

SUNAIR SERVICES CORP

Form 8-K/A

June 15, 2006

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**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) March 31, 2006

SUNAIR SERVICES CORPORATION

(Exact name of registrant as specified in its charter)

Florida
(State or Other Jurisdiction
of Incorporation)

1-04334
(Commission
File Number)

59-0780772
(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))

Section 9 Financial Statements and Exhibits

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Item 9.01 Financial Statements and Exhibits

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Item 9.01 Financial Statements and Exhibits.

On March 31, 2006, Middleton Pest Control, Inc., an indirect wholly-owned subsidiary of the Registrant, acquired substantially all of the assets of Ron Fee, Inc., a Florida Subchapter S corporation (Ron Fee).

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

(a) Financial Statements of Business Acquired.

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

(c) Shell company Transactions.

Not applicable.

(d) Exhibits.

Not applicable.

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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 SERVICES CORPORATION

Date: June 13, 2006

By: /s/ SYNNOTT B. DURHAM

Synnott B. Durham
Chief Financial Officer

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EXHIBIT A

RON FEE, INC.
AUDITED FINANCIAL STATEMENTS
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INDEPENDENT AUDITORS REPORT

To the Board of Directors
Ron Fee, Inc.
Spring Hill, Florida

We have audited the accompanying balance sheets of Ron Fee, Inc. (a Florida Subchapter S Corporation) as of December 31, 2005 and 2004 and the related statements of income, stockholders' equity 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 of America. Those standards require that we plan and perform the audits 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 Ron Fee, Inc. as of December 31, 2005 and 2004, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 8 to the financial statements, on March 31, 2006, the Company entered into an asset purchase agreement with Sunair Services Corporation through its wholly-owned subsidiary Middleton Pest Control, Inc. (Middleton). Middleton provided \$5,525,000 as consideration for the acquisition that closed on March 31, 2006.

/s/ Berenfeld Spritzer Shechter & Sheer

April 27, 2006
Sunrise, Florida

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RON FEE, INC.
BALANCE SHEETS
AS OF DECEMBER 31,
ASSETS

| | 2005 | 2004 |
|------------------------------------|---------------------|---------------------|
| CURRENT ASSETS: | | |
| Cash | \$ 21,794 | \$ 54,659 |
| Accounts receivable, net | 207,083 | 180,916 |
| Inventories | 87,431 | 36,189 |
| Prepaid and other current assets | 40,854 | 8,505 |
| Total Current Assets | 357,162 | 280,269 |
| Property, plant and equipment, net | 1,224,833 | 1,222,406 |
| Other assets | 1,144 | 1,144 |
| TOTAL ASSETS | \$ 1,583,139 | \$ 1,503,819 |

The accompanying notes are an integral part of these financial statements.

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RON FEE, INC.
BALANCE SHEETS
AS OF DECEMBER 31,
LIABILITIES AND STOCKHOLDERS EQUITY

| | 2005 | 2004 |
|---|---------------------|---------------------|
| CURRENT LIABILITIES: | | |
| Notes payable - Line of credit | \$ | \$ 206,257 |
| Customer deposits | 63,241 | 29,568 |
| Accounts payable | 6,771 | 9,417 |
| Accrued expenses | 8,556 | 11,623 |
| Notes payable, current portion | 5,664 | 23,555 |
| Total Current Liabilities | 84,232 | 280,420 |
| Notes payable, net of current portion | 24,325 | 42,873 |
| COMMITMENTS AND CONTINGENCIES: | | |
| Total Liabilities | 108,557 | 323,293 |
| STOCKHOLDERS EQUITY: | | |
| Common stock, \$1.00 par value, 1,000 shares authorized and 800 shares issued and outstanding | 800 | 800 |
| Contributed capital | 71,281 | 71,281 |
| Retained earnings | 1,402,501 | 1,108,445 |
| Total Stockholders Equity | 1,474,582 | 1,180,526 |
| TOTAL LIABILITIES AND STOCKHOLDERS EQUITY | \$ 1,583,139 | \$ 1,503,819 |

The accompanying notes are an integral part of these financial statements.

