number of Restricted Shares	Value of Restricted Shares
Wolfgang H. Dangel	12,000	\$425,400
Tricia L. Fulton	12,000	\$425,400
Gary A. Gotting	3,000	\$106,350
Craig Roser	4,500	\$159,525
Mark B. Bokorney	3,000	\$106,350
Steven Hancox	300	\$10,635
Tim Twitty	—	—



The value of the share awards represents the aggregate grant date fair market value of the restricted stock, based on the closing market price as of the date of grant. The shares are subject to divestiture ratably over three years.

#### Tax and Accounting Implications

Section 162(m) of the Internal Revenue Code limits the tax deduction to \$1.0 million for compensation paid to a corporation's key executive officers unless certain requirements are met, including that the compensation qualify as performance-based compensation. While the Compensation Committee may from time to time approve awards which would vest upon the passage of time or other compensation which would not result in qualification of those awards as performance-based compensation, it is not anticipated that compensation realized by any executive officer under any of our plans now in effect will result in a material loss of tax deductions.

#### COMPENSATION COMMITTEE REPORT

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K with management and, based on such review and discussions, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this proxy statement.

#### COMPENSATION COMMITTEE

Christine L. Koski, Chair  
Marc Bertoneche  
Doug Britt  
David N. Wormley

## Summary Compensation Table

The table below summarizes the total compensation paid or earned by each of the named executive officers serving as such for the fiscal years ended December 31, 2016, January 2, 2016, and December 27, 2014. Two of these individuals had employment agreements with the Company. Steven Hancox' agreement, entered into in 1994, set an initial salary, which was adjusted thereafter from time to time by the Company at its discretion. See "UK Employment Agreement" below. The Company entered into an expatriate agreement with Tim A. Twitty in 2014 in connection with his temporary relocation to Asia. See "Expatriate Agreement" below. When setting total compensation for each of the named executive officers, the Compensation Committee reviews the executive's current compensation, including equity and non-equity-based compensation, compensation history, performance and other information it deems relevant.

## SUMMARY COMPENSATION

Name and Principal Position	Year	Salary (\$)	Stock Awards (\$) <sup>(5)</sup>	All Other Compensation (\$) <sup>(6)</sup>	Total (\$)
Wolfgang H. Dangel President and Chief Executive Officer	2016	386,250	331,600	15,050	732,900
	2015	—	—	—	—
	2014	—	—	—	—
Allen J. Carlson <sup>(1)</sup> President and Chief Executive Officer	2016	128,750	—	13,642	142,392
	2015	515,000	—	56,219	571,219
	2014	530,769	607,920	80,583	1,219,272
Tricia L. Fulton Chief Financial Officer	2016	250,923	—	28,275	279,198
	2015	247,692	328,790	35,679	612,161
	2014	246,538	393,360	57,329	697,227
Tim A. Twitty <sup>(2)</sup> Officer	2016	252,539	—	150,563	403,102
	2015	249,692	328,790	349,165	927,647
	2014	248,615	393,360	292,343	934,318
Mark B. Bokorney <sup>(3)</sup> Officer	2016	180,385	—	18,474	198,859
	2015	176,539	179,340	30,708	386,586
	2014	164,615	178,800	32,730	376,145
Steven Hancox <sup>(4)</sup> Officer	2016	146,376	—	63,138	209,514
	2015	209,323	35,868	41,120	286,311



2014	221,595	230,652	61,943	514,190
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(1) Mr. Carlson resigned as an Officer of the Company effective March 31, 2016.

(2) Mr. Twitty resigned as an Officer of the Company effective March 3, 2017.

(3) Mr. Bokorney resigned as an Officer of the Company effective March 3, 2017.

(4) Amounts were paid in pounds sterling, which are converted to U.S. dollars at the average exchange rate. Mr. Hancox resigned as an Officer of Sun Hydraulics Corporation effective October 3, 2016.

(5) Amounts represent the aggregate grant date fair market value of restricted stock, based on the closing market price as of the date of grant.

