

SUNAIR ELECTRONICS INC

Form 8-K/A

August 19, 2005

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 8-K/A  
CURRENT REPORT**

**Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

**Date of Report (Date of earliest event reported) June 7, 2005**

**SUNAIR ELECTRONICS, INC.**

**(Exact name of registrant as specified in its charter)**

**Florida**

**1-04334**

**59-0780772**

(State or Other Jurisdiction  
of Incorporation)

(Commission  
File Number)

(I.R.S. Employer  
Identification No.)

**3005 Southwest Third Avenue**

**Fort Lauderdale, Florida 33315**

**(Address of Principal Executive Office) (Zip Code)**

**(954) 525-1505**

**(Registrant's telephone number, including area code)**

**Not Applicable**

**(Former Name or Former Address, If Changed Since Last Report.)**

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
  - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
  - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2 (b))
  - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4 (c))
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### **Section 1 Registrant's Business and Operations**

#### **Item 1.01. Entry into a Material Definitive Agreement.**

This Current Report on Form 8-K/A amends the Form 8-K filed with the Commission on June 10, 2005, relating to the acquisition by Sunair Electronics, Inc. (the Company), through its subsidiary, Sunair Southeast Pest Holdings, Inc. (Sunair Southeast), of 100% of the issued and outstanding capital stock of Middleton Pest Control, Inc., a Florida corporation (Middleton) for an aggregate purchase price of: (i) \$35.0 million in cash; (ii) \$5.0 million in the form of a subordinated promissory note; and (iii) 1,084,599 shares of the Company's common stock, in accordance with a stock purchase agreement, dated June 7, 2005, among Sunair Southeast and the selling shareholders of Middleton.

Following the closing of the Middleton acquisition, the Company and the selling shareholders of Middleton determined that the final number of shares of the Company's common stock to be issued to the selling shareholders of Middleton should be 1,028,807 shares pursuant to the stock purchase agreement, not 1,084,599 shares as previously contemplated. Accordingly, new stock certificates representing an aggregate amount of 1,028,807 shares of the Company's common stock were issued to the selling shareholders of Middleton, and the original stock certificates representing an aggregate of 1,084,599 shares of the Company's common stock were cancelled. The newly issued stock certificates bear the restrictive legend contained on the original stock certificates, and are dated June 7, 2005, the date of the closing of the stock purchase agreement.

### **Section 9 Financial Statements and Exhibits**

#### **Item 9.01 Financial Statements and Exhibits.**

This Current Report on Form 8-K/A contains the information required by Item 9.01 of Form 8-K relating to the Middleton acquisition.

(a) Financial Statements of Business Acquired.

The financial statements of Middleton are attached as Exhibit A to this Current Report on Form 8-K/A.

(b) Pro Forma Financial Information.

The pro forma financial information relating to the Middleton acquisition are attached as Exhibit B to this Current Report on Form 8-K/A.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, hereunto duly authorized.

**SUNAIR ELECTRONICS, INC.**

Date: August 19, 2005

By: /s/ SYNNOTT B. DURHAM  
Synnott B. Durham  
Chief Financial Officer

TABLE OF CONTENTS

UNAUDITED FINANCIAL STATEMENTS

|  |   |
|--|---|
| Comparative Balance Sheet                              | 1 |
| Comparative Statements of Income and Retained Earnings | 2 |
| Comparative Statements of Cash Flows                   | 3 |

AUDITED FINANCIAL STATEMENTS

|   |     |
|---|-----|
| Independent Auditor's Report                  | 4   |
| Comparative Balance Sheet                     | 5-6 |
| Comparative Statement of Income               | 7   |
| Comparative Statement of Shareholders' Equity | 8   |
| Comparative Statement of Cash Flows           | 9   |
| Notes to Financial Statements                 | 10  |

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**MIDDLETON PEST CONTROL, INC.**  
**COMPARATIVE BALANCE SHEET**  
**MARCH 31, 2005**  
(Unaudited)