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RON FEE, INC.
STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31,

| | 2005 | 2004 |
|--|--------------|--------------|
| SALES | \$ 4,315,092 | \$ 3,815,064 |
| COST OF SALES | 1,713,768 | 1,568,152 |
| GROSS PROFIT | 2,601,324 | 2,246,912 |
| SELLING AND ADMINISTRATIVE EXPENSES | 2,241,472 | 2,114,814 |
| INCOME FROM OPERATIONS | 359,852 | 132,098 |
| OTHER INCOME (EXPENSES): | | |
| Interest income | 144 | 99 |
| Interest expense | (10,336) | (15,622) |
| Gain on sale of asset | 176,933 | 310,947 |
| Total Other Income (Expenses) | 166,741 | 295,424 |
| NET INCOME | \$ 526,593 | \$ 427,522 |

The accompanying notes are an integral part of these financial statements.

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RON FEE, INC.
STATEMENTS OF STOCKHOLDERS EQUITY
YEARS ENDED DECEMBER 31, 2005 AND 2004

| | COMMON STOCK | | CONTRIBUTED CAPITAL | RETAINED EARNINGS | STOCKHOLDERS EQUITY |
|---------------------------------|-----------------|--------|------------------------|----------------------|------------------------|
| | SHARES | AMOUNT | | | |
| BALANCE, DECEMBER 31, 2003 | 800 | \$ 800 | \$ 71,281 | \$ 791,378 | \$ 863,459 |
| CASH DISTRIBUTIONS | | | | (110,455) | (110,455) |
| NET INCOME DECEMBER 31, 2004 | | | | 427,522 | 427,522 |
| BALANCE, DECEMBER 31, 2004 | 800 | 800 | 71,281 | 1,108,445 | 1,180,526 |
| CASH DISTRIBUTIONS | | | | (232,537) | (232,537) |
| NET INCOME DECEMBER 31, 2005 | | | | 526,593 | 526,593 |
| BALANCE, DECEMBER 31, 2005 | 800 | \$ 800 | \$ 71,281 | \$ 1,402,501 | \$ 1,474,582 |

The accompanying notes are an integral part of these financial statements.

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RON FEE, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31,

| | 2005 | 2004 |
|---|------------------|------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net Income | \$ 526,593 | 427,522 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 198,404 | 192,000 |
| Bad debt expense | 47,000 | 33,000 |
| Gain on disposals | (176,933) | (310,947) |
| (Increase) Decrease in Assets: | | |
| Accounts receivable | (73,167) | (51,105) |
| Inventories | (51,242) | 14,630 |
| Prepaid and other current assets | (32,349) | 11,652 |
| Increase (Decrease) in Liabilities: | | |
| Accounts payable and accrued expenses | (5,712) | (37,228) |
| Customer deposits | 33,673 | 29,568 |
| Net Cash Provided By Operating Activities | 466,267 | 309,092 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchase of property, plant, and equipment | (361,800) | (69,917) |
| Proceeds from sale of property | 370,552 | 162,470 |
| Net Cash Provided By Investing Activities | 8,752 | 92,553 |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Repayment of note payable | (69,091) | (147,860) |
| Repayment of line of credit | (226,247) | (116,882) |
| Proceeds from line of credit | 19,991 | 27,028 |
| Distributions paid | (232,537) | (110,455) |
| Net Cash Used In Financing Activities | (507,884) | (348,169) |
| NET INCREASE (DECREASE) IN CASH | (32,865) | 53,476 |
| CASH, BEGINNING OF YEAR | 54,659 | 1,183 |
| CASH, END OF YEAR | \$ 21,794 | \$ 54,659 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION: | | |
| Cash paid during the year for interest | \$ 10,336 | \$ 15,623 |

SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:

The Company purchased property and equipment and in conjunction with the acquisitions, liabilities were incurred as follows:

| | | |
|-------------------------------|-----------|-----------|
| Fair value of assets acquired | \$ 44,416 | \$ 78,850 |
| Cash paid for the assets | | |
| Liabilities incurred | \$ 44,416 | \$ 78,850 |

The accompanying notes are an integral part of these financial statements.