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(6) All Other Compensation amounts for 2016 are as follows:

Name	Year	Perquisites and Other Personal Benefits (\$)	Company Contributions to Retirement and 401(k) Plans (\$)	Total (\$)
Wolfgang H. Dangel	2016	1,800 (1)	13,250	15,050
Allen J. Carlson	2016	3,342 (1)	10,300	13,642
Tricia L. Fulton	2016	8,202 (1)	20,073	28,275
Tim A. Twitty	2016	131,971 (2)	18,592	150,563
Mark B. Bokorney	2016	4,043 (1)	14,431	18,474
Steven Hancox (3)	2016	43,397 (1)(3)	19,741	63,138

(1) Amounts primarily represent dividends received on unvested shares of restricted stock.

(2) The Company entered into an Expatriate Agreement with Mr. Twitty in connection with his temporary relocation to China that provides for reimbursement of specified expenses and a tax equalization provision intended to minimize the effect of higher foreign income tax rates and leave Mr. Twitty in a net after-tax position substantially equivalent to what he would experience if he was subject only to U.S. Federal income taxes during his overseas assignment. This column includes \$123,769 of reimbursements for Mr. Twitty's family housing and relocation (\$34,235), his 2015 and 2016 tax liability (\$62,835), educational expenses for his minor child and the cost of an annual trip to the US for Mr. Twitty and his family (\$23,672). Also includes \$8,202 in dividends on unvested shares of restricted stock.

(3) Includes \$40,531 related to office buyout costs and \$2,867 in dividends received on unvested shares of restricted stock.

## GRANTS OF PLAN-BASED AWARDS

All Other			
Stock Awards:			
Number of			
Shares of		Grant Date	Fair Value of
Stock or		Stock and Option	
Name	Grant Date	Units (#) <sup>(1)</sup>	Awards (\$)
Wolfgang H. Dangel	April 4, 2016	10,000	331,600
Allen J. Carlson	—	—	—
Tricia L. Fulton	—	—	—

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Tim A. Twitty	—	—	—
Mark B. Bokorney	—	—	—
Steven Hancox	—	—	—

<sup>(1)</sup>Represent the number of restricted shares of stock granted under the 2011 Equity Incentive Plan. The shares vested in December 2016. Dividends were paid on the shares of restricted stock.

## OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

Name	Option Awards				Stock Awards	
	Number of		Number of		Market	
	Securities		Securities		Value of	
	Underlying		Underlying		Shares or	
	Unexercised		Unexercised		Units of	
	Options		Options		Stock That	
	Options		Options		Have Not	
	(#)	(#)	Price	Expiration	Vested	Vested
	Exercisable	Unexercisable	(\$)	Date	(#)	(\$)
Wolfgang H. Dangel	—	—	—		—	—
Allen J. Carlson	—	—	—		—	—
Tricia L. Fulton	—	—	—		11,001	(1) 439,710
Tim A. Twitty	—	—	—		11,001	(1) 439,710
Mark B. Bokorney	—	—	—		5,667	(2) 266,510
Steven Hancox	—	—	—		2,950	(3) 117,912

(1) Awards represent restricted stock that will vest as follows: 3,667 on October 16, 2017, 3,667 on October 22, 2017 and 3,667 on October 22, 2018.

(2) Awards represent restricted stock that will vest as follows: 1,667 on October 16, 2017, 2,000 on October 22, 2017 and 2,000 on October 22, 2018.

(3) Awards represent restricted stock that will vest as follows: 2,150 on October 16, 2017, 400 on October 22, 2017 and 400 on October 22, 2018.

## OPTION EXERCISES AND STOCK VESTED

Name	Option Awards		Stock Awards	
	Number of		Number of	
	Shares	Value	Shares	Value
	Acquired	Realized	Acquired	Realized
	on Exercise	on Exercise	on Vesting	on Vesting
	(#)	(\$)	(#)	(\$)
Wolfgang H. Dangel	—	—	10,000	398,300

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Allen J. Carlson	—	—	16,501	547,668
Tricia L. Fulton	—	—	10,133	302,673
Tim A. Twitty	—	—	10,133	302,673
Mark B. Bokorney	—	—	4,667	139,140
Steven Hancox	—	—	4,700	141,264

Pension Benefits

The Company does not maintain a pension plan for any of its U.S.-based executive officers, other than the Sun Hydraulics Corporation 401(k) and ESOP Retirement Plan. Our former executive officer Steven Hancox maintains his own individual retirement plan under the laws of the United Kingdom, his country of residence. We contribute to such plan each year an amount equal to 12% of Mr. Hancox' base salary, pursuant to the terms of Mr. Hancox' employment agreement. Mr. Hancox resigned as an Officer of Sun Hydraulics Corporation effective October 3, 2016.