|  | <b>March 31,<br/>2005</b> | <b>December<br/>31,<br/>2004</b> |
|--|---------------------------|----------------------------------|
| <b>ASSETS</b>  |                           |                                  |
| Current Assets:  |                           |                                  |
| Cash   | \$ 1,769,171              | \$ 1,245,777                     |
| Accounts receivable  | 1,522,971                 | 1,333,943                        |
| Inventory  | 467,235                   | 492,706                          |
| Prepaid expenses and other current assets  | 626,211                   | 389,104                          |
| <b>Total current assets</b>  | <b>4,385,588</b>          | <b>3,461,530</b>                 |
| Property and equipment (net of accumulated depreciation of \$3,680,435)                          | 1,573,705                 | 1,545,621                        |
| Other Assets   | 63,582                    | 59,096                           |
| <b>Total Assets</b>  | <b>\$ 6,022,875</b>       | <b>\$ 5,066,247</b>              |
| <br><b>LIABILITIES AND STOCKHOLDER S EQUITY</b>  |                           |                                  |
| Current Liabilities  |                           |                                  |
| Accounts payable   | \$ 839,942                | \$ 412,064                       |
| Accrued expenses and other current liabilities   | 807,848                   | 694,601                          |
| Deferred revenues  |                           |                                  |
| Customer deposits  | 1,481,435                 | 1,338,229                        |
| Current portion of long-term debt  | 99,232                    | 109,251                          |
| <b>Total current liabilities</b>   | <b>3,228,457</b>          | <b>2,554,145</b>                 |
| Long-Term Debt   |                           |                                  |
| Notes payable  | 380,132                   | 396,110                          |
| <b>Total Liabilities</b>   | <b>3,608,589</b>          | <b>2,950,255</b>                 |
| Stockholder s Equity:  |                           |                                  |
| Common stock Class A (par value \$1.00 per share, 500 shares authorized, issued and outstanding) | 500                       | 500                              |
| Additional paid-in capital   | 23,227                    | 23,227                           |
| Retained earnings  | 2,390,559                 | 2,092,265                        |

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|  |              |              |
|--|--------------|--------------|
| Total stockholder s equity                 | 2,414,286    | 2,115,992    |
| Total Liabilities and Stockholder s Equity | \$ 6,022,875 | \$ 5,066,247 |

See Independent Auditors Report and Notes to the Financial Statements

-1-

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**MIDDLETON PEST CONTROL, INC.**  
**COMPARATIVE STATEMENTS OF INCOME AND RETAINED EARNINGS**  
**FOR THE THREE MONTHS ENDED MARCH 31,**  
(Unaudited)

|   | 2005         | 2004         |
|---|--------------|--------------|
| Revenues  | \$ 7,950,369 | \$ 7,001,890 |
| Cost of revenues                                | 5,454,091    | 4,458,420    |
| Gross profit                                    | 2,496,278    | 2,543,470    |
| Selling, general and<br>administrative expenses | 1,954,016    | 1,983,518    |
| Income from operations                          | 542,262      | 559,952      |
| Other income (expenses):                        |              |              |
| Gain on disposal of equipment                   |              | 1,500        |
| Interest income                                 | 1,773        | 773          |
| Interest expense                                | (6,939)      | (2,372)      |
| Total other expense                             | (5,166)      | (99)         |
| NET INCOME                                      | 537,096      | 559,853      |
| Retained earnings, January 1                    | 2,092,265    | 2,468,423    |
| Shareholder distributions                       | (238,802)    | (622,095)    |
| Retained earnings, March 31                     | \$ 2,390,559 | \$ 2,406,181 |



**MIDDLETON PEST CONTROL, INC.**  
**COMPARATIVE STATEMENTS OF CASH FLOWS**  
**FOR THE THREE MONTHS ENDED MARCH 31,**  
(Unaudited)

|  | 2005           | 2004           |
|--|----------------|----------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                     |                |                |
| Net income   | \$ 537,096     | \$ 559,853     |
| Adjustments to reconcile net income to net cash provided by operating activities |                |                |
| Depreciation   | 126,010        | 107,614        |
| (Increase) decrease in:  |                |                |
| Accounts receivable  | (189,028)      | (83,714)       |
| Inventory  | 25,471         | (33,516)       |
| Prepaid expenses and other current assets  | (237,107)      | (189,065)      |
| Other assets   | (4,486)        | 11,626         |
| Increase (decrease) in:  |                |                |
| Accounts payable   | 427,878        | 440,911        |
| Accrued expenses and other current liabilities                                   | 113,247        | 111,883        |
| Deferred revenues  |                | (39,574)       |
| Customer deposits  | 143,206        | 270,383        |
| Net cash provided by operating activities  | 942,287        | 1,156,401      |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                      |                |                |
| Purchase of property and equipment   | (154,094)      | (73,222)       |
| Net cash used in investing activities  | (154,094)      | (73,222)       |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                      |                |                |
| Principle payments of notes payable  | (25,997)       | (21,203)       |
| Distributions to shareholders  | (238,802)      | (622,095)      |
| Net cash used in financing activities  | (264,799)      | (643,298)      |
| <b>NET INCREASE IN CASH</b>  | <b>523,394</b> | <b>439,881</b> |
| Cash, January 1  | 1,245,777      | 1,807,370      |
| Cash, March 31   | \$ 1,769,171   | \$ 2,247,251   |
| <b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>                         |                |                |
| Cash paid during the period for interest   | \$ 6,939       | \$ 2,372       |

|  |    |    |
|--|----|----|
| Cash paid during the year for income taxes | \$ | \$ |
|--|----|----|

March 24, 2005

Board of Directors  
Middleton Pest Control, Inc.  
Orlando, Florida

**INDEPENDENT AUDITOR'S REPORT**

We have audited the accompanying balance sheets of Middleton Pest Control, Inc. as of December 31, 2004 and 2003, and the related statements of income, retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Middleton Pest Control, Inc., as of December 31, 2004 and 2003, and the results of its activities and cash flows for the years then ended in conformity with generally accepted accounting principles in the United States.