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**RON FEE, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2005 AND 2004**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business activity

Ron Fee, Inc. (the Company), a Florida corporation, provides lawn, shrub and household pest control and subterranean termite control programs to both residential and commercial customers in West Central Florida.

Basis of Presentation

The Company has prepared the financial statements in accordance with accounting principles generally accepted in the United States of America.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash equivalents

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

Accounts receivable

Accounts receivable consists of balances due from sales. The Company monitors accounts receivable and maintains allowances for anticipated losses. Accordingly, the Company has established allowances for doubtful accounts based on the individual accounts receivable balances. As of December 31, 2005 and 2004 the reserves for such accounts totaled \$80,000 and \$33,000, respectively.

Inventories

Inventories are stated at the lower of cost or market value, cost being determined using the first in, first out method.

Property, plant, and equipment

Property, plant and equipment are carried at cost. Depreciation is provided over the estimated useful lives of the assets using the straight-line method. The estimated useful lives used to compute depreciation are as follows:

| | |
|-------------------------------------|--------------|
| Building | 40 years |
| Furniture, fixtures and equipment | 5 to 7 years |
| Leasehold improvements and vehicles | 5 years |

The cost of maintenance and repairs is charged to expense as incurred; renewals and betterments are capitalized. When properties are retired or otherwise disposed of, the cost of such properties and the related accumulated depreciation are removed from the accounts. Any profit or loss is credited, or charged to income.

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**RON FEE, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2005 AND 2004**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of long-lived assets and long-lived assets to be disposed of

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the assets exceed the fair value. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. There were no asset impairments during the years ended December 31, 2005 and 2004.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash. The Company maintains cash balances at one financial institution. The accounts at this financial institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. As of December 31, 2005 and 2004 the company did not have cash in excess of the FDIC limits.

Income Taxes

The Company has elected to be taxed under the provisions of Subchapter S of the Internal Revenue Code. Under those provisions, the Company does not pay federal corporate income taxes on its taxable income. Instead, the stockholders are liable for individual federal income taxes on their respective shares.

Revenue recognition

Sales revenues are recorded at the time services are performed. Generally, pest control customers sign an initial one year contract, and the Company defers recognition of these payments and recognizes the revenue as services are performed.

Advertising costs

The Company expenses advertising costs as incurred. Advertising expenses totaled approximately \$33,712 and \$22,999 for the years ended December 31, 2005 and 2004, respectively.

Fair value of financial instruments

The Company's financial instruments consist primarily of cash, accounts receivable, accounts payable, accrued liabilities and loans and notes payable. The carrying amounts of such financial instruments approximate their respective estimated fair values due to the short-term maturities and approximate market interest rates of these instruments. The estimated fair value is not necessarily indicative of the amounts the Company would realize in a current market exchange or from future earnings or cash flows.

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RON FEE, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2005 AND 2004

NOTE 2 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following at December 31:

| | 2005 | 2004 |
|--------------------------------|--------------|--------------|
| Land | \$ 201,368 | \$ 259,906 |
| Building | 642,725 | 623,232 |
| Furniture and fixtures | 42,885 | 25,399 |
| Equipment operating and office | 268,144 | 212,311 |
| Vehicles | 1,334,347 | 1,344,373 |
| | 2,489,469 | 2,465,221 |
| Accumulated Depreciation | 1,264,636 | 1,242,815 |
| | \$ 1,224,833 | \$ 1,222,406 |

Depreciation expense consists of \$198,404 and \$192,000 during the years ended December 31, 2005 and 2004, respectively.