#### Nonqualified Deferred Compensation

The Company does not maintain a nonqualified deferred compensation program.

#### UK Employment Agreement

Upon his initial employment in 1994, the Company entered into an employment agreement with our former executive officer Steven Hancox, who resides permanently in the United Kingdom. The agreement set Mr. Hancox' initial salary, which has been adjusted from time to time thereafter. The agreement may be terminated by the Company upon 12 weeks' prior written notice and by Mr. Hancox upon one week's notice.

#### Expatriate Agreement

The Company entered into an expatriate agreement with our former executive officer Tim Twitty in 2014 in connection with his temporary relocation to Asia. Pursuant to that agreement, the Company agreed to pay housing costs and related expenses, expenses incurred in connection with the sale of Mr. Twitty's personal automobile, family health and disability insurance, education expenses for Mr. Twitty's minor son, along with the costs for obtaining visas, work permits and similar required legal documents, and certain moving and transportation and home leave expenses for Mr. Twitty and his family. The agreement also includes a tax equalization provision intended to minimize the effect of higher foreign income tax rates and leave Mr. Twitty in a net after-tax position substantially equivalent to what he would experience were he subject only to U.S. Federal income taxes during this period of his overseas assignment. Mr. Twitty's assignment concluded and the agreement was terminated in 2016.

#### Potential Payments Upon Termination or Change of Control

The Board of Directors approved, and the Company entered into an Executive Continuity Agreement (the "Agreement") with Tricia Fulton, CFO, in December 2009, and with Wolfgang Dangel, President and CEO, in April 2016. The intent of the Agreement is to assure the Company and the executive of continuity of management in the event of any actual or threatened change in control of the Company, by providing for specific benefits to such executives in the event of the termination of their employment, reduction in compensation or other triggering event in connection with a change in control. An Agreement was in effect for Allen J. Carlson until his retirement as CEO in March 2016.

Upon termination of the executive's employment or other triggering event in connection with a change in control, as defined in the Agreement, he or she is entitled to a lump sum payment equal to twice the amount of his or her annual salary at the time of termination, plus the cash value at the time of grant of the executive's current year long-term compensation award; as well as continuing medical, dental, life, disability and hospitalization benefits, at Company expense, for the executive and his or her family as then in effect, for a period of 24 months. The executive also is entitled to immediate vesting of and an extended period of at least one year following termination in which to exercise all unvested and unexercised stock options and immediate vesting and lapse of all forfeiture provisions relating to, and restrictions upon transfer of, all previously issued shares of restricted Company stock.

The following table shows the potential payments upon termination following a change of control for Mr. Dangel and Ms. Fulton, as if termination had occurred on December 31, 2016:

	Wolfgang H. Dangel, President and CEO	Tricia L. Fulton, Chief Financial Officer
Severance Pay (\$)	1,030,000	524,000
Acceleration of Restricted Stock Grants (\$)	—	439,710
Accelerated Stock Option Vesting (\$)	—	—
Welfare Benefits (\$)	26,904	21,689
<b>TOTAL</b>	<b>1,056,904</b>	<b>985,399</b>

Pursuant to the terms of Mr. Hancox' employment agreement, the Company is required to provide 12 weeks' prior written notice of termination of employment. In the event that the Company were to give Mr. Hancox less than 12 weeks' prior written notice, it would likely be required to pay the executive his base salary for 12 weeks after delivery of such notice, which would have been \$33,779 at December 31, 2016.

#### CEO Transition Agreements

In September 2015, the Company announced that Allen J. Carlson would retire as its President and Chief Executive Officer on March 31, 2016, and on March 14, 2016, the Company entered into a one-year transition agreement with Mr. Carlson containing restrictive covenants through completion of his service as a member of the Board of Directors. Under that agreement, Mr. Carlson received monthly compensation of \$43,000 and continuation of insurance coverage under COBRA. On March 14, 2016, Mr. Carlson was awarded a grant of 35,000 restricted shares of the Company's common stock under the 2011 Equity Incentive Plan (the "Equity Plan"), which shares vested on April 1, 2017.