/s/ Linder & Thornley  
Linder & Thornley  
Certified Public Accountant

-4-

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**MIDDLETON PEST CONTROL, INC.**  
**COMPARATIVE BALANCE SHEET**

|                                     | December 31, |              |
|-------------------------------------|--------------|--------------|
|                                     | 2004         | 2003         |
| <b>ASSETS</b>                       |              |              |
| <b>CURRENT ASSETS</b>               |              |              |
| Cash                                | \$ 1,245,777 | \$ 1,807,370 |
| Accounts receivable                 | 1,333,943    | 1,090,203    |
| Inventories                         | 492,706      | 434,842      |
| Employee advances                   | 11,406       | 10,924       |
| Prepaid expenses                    | 377,698      | 258,113      |
| Total Current Assets                | 3,461,530    | 3,601,452    |
| <b>PROPERTY AND EQUIPMENT</b>       |              |              |
| Leasehold and building improvements | 540,122      | 558,536      |
| Equipment                           | 364,976      | 277,921      |
| Vehicles                            | 2,332,604    | 2,371,298    |
| Computer equipment                  | 695,102      | 629,341      |
| Office furniture and equipment      | 517,543      | 468,136      |
| In progress fixed assets            | 649,699      | 17,034       |
|                                     | 5,100,046    | 4,322,266    |
| Less allowance for depreciation     | (3,554,425)  | (3,220,871)  |
| Net Property and Equipment          | 1,545,621    | 1,101,395    |
| <b>OTHER ASSETS</b>                 |              |              |
| Deposits and other assets           | 59,096       | 64,086       |
| Total Other Assets                  | 59,096       | 64,086       |
| Total Assets                        | \$ 5,066,247 | \$ 4,766,933 |

See accompanying notes to financial statements.

**MIDDLETON PEST CONTROL, INC.**  
**COMPARATIVE BALANCE SHEET**

|  | December 31,        |                     |
|--|---------------------|---------------------|
|  | 2004                | 2003                |
| <b>LIABILITIES AND SHAREHOLDERS EQUITY</b>   |                     |                     |
| <b>CURRENT LIABILITIES</b>   |                     |                     |
| Accounts payable   | \$ 412,064          | \$ 246,930          |
| Accrued expenses   | 694,601             | 601,475             |
| Deferred revenue Note C  | 51,364              | 250,397             |
| Customer deposits  | 1,286,865           | 1,044,046           |
| Current portion of long-term debt Note B   | 109,251             | 80,901              |
| <b>Total Current Liabilities</b>   | <b>2,554,145</b>    | <b>2,223,749</b>    |
| <b>LONG-TERM DEBT</b>  |                     |                     |
| Less: current portion Note B   | 396,110             | 51,034              |
| <b>Total Liabilities</b>   | <b>2,950,255</b>    | <b>2,274,783</b>    |
| <b>LEASES NOTE B</b>   |                     |                     |
| <b>SHAREHOLDERS EQUITY</b>   |                     |                     |
| Common stock Class A, par value \$1.00 per share-<br>500 shares authorized, issued and outstanding |                     |                     |
| Non-voting common stock-Class B, 5,000 shares<br>authorized, 4,500 issued and outstanding          | 500                 | 500                 |
| Paid-in capital  | 23,227              | 23,227              |
| Retained earnings  | 2,092,265           | 2,468,423           |
| <b>Total Shareholders Equity</b>   | <b>2,115,992</b>    | <b>2,492,150</b>    |
| <b>Total Liabilities and Shareholders Equity</b>   | <b>\$ 5,066,247</b> | <b>\$ 4,766,933</b> |

See accompanying notes to financial statements.

**MIDDLETON PEST CONTROL, INC.**  
**COMPARATIVE STATEMENT OF INCOME**

|                                     | Years Ended December 31, |               |
|-------------------------------------|--------------------------|---------------|
|                                     | 2004                     | 2003          |
| Net sales                           | \$ 30,164,101            | \$ 25,102,352 |
| Cost of sales                       | 16,892,863               | 13,862,088    |
| Gross profit                        | 13,271,238               | 11,240,264    |
| General and administrative expenses | 11,219,470               | 9,752,629     |
| Income from operations              | 2,051,768                | 1,487,635     |
| <u>Other income (expense)</u>       |                          |               |
| Gain on sale of assets              | 6,000                    | 15,301        |
| Interest income                     | 4,124                    | 2,701         |
| Interest expense                    | (12,621)                 | (12,668)      |
| Total other income (expense)        | (2,497)                  | 5,334         |
| Net income                          | \$ 2,049,271             | \$ 1,492,969  |

See accompanying notes to financial statements.