NOTE 3 NOTES PAYABLE

The Company has equipment loans with various financial institutions. Interest rates range from 0% to 9% per annum. The loans mature from various dates through 2010. The loans are collateralized by the various equipment financed. Total interest expense as of December 31, 2005 and 2004 totaled \$10,336 and \$15,623, respectively. The following is a summary of scheduled future principal payments as of December 31, 2005:

| | |
|-------------------------|-----------|
| Year ended December 31, | |
| 2006 | \$ 5,664 |
| 2007 | 6,195 |
| 2008 | 6,775 |
| 2009 | 7,410 |
| 2010 | 3,945 |
| Total notes payable | \$ 29,989 |

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**RON FEE, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2005 AND 2004**

NOTE 4 LINE OF CREDIT

The Company has a \$300,000 revolving line of credit with a financial institution that is payable, interest only, monthly and accrues at a variable annual rate equal to the sum of 3.15% per annum (One-Month LIBOR). At December 31, 2005 and 2004 the amount payable on the line of credit totaled \$0 and \$206,257, respectively.

NOTE 5 COMMITMENTS AND CONTINGENCIES

LEASES

The Company has operating leases for vehicles through 2009. At December 31, 2005 the future minimum lease payments were as follows:

| | |
|-------|-----------|
| 2006 | \$ 18,816 |
| 2007 | 18,816 |
| 2008 | 11,625 |
| 2009 | 5,383 |
| Total | \$ 54,640 |

Total expense related to the operating leases for the years ended December 31, 2005 and 2004 were \$11,036 and \$0, respectively.

NOTE 6 EMPLOYEES RETIREMENT PLAN

The Company maintains an employee 401(k) retirement plan for substantially all of its full-time employees. The Company matches 100% of employee contributions up to 4% of the employees annual salary. For the years ended December 31, 2005 and 2004, the Company made contributions totaling approximately \$34,268 and \$31,942, respectively.

NOTE 7 CONCENTRATIONS

During the fiscal year 2005, the Company's two largest vendors represented approximately 92% and 12% of total purchases. For fiscal year 2004, the Company's largest vendor represented approximately 81% of total purchases. No other vendors accounted for more than 10% of total purchases.

NOTE 8 SUBSEQUENT EVENTS

On March 31, 2006 the Company entered into an Asset Sale Agreement with Middleton Pest Control, Inc. (Middleton) to sell substantially all of its assets for \$5,525,000.

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EXHIBIT B

**SUNAIR SERVICES CORPORATION AND SUBSIDIARIES
UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION
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**SUNAIR SERVICES CORPORATION AND SUBSIDIARIES
UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS**

BASIS OF PRESENTATION

The following unaudited pro forma condensed combined financial statements gives effect to the acquisition (the Acquisition) of Ron Fee, Inc. (Ron Fee) by Middleton Pest Control, Inc. (Middleton), a wholly-owned subsidiary of Sunair Services Corporation (Sunair). The total consideration paid in the Acquisition was approximately \$5,525,000 and is recorded using the purchase method of accounting.

The unaudited pro forma condensed combined financial statements also give effect to other transactions that occurred during the period, based on unaudited pro forma information presented in previously filed Annual Reports on Form 8-K/A for the acquisition of Spa Creek Services, LLC d/b/a Pest Environmental (Spa Creek).

The following presents the Company's unaudited pro forma condensed combined financial information as of September 30, 2005, for the fiscal year ended September 30, 2005 and for the six months ended March 31, 2006. The unaudited pro forma condensed combined balance sheets as of September 30, 2005 and March 31, 2006 give effect to the transactions as if they had occurred on October 1, 2004. The unaudited pro forma condensed combined statement of income for the year ended September 30, 2005 and condensed combined statement of operations for the six months ended March 31, 2006 give effect to the Acquisition as if it had occurred as of the beginning of such period.