When the Company announced Mr. Carlson's retirement as President and CEO on September 15, 2015, it also announced that it had appointed Wolfgang H. Dangel, who then served as Vice Chairman of the Board of Directors, as Mr. Carlson's successor. The Board set Mr. Dangel's annual salary, beginning on April 1, 2016, initially at \$515,000, the same as his predecessor. Mr. Dangel participates in all Company employee medical, health and benefits plans, employee welfare benefit plans, life insurance, retirement benefit plans, vacation and other fringe benefit plans, and is eligible for long-term compensation awards as determined by the Compensation Committee in accordance with its policies as in effect from time to time. He remains a Director, but after April 1, 2016, no longer earned board fees. In recognition of Mr. Dangel's services to the Company from January 1, 2016, through the effective date of his appointment as President and Chief Executive Officer, the Board of Directors, granted to him on April 4, 2016, 10,000 restricted shares of Company common stock under the Equity Plan, with the restrictions to lapse on the business day following the date of effectiveness of the first general company-wide salary and wage increase announced subsequent to the date of grant. These restrictions on these shares lapsed in December 2016. The Company entered into an Executive Continuity Agreement with Mr. Dangel in April 2016. See "Potential Payments Upon Termination or Change of Control" above.

## DIRECTOR COMPENSATION

Since June 2012, the Company has used shares of its common stock as the sole compensation for members of its Board of Directors. Since 2015, each nonemployee Director is paid an annual retainer of 2,000 shares of Company common stock. The retainer for committee chairs is 1.5 times the regular Director rate and the Board Chair's retainer is 2.25 times the regular Director rate. Each nonemployee Director also receives 250 shares for attendance at each Board meeting and each in-person committee meeting on which he or she serves. No additional compensation is paid for meetings that are held within one day of a Board meeting or for separate meetings of less than four hours duration. The shares of Company common stock are issued pursuant to the Sun Hydraulics Corporation 2012 Nonemployee Director Fees Plan (the "2012 Directors Plan").

The Board believes that compensation of Directors entirely in Company common stock, with a specified number of shares rather than calculating the number based upon a stated dollar amount, aligns the interests of Directors with those of the shareholders in the long-term growth and profitability of the Company. The Compensation Committee reviews the Director compensation program and adjusts compensation periodically so that it remains fair and competitive. As with executive compensation, industry data is used periodically as reference points. Directors also are reimbursed for their expenses incurred in connection with their attendance at such meetings. Directors who are employees of the Company do not receive any additional compensation for their service as Directors.

## 2016 Director Compensation

Name	Fees Earned or		All Other	Total
	Paid in Cash	Stock Awards	Compensation	
	(\$)	(\$) <sup>(1)</sup>	(\$)	(\$)
Marc Bertoneche	—	135,600	—	135,600
Doug Britt <sup>(2)</sup>	—	—	—	—
Wolfgang H. Dangel <sup>(3)</sup>	—	33,910	—	33,910
David W. Grzelak	—	101,700	—	101,700
Christine L. Koski	—	135,600	—	135,600
Philippe Lemaitre	—	186,400	—	186,400
Alexander Schuetz	—	101,700	—	101,700
David N. Wormley	—	135,600	—	135,600

<sup>(1)</sup>The stock awards represent aggregate grant date fair market value, based on the average of the high and low market price as of the date of grant. The common stock was issued during 2016 for retainers and attendance at Board meetings. Please see the Security Ownership of Certain Beneficial Owners and Management for the number of shares beneficially owned by each of the Directors.

<sup>(2)</sup>Mr. Britt appointed as a Director on December 11, 2016, by the Company's Board of Directors, but he did not participate in a Board meeting or earn any fees in fiscal year 2016.

<sup>(3)</sup>Mr. Dangel was appointed President and CEO of the Company as of April 1, 2016. Although he remains a member of the Board of Directors, as President and CEO he no longer receives any stock awards or other fees as a Director of the Company.