-7-

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**MIDDLETON PEST CONTROL, INC.**  
**COMPARATIVE STATEMENT OF SHAREHOLDERS EQUITY**

|                              | Common<br>Stock | Paid-in<br>Capital | Retained<br>Earnings |
|------------------------------|-----------------|--------------------|----------------------|
| Balance at December 31, 2002 | \$ 500          | \$ 23,227          | \$ 1,255,490         |
| Net Income                   |                 |                    | 1,492,969            |
| Distributions                |                 |                    | (280,036)            |
| Balance at December 31, 2003 | 500             | 23,227             | 2,468,423            |
| Net Income                   |                 |                    | 2,049,271            |
| Distributions                |                 |                    | (2,425,429)          |
| Balance at December 31, 2004 | \$ 500          | \$ 23,227          | \$ 2,092,265         |

See accompanying notes to financial statements.

**MIDDLETON PEST CONTROL, INC.**  
**COMPARATIVE STATEMENT OF CASH FLOWS**

|   | Years Ended December 31, |                     |
|---|--------------------------|---------------------|
|   | 2004                     | 2003                |
| <b>OPERATING ACTIVITIES</b>   |                          |                     |
| Net income  | \$ 2,049,271             | \$ 1,492,969        |
| Adjustments to reconcile net income to net cash provided by operating activities: |                          |                     |
| Depreciation and amortization   | 469,341                  | 644,022             |
| Gain on sale of assets  | (6,000)                  | (15,301)            |
| Changes in operating assets and liabilities:                                      |                          |                     |
| (Increase) in accounts receivable   | (243,740)                | (207,626)           |
| (Increase) in inventories   | (57,864)                 | (97,498)            |
| (Decrease) Increase in prepaid expenses and advances                              | (120,067)                | 36,479              |
| Increase in customer deposits   | 242,819                  | 63,430              |
| Increase in accounts payable and accrued expenses                                 | 258,262                  | 227,539             |
| Decrease (Increase) in deposits and other assets                                  | 4,988                    | (9,899)             |
| (Decrease) in deferred revenue  | (199,033)                | (262,612)           |
| <b>Net Cash Provided by Operating Activities</b>                                  | <b>2,397,977</b>         | <b>1,871,503</b>    |
| <b>INVESTING ACTIVITIES</b>   |                          |                     |
| Purchases of vehicles and equipment   | (267,664)                | (281,870)           |
| Building improvements   | (13,828)                 | (20,529)            |
| Purchase of in progress assets  | (632,075)                | 0                   |
| Proceeds from sale of vehicles and equipment                                      | 6,000                    | 24,205              |
| <b>Net Cash Used in Investing Activities</b>                                      | <b>(907,567)</b>         | <b>(278,194)</b>    |
| <b>FINANCING ACTIVITIES</b>   |                          |                     |
| Shareholder distributions   | (2,425,429)              | (280,036)           |
| Borrowings  | 450,000                  | 0                   |
| Payments on short and long-term borrowings  | (76,574)                 | (93,782)            |
| <b>Net Cash Used in Financing Activities</b>                                      | <b>(2,052,003)</b>       | <b>(373,818)</b>    |
| <b>(Decrease) Increase in Cash and Cash Equivalents</b>                           | <b>(561,593)</b>         | <b>1,219,491</b>    |
| Cash at Beginning of Year   | 1,807,370                | 587,879             |
| <b>Cash at End of Year</b>  | <b>\$ 1,245,777</b>      | <b>\$ 1,807,370</b> |

Interest paid see Note B



See accompanying notes to financial statements.

-9-

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**MIDDLETON PEST CONTROL, INC.**

NOTES TO FINANCIAL STATEMENTS

NOTE A SIGNIFICANT ACCOUNTING POLICIES

Middleton Pest Control, Inc. was incorporated in the state of Florida on December 1, 1977. The Company operates sixteen branch locations in the Central Florida area.

Accounts receivable are recorded at net realizable value. Uncollectible accounts are written off in the period in which management deems them to be uncollectible and are immaterial in relation to sales. These accounts are turned over to collection agencies and, if recovered, are credited against bad debts. Receivables are due from customers in the state of Florida.

Inventories are recorded at the lower of cost or market. Cost is determined by the FIFO (first-in, first-out) method.

Cash and cash equivalents are all highly liquid investments with a maturity of three months or less. Some of these cash funds are invested in a tax-exempt money fund which is not insured by the FDIC.

