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Sun Distributors & Customers,

Coming out of the economic downturn of mid-2008 thru mid-2009, there is an expectation of level product pricing, or perhaps even price reductions. The fact is as we come out of the downturn, increased demand for goods and materials causes raw material and intermediate product prices to rise. Other overhead costs, such as insurance has continued to rise even during the downturn. And we all know that healthcare costs continue to escalate at double digit levels.

Sun Hydraulics is experiencing this escalation, as are many other industries, and the outlook is for costs to continue to ratchet up over the next twelve-to-eighteen months. These cost increases have roots in rising demand, government regulation adjustments, and central fiscal policy changes. Sun uses large quantities of finished steel and alloy bars, copper, aluminum, paper products, electronic components and elastomers, which are increasing in price from 3% to 10%. Transportation prices are increasing to cover new government regulation requiring additional security inspection of shipments. BLS PPI has risen for two straight quarters, and is forecasted to continue to rise through all of 2010 and 2011.

Sun continues to invest in new capital equipment to improve our internal efficiency and productivity to help offset rising costs. We continue to work on Sun operations, and with all our suppliers to find more efficient and less costly ways of doing business. But the reality is our costs are rising at a faster pace than productivity can offset.

Sun is committed to supply best-in-class quality, performance, and availability. We will not lessen our costs by sacrificing the quality, reliability or availability of our products; our commitment is to provide the very finest products and services to our customers. Sun continues to ship all our products reliably to our customer request dates.

As noted above, efficiency and productivity gains have only offset some of the cost increases experienced, and Sun must raise prices effective July 1, 2010.

Sincerely,

Bill Zoller
Sun Hydraulics Marketing

Craig Roser
Sun Hydraulics Marketing