## Equity Compensation Plan Information

The following table summarizes the Company's equity compensation plan information as of December 31, 2016. Information is included for both equity compensation plans approved by the Company's shareholders and equity compensation plans not approved by the shareholders.

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants, and rights	Weighted-average exercise price of outstanding options, warrants, and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
(a)	(b)	(c)	
Equity compensation plans approved by			
shareholders	—	—	2,412,020
Equity compensation plans not approved by			
shareholders	—	—	—
Total	—	—	2,412,020

Equity compensation plans approved by the shareholders include the Employee Stock Purchase Plan, the 2006 Stock Option Plan, the 2011 Equity Incentive Plan and the 2012 Nonemployee Director Fees Plan.

The number of securities available for future issuance in column (c) were: 1,125,000 shares under the 2006 Stock Option Plan, 530,752 shares under the Employee Stock Purchase Plan, 54,632 shares under the Sun Hydraulics Limited Share Incentive Plan, 526,762 shares under the 2011 Equity Incentive Plan, and 174,874 shares under the 2012 Nonemployee Director Fees Plan.

## PROPOSAL 2

## RATIFICATION OF THE APPOINTMENT OF INDEPENDENT

## REGISTERED PUBLIC ACCOUNTING FIRM

In March 2015, the Audit Committee engaged Mayer Hoffman McCann P.C. to report upon the financial statements of the Company for the year ended January 2, 2016. In March 2016, the Audit Committee engaged Grant Thornton to report upon the financial statements of the Company for the year ended December 31, 2016. Those audited financial statements are provided in conjunction with the Company's annual report to shareholders that has been provided to the shareholders along with this Proxy Statement.

## Fees

The Company incurred the following fees to Grant Thornton LLP, Mayer Hoffman McCann P.C. and other auditors during fiscal years 2016 and 2015.

	2016	2015
<b>Audit Fees:</b>		
Grant Thornton (principal auditor)	\$1,024,643	\$—
Mayer Hoffman McCann (principal auditor)	21,159	356,000
Other Auditors	—	183,000
<b>Subtotal</b>	<b>1,045,802</b>	<b>539,000</b>
<b>Audit Related Fees</b>	<b>35,442</b>	<b>20,000</b>
<b>Tax Fees</b>	<b>—</b>	<b>—</b>
<b>All Other Fees</b>	<b>482,200</b>	<b>—</b>

Audit Fees were for professional services rendered for the audit of the Company's consolidated financial statements included in Form 10-K, reviews of the consolidated financial statements included in Forms 10-Q, and statutory audits of the Company's wholly-owned subsidiaries: Sun Hydraulik Holdings Limited, Sun Hydraulics Limited, Sun Hydraulik GmbH, and Sun Hydraulics Korea Corporation for the fiscal years 2016 and 2015, respectively. The fees incurred by Grant Thornton also include an audit of the abbreviated financial statements of the power controls and vehicle technologies lines of business of Enovation Controls, LLC included in the Form 8 K/A filed by the Company on February 17, 2017.

Audit Related Fees were for expenses incurred in connection with the audit of the Company's consolidated financial statements.

All Other Fees were incurred for due diligence services provided by Grant Thornton's transaction advisory services group in connection with the Company's acquisition activity.

The Audit Committee has not adopted any pre-approval policies and approves all engagements with the Company's auditors prior to the performance of services by them.

Mayer Hoffman McCann P.C. leases substantially all its personnel, who work under the control of Mayer Hoffman McCann P.C. shareholders, from wholly-owned subsidiaries of CBIZ, Inc., in an alternative practice structure.

A representative from Grant Thornton will be in attendance at the Meeting, will have the opportunity to make a statement if desired, and will be available to respond to any questions from those in attendance.

The Audit Committee has appointed Grant Thornton to report upon the financial statements of the Company for the year ended December 30, 2017, and the effectiveness of the Company's internal control over financial reporting as of December 30, 2017. Although the Company is not required to seek shareholder ratification of this appointment by the Company's Bylaws or otherwise, the Board believes it to be sound corporate governance to do so. If the shareholders do not ratify this appointment, the Audit Committee will reconsider the appointment and consider that vote in the review of its future selection of accountants, but will not be required to engage a different auditing firm.