Property and equipment are recorded at cost and depreciated over the estimated useful lives of the assets. Depreciation is computed using the straight-line method as follows:

|                      |                |
|----------------------|----------------|
| Vehicles             | 3 - 5<br>years |
| Equipment            | 5 years        |
| Furniture & Fixtures | 5 - 7<br>years |

Effective January 1, 1989, the Company elected to be taxed as a Small Business Corporation under Subchapter S of the Internal Revenue Code. All taxable income is apportioned to the shareholders for inclusion in their individual income tax returns. This election was terminated on June 30, 1994. From July 1, 1994 to February 28, 1998, the corporation was liable for state and federal income taxes on taxable income earned. As of March 1, 1998 the corporation has elected to again be S-Corporation (see note D).

**MIDDLETON PEST CONTROL, INC.**

NOTES TO FINANCIAL STATEMENTS

NOTE B LONG-TERM DEBT AND LEASES

Long-term debt consists of the following:

|   | 2004       | 2003      |
|---|------------|-----------|
| Notes payable to First National Bank of Central Florida. Borrowings are repaid over a 3 to 5 year term. Interest is due at rates ranging from 6.75% to 8.0%. Notes are secured by vehicles. | \$ 31,032  | \$ 66,760 |
| Note payable to Bank of America payable in 50 monthly installments of \$2,522.32 including principal and interest at 6.8%. Note is secured by equipment.                                    | 38,491     | 65,175    |
| Note payable to Bank of America in monthly installments of \$5,793.64 including interest at 5.25%. Note is secured by computer equipment and matures 9/29/08.                               | 235,838    | 0         |
| Note payable to Bank of America in interest only installments of 5.6% Note is secured by office build out and matures 3/29/11.  | 200,000    | 0         |
| Less current portion:   | (109,251)  | (80,901)  |
|   | \$ 396,110 | \$ 51,034 |

Interest paid in 2004 and 2003 totaled \$12,621 and \$12,668, respectively.

Maturities of long-term borrowings as of December 31, 2004, are as follows:

|            |            |
|------------|------------|
| 2005       | \$ 109,251 |
| 2006       | 70,969     |
| 2007       | 60,219     |
| 2008       | 64,922     |
| 2009       | 0          |
| Thereafter | 200,000    |
|            | \$ 505,361 |

**MIDDLETON PEST CONTROL, INC.**

## NOTES TO FINANCIAL STATEMENTS

## NOTE B LONG-TERM DEBT AND LEASES CONTINUED

Rental expense for property operating leases amounted to \$932,393 and \$852,272 in 2004 and 2003, respectively. The Company also leases vehicles over terms ranging from 3 to 5 years. Vehicle lease expense amounted to \$1,038,529 and \$785,243 in 2004 and 2003 respectively. Payments due under noncancellable operating leases that have initial or remaining terms in excess of one year as of December 31, 2004, are as follows:

|            | Property Leases | Vehicle Leases | Total     |
|------------|-----------------|----------------|-----------|
| 2005       | \$ 798,881      | 1,135,027      | 1,933,908 |
| 2006       | 653,764         | 878,608        | 1,532,372 |
| 2007       | 591,084         | 521,453        | 1,112,537 |
| 2008       | 561,449         | 226,275        | 787,724   |
| 2009       | 445,595         | 114,555        | 560,150   |
| Thereafter | 763,976         | 72,818         | 836,794   |
|            | \$3,814,749     | 2,948,736      | 6,763,485 |

## NOTE C DEFERRED REVENUE

One of the services offered by Middleton Pest Control is an annual pest control program. The customer pays in advance for one year of service which includes an initial treatment and three subsequent treatments during the year. Deferred revenue represents sales invoiced for which the production has not yet been made. The sales and production are accounted for by branch and adjusted monthly.

## NOTE D INCOME TAXES

Beginning March 1, 1998 the corporation elected to be a small business corporation (S-Corporation). As an S-Corporation the corporate net profit or loss is reported on the shareholders' individual income tax returns. There is no state or federal income tax liability.

## NOTE E RETIREMENT PLAN

The company matches employee contributions to its 401K plan at a rate of 40%. Contributions for 2004 and 2003 were \$122,562 and \$71,216 respectively.

**SUNAIR ELECTRONICS INC. AND SUBSIDIARIES  
UNAUDITED PRO FORMA CONDENSED COMBINED INFORMATION  
CONTENTS**

|   | Page |
|---|------|
| INTRODUCTION TO PRO FORMA FINANCIAL INFORMATION                               | 1    |
| CONSOLIDATING BALANCE SHEET AS OF MARCH 31, 2005                              | 2    |
| CONSOLIDATING STATEMENT OF OPERATIONS FOR THE SIX MONTHS ENDED MARCH 31, 2005 | 3    |
| CONSOLIDATING STATEMENT OF OPERATIONS FOR THE YEAR ENDED SEPTEMBER 30, 2004   | 4    |
| NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED                               | 5    |

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**SUNAIR ELECTRONICS INC. AND SUBSIDIARIES**  
**UNAUDITED PRO FORMA CONDENSED COMBINED INFORMATION**

**INTRODUCTION TO PRO FORMA FINANCIAL INFORMATION**

The following unaudited pro forma combined financial information gives effect to the acquisition of Middleton Pest Control, Inc.( Middleton ).

