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SUN HYDRAULICS CORPORATION (NASDAQ: SNHY)

SECOND INVESTMENT LETTER

Fred Russell visits **Sun Hydraulics** in **Sarasota, Florida** and then spends two days in **Key West, Florida** visiting **Fast Buck Freddie's Island Department Store**, observing **Carnival** cruise ships docked at **Front Street**, and enjoying the pleasure of a warm climate in winter.

Key West, Florida, Friday, December 12, 2008

I was about to do something that I had promised myself that I would never do again: fly commercial or use public aviation on a Friday. Yet here I was, breaking a promise to myself, as I sat in the back seat of **Bill's Taxi** headed toward the **Key West Airport**, as **Bill** navigated the narrow downtown streets of **Key West**, avoiding minicabs and tourists on bikes and mopeds, tourists dressed in loud outfits with marlin, sharks, and palm trees haphazardly woven into the fabric of their shirts.

Bill and I had begun our trip just ten minutes before after I had checked out of my hotel and after he had helped me load my luggage into the back of his taxi.

Just as he pushed down the flag to start the meter, I asked him, "How much would it cost to stop and wait for me at **Banana Republic** while I ran into the store and did some shopping?" (**Banana Republic** was only four tenths of a mile from the **Ocean Key Resort**, so I thought a quick stop on the way to the airport, especially since today was sale day at the store, would be a smart move.)

Bill looked in the mirror, and with a satisfied smile said that "...the coefficient was four and a half minutes."

Bill's comments on coefficient intrigued but confused me. I thought that I understood the concept of coefficient, even if my grasp was primitive, tentative and no deeper than the outline of the subject that a SparkChart offers. (A SparkChart offers convenient summaries of many subjects, from world geography, the mechanics of e-mail, to accounting, calculus, finance, statistics, and other subjects. A SparkChart is similar to CliffsNotes: both offer quick and easy views of popular subjects to a student who is either out of time or who has not yet cracked the textbook, and who often does not plan to do so.)

As I studied **Bill** I had a bittersweet flashback to my days as a student in calculus, a subject that had discouraged me as soon as I had opened the textbook. I remembered being thankful that the adjunct professor at **Washington University**, where I was suffering through calculus in the MBA program, was recently divorced and apparently thought that I had some potential and some charm, as she would spend countless time in her office reviewing the subject's most elementary concepts for me.

As I silently wrestled with the meaning of coefficient I must have looked puzzled, as **Bill**, studying me in the rear view mirror for a couple of seconds, suddenly turned around and corrected himself. It was not the concept of coefficient but the concept of breakeven, he said, that counted in figuring out whether to call another taxi or to leave my bags in the trunk of his taxi, with the meter running, while I searched for some shirts on sale at **Banana Republic**.

He continued by saying that, in [Key West](#), the taxi fare increases by two dollars and seventy five cents every four and a half minutes.

If I anticipated shopping at [Banana Republic](#) for more than four and a half minutes, and letting his meter record more than two dollars and seventy five cents in additional fare, I ought, [Bill](#) said, to pay for the fare when we reached the store, and then call another cab when I was through with shopping. Obvious problems, nevertheless, such as the time it would take to get another taxi, existed with [Bill's](#) answer to the problem.

Anyway, I thought, [Bill](#) was entertaining and pleasant. So why would I want to switch drivers?

As I digested [Bill's](#) logic, the taxi moved slowly down [Duval Street](#), passing such landmarks as [Fast Buck Freddie's Island Department Store](#), the only store known to have a "[Tropical Trash](#)" department; the popular gathering place called [Bad Ass Coffee](#), which claims to give its clientele a taste of the laid back "[live aloha](#)" lifestyle; and many t-shirt shops. It was just past ten o'clock in the morning but the bars were open and the musicians in the bars were already at work.

We shortly reached [Banana Republic](#). I asked [Bill](#) to wait for me and I rushed into the store and asked the salesman to show me the rack for my size in dress shirts. I grabbed two shirts, surrendered my plastic and returned to the cab, very close to the breakeven point of four and a half minutes.

From [Banana Republic](#) the taxi headed out to the airport, and after three miles we passed several marinas with boats stacked one on top of each other, with the boats loaded and unloaded with a [Sun Hydraulics](#) screw-in cartridge valve probably playing an important part in an hydraulic system that raised and lowered, as well as moved sideways, the heavy boats that we saw. (Of course, the boats were not literally stacked one upon the other.)

As we pulled up to the airport terminal we saw a cab, painted pink, with the words [Maxi Taxi](#) on its rear end, and with a sign which proclaimed that if the tourist were looking for the best taxi in [Key West](#), he ought to [Think Pink](#). (The pink taxi, I thought, reflected the artistic culture of [Key West](#), as did the brightly colored interior of a restored historic 1800's clapboard building now acting as [Sarabeth's](#), a charming restaurant where [Matthew Helmerich](#) and I had had breakfast the day before.)

Almost everything in [Key West](#) in fact had an imaginative surprising flair to it. When I arrived at the airport the first night, the taxi driver and I got into an animated discussion about real estate in Florida, and soon he volunteered that after he got his MBA at the University of Virginia, he became a mortgage banker "You remember mortgages don't you?" he said. I answered, "As a matter of fact I do, but many people I know have them, and wish they had never seen them including some investors who have bought the securitized or packaged version of mortgages, only to find out that they didn't understand what they had bought."

An hour later after I had left the hotel and after I had run the Transportation Security Administration gauntlet at the [Key West airport](#), I was on a Delta flight to Atlanta, and I had some time to reflect about the busy week I had enjoyed with two pleasant days in [Key West](#) preceded by two days in [Sarasota, Florida](#).

A Meeting with Senior Executives of Sun Hydraulics in Sarasota, Florida on Tuesday, December 9 and Wednesday, December 10

Our clients, our employee benefit plans, and I have a significant percentage interest in [Sun](#), a position of [137,798](#) shares or 0.83% of the 16.6 million outstanding shares, so I wanted to learn more about the company.

To read the full Investment Letter, please email us at contact@ferimc.com or call (918) 743-5959. You could also fill out your contact information at <http://www.ferimc.com/contact.html>, we will contact you as soon as possible.