The Board of Directors, as a matter of good corporate practice, has elected to seek ratification of Grant Thornton as the independent registered public accounting firm to report upon the financial statements of the Company for the year ended December 30, 2017, and recommends that you vote "FOR" Proposal 2.

### PROPOSAL 3

#### ADVISORY VOTE ON EXECUTIVE COMPENSATION

At our 2016 Annual Meeting of Shareholders, as provided in the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (“Dodd-Frank Act”) and as required by Section 14A of the Securities Exchange Act of 1934, as amended, we provided our shareholders the opportunity to advise our Compensation Committee and Board of Directors regarding the compensation of our named executive officers as described in our proxy statement pursuant to the compensation disclosure rules of the Securities and Exchange Commission (“say on pay”).

As set forth in detail under the heading “Executive Compensation – Compensation Discussion and Analysis,” the goals of our compensation program are to attract, retain, motivate and reward highly qualified leadership personnel and to provide them with attractive long-term career opportunities. Our compensation philosophy is to provide executives with a competitive total compensation package which motivates superior job performance, the achievement of our business objectives, and the enhancement of shareholder value. Rather than basing compensation on a series of specific performance objectives, we encourage initiative, teamwork and innovation, and each executive is enabled to use his or her abilities and particular area of responsibility to strengthen our overall performance. Our general approach to compensating executive officers is to pay cash salaries which generally are competitive within ranges of salaries paid to executives of other manufacturing companies, particularly those of similar size and those in our geographic areas. Our Compensation Committee sets overall compensation at a level it believes to be fair, based upon a subjective analysis of the individual executive’s experience and past and potential contributions to us. Please read the “Compensation Discussion and Analysis” beginning on page 13 for a detailed description and analysis of our executive compensation programs, including information about the fiscal year 2016 compensation of our named executive officers.

The advisory “say on pay” vote is not intended to address any specific item of compensation, but rather the overall compensation of our named executive officers and the philosophy, policies and practices described in this Proxy Statement. We will ask our shareholders to vote “FOR” the following resolution at the Meeting:

“RESOLVED, that the shareholders approve, on an advisory basis, the compensation of the Company’s named executive officers, as disclosed in the Compensation Discussion and Analysis section, the tabular disclosure regarding such compensation and the accompanying narrative disclosure set forth in the Company’s 2017 Proxy Statement.”

This say-on-pay vote is advisory, and therefore not binding on the Company, the Compensation Committee or our Board. However, we value the opinions of our shareholders and our Board and Compensation Committee will consider the outcome of the vote when making future executive compensation decisions.

The Board of Directors recommends that you vote “FOR” Proposal 3, the approval, on an advisory basis, of the compensation of our named executive officers as disclosed in this Proxy Statement.

#### PROPOSAL 4

#### ADVISORY VOTE ON THE FREQUENCY OF

#### AN ADVISORY VOTE ON EXECUTIVE COMPENSATION

The Dodd-Frank Act also enables our shareholders to indicate how frequently we should seek an advisory vote on the compensation of our named executive officers, as disclosed pursuant to the SEC's compensation disclosure rules. Accordingly, at our 2011 Annual Meeting, we asked our shareholders to indicate how frequently we should seek a "say on pay" advisory vote. The shareholders were able to indicate whether they would prefer an advisory vote on named executive officer compensation once every one, two, or three years. At the 2011 Meeting, 93.55% of shareholders voting endorsed our Board's recommendation that the advisory "say on pay" vote be held every year.

It has been six years since we sought a "say on frequency" vote from our shareholders. As required by the Dodd-Frank Act, we are again providing you, on this Proposal 4, the opportunity to indicate whether you would prefer an advisory vote on named executive officer compensation once every one, two, or three years. After careful consideration of this proposal, our Board has determined that an advisory vote on executive compensation that occurs every year is the most appropriate alternative for us, and, therefore, our Board recommends that you vote for a one-year interval for the advisory vote on our named executive officers' compensation.

In formulating its recommendation, our Board considered that an annual advisory vote on named executive officer compensation will allow our shareholders to provide us with their direct and timely input on our compensation philosophy, policies and practices as disclosed in the proxy statement every year.