On June 7, 2005 ( Effective Date ), the Registrant, Sunair Electronics, Inc ( Sunair ) completed an acquisition (the Acquisition ) of all the issued and outstanding common stock of Middleton. The Acquisition was consummated pursuant to the terms and provisions of a Stock Purchase Agreement dated as of June 7, 2005. As a result, Middleton became a wholly owned-subsiary of Sunair. The consideration paid by Sunair consisted of cash of \$35,000,000, 1,028,807 shares of its \$.10 par value common stock valued at \$10,000,000 based on an average price of \$9.72 over the thirty trading days prior to the Acquisition and a promissory note of \$5,000,000. Interest due on the note payable is at prime, payable semi-annually. The note matures on June 7, 2010.

The unaudited pro forma condensed combined balance sheet gives effect to the Acquisition as if it had occurred on March 31, 2005. The unaudited pro forma combined statements of operations for the year ended September 30, 2004 and the six months ended March 31, 2005 gives effect to the Acquisition as if it had occurred at the beginning of the earliest periods presented.

The unaudited pro forma combined financial information has been included as required and allowed by the rules of the Securities and Exchange Commission and is presented for illustrative purposes only. Such information is not necessarily indicative of the operating results or financial position that would have occurred had the Acquisition taken place on March 31, 2005 or October 1, 2004 or 2003. The pro forma condensed combined financial statements should be read in conjunction with the Company s Form 10-KSB for the year ended September 30, 2004 and the related notes included in this Current Report on Form 8-K/A.

**SUNAIR ELECTRONICS, INC. AND SUBSIDIARIES**  
**CONSOLIDATING BALANCE SHEET**  
**MARCH 31, 2005**

|  | <b>Sunair and<br/>Subsidiaries<br/>Historical</b> | <b>Middleton<br/>Historical</b> | <b>Combined<br/>Total</b> | <b>Pro-forma<br/>Adjustments</b> | <b>See<br/>Note 3<br/>Pro-forma<br/>Adjustments</b> | <b>Pro-forma<br/>Combined</b> |
|--|---|---------------------------------|---------------------------|----------------------------------|---|-------------------------------|
| <b>ASSETS</b>                              |   |                                 |                           |                                  |   |                               |
| Cash                                       | \$ 1,894,814                                      | \$ 1,769,171                    | \$ 3,663,985              | \$ 10,904,000<br>(9,149,762)     | <b>1</b><br><b>2</b>                                | \$ 5,418,223                  |
| Accounts receivable,<br>net                | 3,375,073   | 1,522,971                       | 4,898,044                 |                                  |   | 4,898,044                     |
| Interest receivable                        | 10,875  |                                 | 10,875                    |                                  |   | 10,875                        |
| Inventory                                  | 7,106,299   | 467,235                         | 7,573,534                 |                                  |   | 7,573,534                     |
| Prepaid and other<br>current assets        | 809,022   | 626,211                         | 1,435,233                 |                                  |   | 1,435,233                     |
| Deferred tax asset                         | 969,000   |                                 | 969,000                   |                                  |   | 969,000                       |
| Investments                                | 25,850,238  |                                 | 25,850,238                | (25,850,238)                     | <b>2</b>  |                               |
| Property and<br>equipment, net             | 660,205   | 1,573,704                       | 2,233,909                 |                                  |   | 2,233,909                     |
| Software costs, net                        | 4,037,384   |                                 | 4,037,384                 |                                  |   | 4,037,384                     |
| Customer list                              |   |                                 |                           | 10,500,000                       | <b>3</b>  | 10,500,000                    |
| Notes receivable                           | 70,604  |                                 | 70,604                    |                                  |   | 70,604                        |
| Investment in<br>subsidiary                |   |                                 |                           | 53,100,000<br>(53,100,000)       | <b>2</b><br><b>3</b>                                |                               |
| Other assets                               | (35,183)  | 63,582                          | 28,399                    | 96,000                           | <b>1</b>  | 124,399                       |
| Goodwill                                   | 852,683   |                                 | 852,683                   | 40,185,714                       | <b>3</b>  | 41,038,397                    |
| <b>Total Assets</b>                        | <b>\$ 45,601,014</b>                              | <b>\$ 6,022,874</b>             | <b>\$ 51,623,888</b>      | <b>\$ 26,685,714</b>             |   | <b>\$ 78,309,602</b>          |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b> |   |                                 |                           |                                  |   |                               |
| Accounts payable                           | \$ 1,131,976                                      | \$ 839,942                      | \$ 1,971,918              | \$ 3,100,000                     | <b>1</b>  | \$ 5,071,918                  |
| Accrued expenses<br>and other liabilities  | 845,189   | 807,848                         | 1,653,037                 |                                  |   | 1,653,037                     |
| Income tax payable                         | 186,950   |                                 | 186,950                   | 261,400                          | <b>4</b>  | 448,350                       |
| Deferred tax liability                     | 1,368,282   |                                 | 1,368,282                 |                                  |   | 1,368,282                     |
| Unearned revenues                          | 100,689   |                                 | 100,689                   |                                  |   | 100,689                       |
| Customer deposits                          |   | 1,481,435                       | 1,481,435                 |                                  |   | 1,481,435                     |
| Bank line of credit                        | 47,000  |                                 | 47,000                    |                                  |   | 47,000                        |
| Due to shareholder                         | 22,800  |                                 | 22,800                    |                                  |   | 22,800                        |
| Loan from parent                           |   |                                 |                           |                                  |   |                               |
| Notes payable and<br>capital leases        | 23,028  | 479,363                         | 502,391                   | 11,000,000<br>5,000,000          | <b>1</b><br><b>2</b>                                | 11,502,391<br>5,000,000       |