The unaudited pro forma condensed combined financial statements should be read together with the Company's consolidated financial statements as of September 30, 2005, including the notes thereto, included in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2005.

We are providing the unaudited pro forma condensed combined financial information for illustrative purposes only.

The results may have been different had these transactions actually occurred during the periods presented. You should not rely on the unaudited pro forma condensed combined financial information as being indicative of the historical results that would have been achieved had the transactions actually occurred during the periods presented or the future results that the Company will experience. The unaudited pro forma condensed combining statements of operations do not give effect to any cost savings or operating synergies expected to result from the acquisition and divestiture or the costs to achieve such cost savings or operating synergies.

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SUNAIR SERVICES CORPORATION AND SUBSIDIARIES
PRO FORMA FINANCIAL STATEMENTS UNAUDITED BALANCE SHEET
September 30, 2005

| | Sunair Services Corporation (1) | Spa Creek Services, LLC Historical Unaudited | Pro Forma Adjustments For Spa Creek Services, LLC Acquisition Notes | | Ron Fee, Inc. Historical Unaudited | Pro Forma Adjustments For Ron Fee, Inc. Acquisition Notes | | Pro Forma Adjustments For Stock Issuance | | Pro Forma Notes Information |
|------------------------------------|--|---|--|--------|---|--|--------|---|-----|--|
| ASSETS | | | | | | | | | | |
| Cash and cash equivalents | \$ 3,220,699 | \$ 649,669 | \$ (6,383,088) | (2)(3) | \$ 76,733 | \$ (4,076,733) | (5)(6) | \$ 13,655,674 | (8) | \$ 7,142,954 |
| | | | | | | | (5)(6) | | | |
| Accounts receivable, net | 4,983,714 | 108,572 | 24,357 | (2)(3) | 210,720 | 23,827 | (5)(6) | | | 5,351,190 |
| Interest receivable | 14,488 | | | | | | | | | 14,488 |
| Inventories | 7,609,727 | 54,246 | 12,229 | (2)(3) | 106,042 | (15,557) | (5)(6) | | | 7,766,687 |
| Deferred tax asset | 315,837 | | | | | | | | | 315,837 |
| Prepaid and other current assets | 1,435,146 | 21,580 | (21,580) | (3) | 32,767 | (32,767) | (6) | | | 1,435,146 |
| Property, plant and equipment, net | 2,321,008 | 124,846 | (94,846) | (2)(3) | 1,175,842 | (735,864) | (5)(6) | | | 2,790,986 |
| Notes receivable | 334,986 | 32,976 | (32,976) | (3) | | | | | | 334,986 |
| Other assets | 80,393 | 14,766 | (14,766) | (3) | 1,144 | (1,144) | (6) | | | 80,393 |
| Non-compete, net | | 996,227 | (996,227) | (3) | | | | | | |
| Software costs, net | 3,938,402 | | | | | | | | | 3,938,402 |
| Customer lists, net | 10,262,250 | | 262,000 | (2) | | 1,554,000 | (5) | | | 12,078,250 |
| Goodwill | 43,599,379 | 2,769,534 | 2,752,398 | (2)(3) | | 3,329,914 | (5) | | | 52,451,225 |
| Total Assets | \$ 78,116,029 | \$ 4,772,416 | \$ (4,492,499) | | \$ 1,603,248 | \$ 45,676 | | \$ 13,655,674 | | \$ 93,700,544 |