You may cast your vote on your preferred voting frequency by choosing the option of one year, two years, three years or abstain from voting when you vote in response to the resolution set forth below.

"RESOLVED, that the option of voting every one year, two years, or three years that receives the highest number of votes cast for this resolution will be determined to be the preferred frequency with which the Company is to hold a shareholder vote to approve the compensation of the named executive officers."

The option of one year, two years or three years that receives the highest number of votes cast by shareholders will be the frequency for the advisory vote on named executive officer compensation that has been selected by shareholders. However, because this vote is advisory and not binding on the Company, the Board may decide that it is in the best interests of the Company and our shareholders to hold an advisory vote on executive compensation more or less frequently than the option approved by our shareholders.

The Board of Directors unanimously recommends that you vote for "Every 1 Year" in Proposal 4 as the frequency with which shareholders are provided an advisory vote on executive compensation.

#### OTHER BUSINESS

Management of the Company does not know of any other business that may be presented at the Meeting. If any matter not described herein should be presented for shareholder action at the Meeting, the persons named in the enclosed Proxy will vote the shares represented thereby in accordance with their best judgment.



REQUIREMENTS, INCLUDING DEADLINES, FOR SUBMISSION OF PROXY PROPOSALS AND  
NOMINATION OF DIRECTORS BY SHAREHOLDERS

FOR THE 2018 PROXY STATEMENT

AND PRESENTATION AT THE 2018 ANNUAL MEETING

Our Bylaws govern the submission of nominations for Director or other business proposals that a shareholder wishes to have considered at a meeting of shareholders, but which are not included in the Company's proxy statement for that meeting. Under our Bylaws, if a shareholder, at our 2018 Annual Meeting of Shareholders ("2018 Annual Meeting"), wants to:

(i) nominate a person to stand for election as a Director, the nomination must be received at our principal executive offices no earlier than January 1, 2018, and no later than January 31, 2018. Therefore, notice to the Company of a shareholder nomination submitted before January 1, 2018, or after January 31, 2018, will be considered untimely and will not be considered at the 2018 Annual Meeting.

(ii) introduce an item of business, the proposal must be received at our principal executive offices no later than December 25, 2017. Accordingly, notice to the Company of a shareholder proposal received after December 25, 2017, will be considered untimely and will not be considered at the 2018 Annual Meeting.

These advance notice provisions are in addition to, and separate from, the SEC requirements that a shareholder must meet to have a proposal included in our proxy statement and form of proxy for presentation at our annual meetings. Under SEC Rule 14a-8, if a shareholder wants to nominate a person to stand for election as a Director or introduce an item of business at our 2018 Annual Meeting and have us include such nomination or proposal in our proxy statement and form of proxy for presentation at the 2018 Annual Meeting, the nomination or proposal must be received at our principal executive offices no later than December 25, 2017.

Under our Bylaws, a shareholder must follow certain procedures to nominate persons for election as Directors or to introduce an item of business at an Annual Meeting of Shareholders. The procedures for nominating a Director are described above in "Independence and Committees of the Board of Directors" under the headings "Governance and Nominating Committee" and "Shareholder recommendations for Nomination as a Director."

The procedures for introducing an item of business at the 2018 Annual Meeting require providing a written notice of each proposed item of business that must include:

- (i) a brief description of the business desired to be brought before the meeting,
- (ii) the reasons for conducting such business at the meeting,
- (iii) the name and record address of the shareholder proposing such business,
- (iv) the number of shares of stock owned beneficially or of record by the shareholder,
- (v) a description of all arrangements or understandings between the shareholder and any other person or persons (including their names) in connection with the proposal of such business by the shareholder and any material interest of the shareholder in such business, and
- (vi) a representation that the shareholder intends to appear in person or by proxy to bring such business before the meeting.

Shareholder proposals and nominations for Director should be submitted in writing to Gregory C. Yadley, Secretary, at 1500 West University Parkway, Sarasota, Florida 34243. A copy of the Company's Bylaws will be provided upon request in writing to the Secretary.