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|   |               |              |               |               |          |               |
|---|---------------|--------------|---------------|---------------|----------|---------------|
| Total Liabilities                         | 3,725,914     | 3,608,588    | 7,334,502     | 19,361,400    |          | 26,695,902    |
| Common stock                              | 901,487       | 500          | 901,987       | 102,881       | <b>2</b> |               |
|   |               |              |               | (500)         | <b>3</b> | 1,004,368     |
| Additional paid-in capital                | 27,612,264    | 23,227       | 27,635,491    | 9,897,119     | <b>2</b> |               |
|   |               |              |               | (23,227)      | <b>3</b> | 37,509,383    |
| Retained earnings (deficit)               | 13,320,818    | 2,390,559    | 15,711,377    | (2,390,559)   | <b>3</b> |               |
|   |               |              |               | (261,400)     | <b>4</b> | 13,059,418    |
| Translation adjustment                    | 40,531        |              | 40,531        |               |          | 40,531        |
| Total Stockholders Equity                 | 41,875,100    | 2,414,286    | 44,289,386    | 7,324,314     |          | 51,613,700    |
| Total Liabilities and Stockholders Equity | \$ 45,601,014 | \$ 6,022,874 | \$ 51,623,888 | \$ 26,685,714 |          | \$ 78,309,602 |



**SUNAIR ELECTRONICS, INC. AND SUBSIDIARIES  
CONSOLIDATING STATEMENT OF OPERATIONS  
FOR THE SIX MONTHS ENDED MARCH 31, 2005**

|  | <b>Sunair<br/>Electronics,<br/>Inc.<br/>Historical</b> | <b>Middleton<br/>Historical</b> | <b>Pro-forma<br/>Adjustments</b> | <b>See<br/>Note 3<br/>Pro-forma<br/>Adjustments</b> | <b>Pro-forma<br/>Combined</b> |
|--|--|---------------------------------|----------------------------------|---|-------------------------------|
| Revenues   | \$ 9,940,320   | \$ 15,669,377                   | \$                               |   | \$ 25,609,697                 |
| Cost of revenues                                     | 5,537,526  | 10,764,908                      |                                  |   | 16,302,434                    |
| Gross profit   | 4,402,794  | 4,904,469                       |                                  |   | 9,307,263                     |
| Selling, general and<br>administrative expenses      | 3,419,467  | 4,262,344                       |                                  |   | 7,681,811                     |
| Income from operations                               | 983,327  | 642,125                         |                                  |   | 1,625,452                     |
| Other income:  | 99,980   | 28,089                          |                                  |   | 128,069                       |
| Income before provision for<br>income taxes          | 1,083,307  | 670,214                         |                                  |   | 1,753,521                     |
| Provision for income taxes                           | (347,800)  |                                 | (261,400)                        | <b>4</b>  | (609,200)                     |
| <b>NET INCOME</b>                                    | <b>\$ 735,507</b>                                      | <b>\$ 670,214</b>               | <b>\$</b>                        |   | <b>\$ 1,144,321</b>           |
| Pro-forma net income per<br>common share             |  |                                 |                                  |   |                               |
| Basic  | \$ 0.14  |                                 |                                  |   | \$ 0.18                       |
| Diluted  | \$ 0.11  |                                 |                                  |   | \$ 0.15                       |
| Weighted average of pro-forma<br>shares outstanding: |  |                                 |                                  |   |                               |
| Basic  | 5,412,524  |                                 |                                  |   | 6,441,331                     |
| Diluted  | 6,667,402  |                                 |                                  |   | 7,696,209                     |