LIABILITIES AND STOCKHOLDERS EQUITY

| | | | | | | | | | |
|---|---------------|--------------|----------------|--------|--------------|-------------|--------|---------------|----------------|
| Accounts payable | \$ 4,630,304 | \$ 13,649 | \$ (13,649) | (3) | \$ 84,275 | \$ (84,275) | (6) | \$ | \$ 4,630,304 |
| Accrued expenses and other liabilities | 2,274,312 | 343,306 | (298,306) | (3) | 10,585 | 314,447 | (5)(6) | | 2,644,344 |
| Deferred tax liability | 188,400 | | (122,638) | (4) | | 310,751 | (7) | | 376,513 |
| Unearned revenues | 181,216 | | | | | 73,570 | (5) | | 254,786 |
| Customer deposits | 1,490,677 | 257,427 | 22,490 | (2)(3) | 29,568 | (7,668) | (5)(6) | | 1,792,494 |
| Bank line of credit | 12,000,000 | | | | | | | | 12,000,000 |
| Due to shareholder loan from parent | | | | | | | | | |
| Notes payable and capital leases | 5,426,467 | 6,292,270 | (6,292,270) | (3) | 31,325 | 1,197,097 | (5)(6) | | 6,654,889 |
| Total Liabilities | 26,191,376 | 6,906,652 | (6,704,373) | | 155,753 | 1,803,922 | | | 28,353,330 |
| Common Stock | 1,018,638 | | | | 800 | (800) | (6) | 285,715 | (8) 1,304,353 |
| Additional Paid in Capital | 37,759,670 | | | | 71,281 | (71,281) | (6) | 13,369,959 | (8) 51,129,629 |
| Member s Capital | | 500,000 | (500,000) | (3) | | | | | |
| Retained earnings (deficit) | 13,170,774 | (2,634,236) | 2,711,874 | (3) | 1,375,414 | (1,686,165) | (6) | | 12,937,661 |
| Translation adjustment | (24,429) | | | | | | | | (24,429) |
| Total Stockholders Equity | 51,924,653 | (2,134,236) | 2,211,874 | | 1,447,495 | (1,758,246) | | 13,655,674 | 65,347,214 |
| Total Liabilities and Stockholders Equity | \$ 78,116,029 | \$ 4,772,416 | \$ (4,492,499) | | \$ 1,603,248 | \$ 45,676 | | \$ 13,655,674 | \$ 93,700,544 |

Equity

The accompanying notes are an integral part of these statements of financial information.

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SUNAIR SERVICES CORPORATION AND SUBSIDIARIES
PRO FORMA FINANCIAL STATEMENTS UNAUDITED STATEMENT OF INCOME
YEAR ENDED 9/30/2005

| | Sunair Services Corporation (1) | Spa Creek Services, LLC Historical Unaudited | Pro Forma Adjustments For Spa Creek Services, LLC Acquisition Notes | Ron Fee, Inc. Historical Unaudited | Pro Forma Adjustments For Ron Fee, Inc. Acquisition Notes | Pro Forma Information |
|--|--|---|--|---|--|----------------------------------|
| Revenues | \$ 31,451,770 | \$ 3,583,615 | \$ | \$ 4,179,553 | \$ | \$ 39,214,938 |
| Cost of revenues | 21,244,761 | 413,053 | | 1,654,442 | | 23,312,256 |
| Gross Profit | 10,207,009 | 3,170,562 | | 2,525,111 | | 15,902,682 |
| Selling, general and administrative expenses | 10,020,901 | 3,658,012 | 45,000 | (3) | 2,276,022 | 15,999,935 |
| Income (loss) from operations | 186,108 | (487,450) | (45,000) | | 249,089 | (97,253) |
| Other income (expenses) | (6,109) | 20,998 | | | 590,778 | 605,667 |
| Income (loss) before provision for income taxes | 179,999 | (466,452) | (45,000) | | 839,867 | 508,414 |
| Benefit (provision) for income taxes | 415,558 | | 122,638 | (4) | (310,751) | (7) |
| NET INCOME (LOSS) | \$ 595,557 | \$ (466,452) | \$ 77,638 | | \$ 839,867 | \$ (310,751) |
| Pro-forma net income per | | | | | | \$ 735,859 |

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| | | | | |
|---|----|------------|----|------------|
| common share: | | | | |
| Basic | \$ | 0.08 | \$ | 0.09 |
| Diluted | \$ | 0.05 | \$ | 0.06 |
| Weighted average of pro-forma shares outstanding: | | | | |
| Basic | | 7,556,857 | | 7,842,482 |
| Diluted | | 11,478,074 | | 12,171,594 |

The accompanying notes are an integral part of these statements of financial information.