By Order of the Board of Directors,  
GREGORY C. YADLEY  
Secretary

Dated: April 24, 2017

hydraulics CORPORATION SUN HYDRAULICS CORPORATION 1500 WEST UNIVERSITY PKWY.  
SARASOTA, FL 34243-2290 ATTN: INVESTOR RELATIONS VOTE BY INTERNET - [www.proxyvote.com](http://www.proxyvote.com) Use  
the Internet to transmit your voting instructions and for electronic delivery of information up until 11:59 P.M. Eastern  
Time on June 4, 2017. Have your proxy card in hand when you access the web site and follow the instructions to  
obtain your records and to create an electronic voting instruction form. **ELECTRONIC DELIVERY OF FUTURE  
PROXY MATERIALS** If you would like to reduce the costs incurred by our company in mailing proxy materials, you  
can consent to receiving all future proxy statements, proxy cards and annual reports electronically via e-mail or the  
Internet. To sign up for electronic delivery, please follow the instructions above to vote using the Internet and, when  
prompted, indicate that you agree to receive or access proxy materials electronically in future years. **VOTE BY  
PHONE** - 1-800-690-6903 Use any touch-tone telephone to transmit your voting instructions up until 11:59 P.M.  
Eastern Time on June 4, 2017. Have your proxy card in hand when you call and then follow the instructions. **VOTE  
BY MAIL** Mark, sign and date your proxy card and return it in the postage-paid envelope we have provided or return  
it to Vote Processing, c/o Broadridge, 51 Mercedes Way, Edgewood, NY 11717. **TO VOTE, MARK BLOCKS  
BELOW IN BLUE OR BLACK INK AS FOLLOWS: KEEP THIS PORTION FOR YOUR RECORDS DETACH  
AND RETURN THIS PORTION ONLY THIS PROXY CARD IS VALID ONLY WHEN SIGNED AND DATED.**  
For Withhold For All All All Except To withhold authority to vote for any individual nominee(s), mark "For All  
Except" and write the number(s) of the nominee(s) on the line below. The Board of Directors recommends you vote  
FOR the following: 1. Election of Directors Nominees 01 Christine L. Koski 02 Alexander Schuetz 03 Douglas M.  
Britt The Board of Directors recommends you vote FOR proposals 2 and 3. For Against Abstain 2 Ratification of  
Appointment of Grant Thornton LLP as the Independent Registered Public Accounting Firm of the Corporation. 3  
Advisory Vote on Executive Compensation. The Board of Directors recommends you vote 1 YEAR on the following  
proposal: 1 year 2 years 3 years Abstain 4 Advisory Vote on the frequency of Advisory Vote on Executive  
Compensation. NOTE: In their discretion the proxies are authorized to vote upon such other business as may properly  
come before the meeting. Please sign exactly as your name(s) appear(s) hereon. When signing as attorney, executor,  
administrator, or other fiduciary, please give full title as such. Joint owners should each sign personally. All holders  
must sign. If a corporation or partnership, please sign in full corporate or partnership name, by authorized officer.  
Signature [PLEASE SIGN WITHIN BOX] Date Signature (Joint Owners) Date 0000332462\_1 R1.0.1.15

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Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting: The Annual Report, Notice & Proxy Statement, Financial Summary is/are available at [www.proxyvote.com](http://www.proxyvote.com) SUN HYDRAULICS CORPORATION Annual Meeting of Shareholders June 5, 2017 10:00 AM This proxy is solicited by the Board of Directors The undersigned, having received notice of the Annual Meeting of Shareholders of Sun Hydraulics Corporation to be held at 10:00 a.m., Eastern Daylight Time, on Monday, June 5, 2017, hereby designates and appoints Philippe Lemaitre and Christine L. Koski, and each of them with authority to act without the other, as attorneys and proxies for the undersigned, with full power of substitution, to vote all shares of Common Stock, par value \$.001 per share, of Sun Hydraulics Corporation that the undersigned is entitled to vote at such Meeting or at any adjournment thereof, with all the powers the undersigned would possess if personally present, such proxies being directed to vote as specified below and in their discretion on any other business that may properly come before the Meeting. This proxy when properly executed will be voted in the manner directed herein by the undersigned shareholder. If no direction is made, this proxy will be voted FOR the election of each of the Directors listed, and FOR Proposals 2, 3, and ONE YEAR for Proposal 4. Continued and to be signed on reverse side 0000332462\_2 R1.0.1.15