**SUNAIR ELECTRONICS, INC. AND SUBSIDIARIES  
CONSOLIDATING STATEMENT OF OPERATIONS  
FOR THE YEAR ENDED SEPTEMBER 30, 2004**

|  | <b>Sunair<br/>Electronics,<br/>Inc.<br/>Historical</b> | <b>Middleton<br/>Historical</b> | <b>Pro-forma<br/>Adjustments</b> | <b>See<br/>Note 3<br/>Pro-forma<br/>Adjustments</b> | <b>Pro-forma<br/>Combined</b> |
|--|--|---------------------------------|----------------------------------|---|-------------------------------|
| Revenues   | \$ 9,885,375   | \$ 28,948,849                   | \$                               |   | \$ 38,834,224                 |
| Cost of revenues                                     | 5,685,222  | 18,874,447                      |                                  |   | 24,559,669                    |
| Gross profit   | 4,200,153  | 10,074,402                      |                                  |   | 14,274,555                    |
| Selling, general and<br>administrative expenses      | 2,747,579  | 7,755,583                       |                                  |   | 10,503,162                    |
| Income from operations                               | 1,452,574  | 2,318,819                       |                                  |   | 3,771,393                     |
| Other income:  | 178,001  | 1,768                           |                                  |   | 179,769                       |
| Income before provision for<br>income taxes          | 1,630,575  | 2,320,587                       |                                  |   | 3,951,162                     |
| Provision for income taxes                           | (500,855)  |                                 | (905,000)                        | 4   | (1,405,855)                   |
| <b>NET INCOME</b>                                    | <b>\$ 1,129,720</b>                                    | <b>\$ 2,320,587</b>             | <b>\$</b>                        |   | <b>\$ 2,545,307</b>           |
| Pro-forma net income per<br>common share Basic       | \$ 0.30  |                                 |                                  |   | \$ 0.52                       |
| Diluted  | \$ 0.29  |                                 |                                  |   | \$ 0.51                       |
| Weighted average of pro-forma<br>shares outstanding: |  |                                 |                                  |   |                               |
| Basic  | 3,830,487  |                                 |                                  |   | 4,859,293                     |
| Diluted  | 3,919,127  |                                 |                                  |   | 4,947,933                     |

**SUNAIR ELECTRONICS, INC AND SUBSIDIARIES**  
**NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED**  
**FINANCIAL STATEMENTS**

**NOTE 1 BASIS OF PRESENTATION**

The accompanying unaudited pro forma condensed combined financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and certain footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations; however, management believes that the disclosures are adequate to make the information presented not misleading.

**NOTE 2 STOCK PURCHASE AGREEMENT**

On June 7, 2005, Sunair paid \$35,000,000 in cash, gave a promissory note of \$5,000,000 and issued an aggregate number of 1,028,807 shares of its \$0.10 par value common stock (totaling \$10,000,000) in exchange for all of the issued and outstanding shares of Middleton Pest Control, Inc. Sunair also estimated closing costs of approximately \$1,700,000 and a charge of approximately \$1,400,000 for Middleton's built-in capital gains tax for a total purchase price of approximately \$53,100,000.

The following table set forth the preliminary allocation of the purchase price to Middleton's tangible and intangible assets acquired and liabilities assumed as of March 31, 2005

|                        |                   |
|------------------------|-------------------|
| Cash                   | \$ 1,769,171      |
| A/R                    | 1,522,971         |
| Inventory              | 467,235           |
| Prepaid assests        | 626,211           |
| Fixed assets           | 1,573,704         |
| Other assets           | 63,582            |
| Customer list          | 10,500,000        |
| Goodwill               | 40,185,714        |
| Accounts payable       | (839,942)         |
| Accrued liabilities    | (807,848)         |
| Customer deposits      | (1,481,435)       |
| Notes payable vehicles | (26,337)          |
| Notes payable          | (453,026)         |
| <br>                   |                   |
| Total                  | <br>\$ 53,100,000 |

**NOTE 3 PRO FORMA ADJUSTMENTS**

- To reflect a Bank Line of Credit acquired by Sunair of \$11,000,000 less \$96,000 in closing costs to complete the acquisition of Middleton.
- Reflects common stock of Sunair issued at \$.10 par value and additional paid-in capital as a result of the issuance, the promissory note given and the cash disbursed in connection with the acquisition of Middleton. Also included in the investment and recorded to accounts payable are acquisition costs of \$1,700,000 and the estimated tax effect of built-in capital gains of 1,400,000 as a result of Middleton relinquishing its status as an S-Corporation.

3. To reflect consolidation of the common stock, additional paid-in capital and retained earnings of Middleton and to reflect adjustment from book value to market value. The excess of purchase price over the book value was allocated first to customer lists at the appraised value on the date of purchase. The remainder was allocated to goodwill.
4. Middleton Pest Control, Inc. had elected in 1998 to be taxed as a Small Business Corporation under Subchapter S of the Internal Revenue Code. All taxable income was apportioned to the shareholders for inclusion in their individual income tax returns. The Company is reflecting the effect of Federal and State income taxes at a blended rate of 39%, as if Middleton was combined with Sunair as a C corporation.