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SUNAIR SERVICES CORPORATION AND SUBSIDIARIES
PRO FORMA FINANCIAL STATEMENTS UNAUDITED STATEMENT OF OPERATIONS
SIX MONTHS ENDED 3/31/2006

| | Sunair Services Corporation (1) | Spa Creek Services, LLC Historical Unaudited (9) | Pro Forma Adjustments For Spa Creek Services, LLC Acquisition Notes | Ron Fee, Inc. Historical Unaudited (10) | Pro Forma Adjustments For Ron Fee, Inc. Acquisition Notes | Pro Forma Information |
|--|--|---|--|--|--|----------------------------------|
| Revenues | \$ 27,651,312 | \$ 755,304 | \$ | \$ 2,277,922 | \$ | \$ 30,684,538 |
| Cost of revenues | 11,933,476 | 85,855 | | 796,276 | | 12,815,607 |
| Gross Profit | 15,717,836 | 669,449 | | 1,481,646 | | 17,868,931 |
| Selling, general and administrative expenses | 16,713,752 | 654,573 | | 1,055,633 | | 18,423,958 |
| Income (loss) from operations | (995,916) | 14,876 | | 426,013 | | (555,027) |
| Other income (expenses) | (632,573) | (173,845) | | (87,777) | | (894,195) |
| Income (loss) before provision for income taxes | (1,628,489) | (158,969) | | 338,236 | | (1,449,222) |
| Benefit (provision) for income taxes | 466,057 | | (58,819) (9) | | 125,147 (10) | 532,385 |
| NET INCOME (LOSS) | \$ (1,162,432) | \$ (158,969) | \$ (58,819) | \$ 338,236 | \$ 125,147 | \$ (916,837) |

Pro-forma net
income per
common share:

| | | | | |
|---------|----|--------|----|--------|
| Basic | \$ | (0.10) | \$ | (0.07) |
| Diluted | \$ | (0.10) | \$ | (0.07) |

Weighted
average of
pro-forma shares
outstanding:

| | | |
|---------|------------|------------|
| Basic | 11,646,412 | 13,060,559 |
| Diluted | 11,661,482 | 13,075,631 |

The accompanying notes are an integral part of these statements of financial information

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**SUNAIR SERVICES CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED
FINANCIAL STATEMENTS**

Pro Forma Financial Statements September 30, 2005

(1) The Spa Creek and Ron Fee acquisitions were completed December 16, 2005 and March 31, 2006, respectively. As such their respective assets and liabilities are not included in the historical balance sheets of Sunair as of September 30, 2005. Spa Creek's historical balance sheet as of September 30, 2005 is derived from unaudited client data, filed in previous Form 8-K/A. Ron Fee's historical balance sheet as of September 30, 2005 is derived from unaudited client data.

Spa Creek Acquisition

(2) Spa Creek entered into a definitive Asset Purchase Agreement by and among Middleton and Spa Creek. On December 16, 2005, Middleton acquired substantially all of the assets and assumed certain liabilities of Spa Creek for a total price of \$5,733,419. The acquisition of Spa Creek has been accounted for using the purchase method of accounting. Purchase accounting requires that the assets and liabilities acquired be recorded at their fair value at the date of acquisition. The preliminary purchase price allocation, as follows, is based on management's best estimate of fair values.

| | |
|-------------------------------|------------------|
| Goodwill | \$ 5,521,932 |
| Customer list | 262,000 |
| Accounts receivable | 132,929 |
| Inventory | 66,475 |
| Property, plant and equipment | 30,000 |
| Customer deposits | (279,917) |
| | |
| Total | \$ 5,733,419 |

(3) In the acquisition of Spa Creek, Middleton did not purchase the assets and liabilities in its entirety. Adjustments are necessary to eliminate the assets and liabilities reported in the historical financial information of Spa Creek not acquired by Middleton. The acquisition agreement also incorporated consulting services from the prior owners in the amount of \$15,000 per month for three months.

