



INVESTMENT LETTER

SUN HYDRAULICS CORPORATION (NASDAQ: SNHY)



Closing price as of November 26, 2008 (the date of the INVESTMENT LETTER): \$15.13

A money manager attempts multitasking at the **Lone Star Steakhouse & Saloon** as he studies **Sun Hydraulics (NASDAQ:SNHY)** and is reminded why owning a piece of **Sun Hydraulics** gives him a big lift.

Sunday, November 15, 2008, Tulsa, Oklahoma

I was sitting at my favorite booth at the **Lone Star Steakhouse & Saloon** on fifty first Street in Tulsa, drinking coffee, munching peanuts, and keeping my eyes and ears open so I could get a taste and a feel for the ambience and the style of a restaurant that I frequent.

I was waiting for my friend, **Gary Garner**, to join me. It was 11:35 A.M. and **Gary** was not due until noon so I had ample time to relax, look around the restaurant, listen to the plaintive sounds of the country and western music, take note of the cacti set above the ledges of the dining tables, observe the Texas license plates hanging from the walls, and to study the murals of mean-looking longhorns staring with menace at cowboys who seemed to be composed even in the midst of **steerious** danger. I also had time to look at one of the restaurant's three televisions, all of which were silently broadcasting the day's first round of the American version of the gladiator wars: the National Football League games.

And without being obvious I had a few moments to study my fellow diners, to guess what they did for a living, the hobbies they enjoyed, and how often they came to the **Lone Star Steakhouse & Saloon**.

My agenda was to study what was going on at **Lone Star**, but more importantly to read the 2007 10-K that **Sun Hydraulics (NASDAQ:SNHY)** had filed with the Securities and Exchange Commission in Washington on March 12, 2008.

The 10-K, the document that every publicly traded company must file every year with the Securities and Exchange Commission, contains a wealth of information: a summary of the company's business, five years of financials: balance sheets, income statements by quarter and by year and a cash flow analysis; discussion of options (granted, forfeited, and exercised); an analysis of pension obligations; and an exhaustive discussion of every conceivable significant risk that the company faces.

The 10-K document also includes a report by the independent registered certified public accounting firm indicating whether the CPA firm found the financials that it had audited satisfactory in what the accounting profession terms "...material respects." (What material means is enough of a subject for another letter.)

Looking up from the 10-K, I recalled a visit to the [Lone Star](#) web site, where I had discovered the meaning of what the company calls the [Lone Star](#) difference or what I call the [Lone Star](#) state of mind.

The [Lone Star](#) state of mind, I learned, has nothing to do with reaching a state of tranquility, enjoying intense intellectual absorption, or with being at peace with oneself. The [Lone Star](#) state of mind has little to do with karma or the wonderful feeling you get after exercise or yoga.

The [Lone Star](#) state of mind, instead, is an appetite and a stomach, primed, conditioned, and trained to consume, in one meal, an obscene number of calories, a number of calories that would even challenge a two hundred and ninety pound [Oklahoma Sooner](#) lineman, at least in one sitting. Understanding the [Lone Star](#) mind depends on understanding the [Lone Star](#) difference.

To understand the [Lone Star](#) difference and to consider the company's strategy to encourage gross consumption, let's look at the [Lone Star](#) web site:

[Lone Star](#) restaurants embrace an authentic roadhouse theme and serve mesquite-grilled steaks, which are hand-cut fresh daily at each restaurant. The menu includes "Texas-sized" portions of food, and the meal starts with a Texas Rose (a hand-battered, whole cut onion with special seasoned sauce, enough for two); signature lettuce wedge and chicken pot pie soup. (*[Lone Star web site](#)*)

Now, you are finished with the appetizers and you are ready to see whether you really are a man and can continue to consume calories at a feverish pace. So, it is now time for the real business at hand:

A hand-cut mesquite grilled steak and a Texas side, that is: your choice of baked potato, twice baked potato, homemade chili, or some steak fries. (*[Lone Star web site](#)*)

Let us assume that you had a one hour rest period after the above main course. You should now be ready to enjoy the Homemade Apple Cobbler topped with vanilla bean ice cream, a dish that the [Lone Star](#) claims is better than what Mom makes. (Obviously the menu writers at [Lone Star](#) did not know my mom who would have severely reprimanded me for even considering a trip to [Lone Star](#).)

Hunger was now interfering with my concentration and I was now more interested in steak than in the 10-K document. Nevertheless, I plodded on with the 10-K, reminding myself that such reading was requisite for a thorough understanding of a company and as important as the pre-flight check that pilots go through before take-off.

A few moments later, I noticed the hostess escorting three burly men, each wearing a cowboy hat, to the table in front of me. Two of these men sat down with their backs to me, and the other one sat facing me.

As soon as they sat down they engaged in animated, earnest conversation about the college football games which they had evidently watched the day before, dissecting the performances of the coaches and the players as thoroughly as [The New York Times](#) theatre critics, Ben Brantley and Charles Isherwood, would critique the performance of the key actors in a Broadway musical, or as meticulously as Joe Morgenstern of [The Wall Street Journal](#) would critique the latest movie release.

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