(4) Spa Creek existed as a Limited Liability Company and was taxed as a partnership prior to the acquisition. In lieu of partnership income taxes, under the Internal Revenue Code the partners were taxed on their proportionate share of the Company's taxable income. Therefore, the historical financial information does not contain provisions or liabilities for federal and state income taxes. Adjustment is necessary to account for the income tax effect on the pro forma financial information. The income tax effect adjustment is based on a blended tax rate of 37%.

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**SUNAIR SERVICES CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED
FINANCIAL STATEMENTS**

Ron Fee Acquisition

(5) Ron Fee entered into a definitive Asset Purchase Agreement by and among Middleton and Ron Fee. On March 31, 2006, Middleton acquired substantially all of the assets and assumed certain liabilities of Ron Fee for a total price of \$5,525,000. The acquisition of Ron Fee has been accounted for using the purchase method of accounting. Purchase accounting requires that the assets and liabilities acquired be recorded at their fair value at the date of acquisition. The preliminary purchase price allocation, as follows, is based on managements best estimate of fair values.

| | |
|-------------------------------|------------------|
| Goodwill | \$ 3,330,000 |
| Customer list | 1,554,000 |
| Accounts receivable | 235,000 |
| Inventory | 91,000 |
| Property, plant and equipment | 440,000 |
| Customer deposits | (96,000) |
| Notes payable | (29,000) |
| | |
| Total | \$ 5,525,000 |

(6) In the acquisition of Ron Fee, Middleton did not purchase the assets and liabilities in its entirety. Adjustments are necessary to eliminate the assets and liabilities reported in the historical financial information of Ron Fee not acquired by Middleton.

(7) Ron Fee existed as a Subchapter S Corporation and was taxed under the provisions as such prior to the acquisition. In lieu of the Subchapter S provisions, Ron Fee did not pay federal corporate incomes taxes on its taxable income. Therefore, the historical financial information does not contain provisions or liabilities for federal and state income taxes. Adjustment is necessary to account for the income tax effect on the pro forma financial information. The income tax effect adjustment is based on a blended tax rate of 37%.

Stock Issuance

(8) On January 27, 2006, Sunair completed the sales of its securities to investors in a private placement pursuant to purchase agreements, dated December 15, 2005. The securities sales transpired through two tranches. Pursuant to the purchase agreements, Sunair sold 2,857,146 shares of its common stock at a price per share of \$5.25 and warrants to purchase 1,000,000 shares of its common stock at an exercise price of \$6.30 (subject to adjustment) with net proceeds to Sunair of approximately \$13.7 million. The issuance of stock in relation to this private placement assisted Sunair in the financing of the acquisitions.

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**SUNAIR SERVICES CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED
FINANCIAL STATEMENTS**

Pro Forma Financial Statements March 31, 2006

Spa Creek

(9) The Spa Creek acquisition was completed on December 16, 2005. The March 31, 2006 balance sheet of Sunair incorporates the respective assets acquired and liabilities assumed in the acquisition. The March 31, 2006 statement of operations of Sunair includes the operations of Spa Creek for the period December 16, 2005 through March 31, 2006. The historical unaudited financial information for Spa Creek represents operations from October 1, 2005 through the date of acquisition (December 16, 2005) to reflect the combined pro forma information for the six month period ended March 31, 2006.

Spa Creek existed as a Limited Liability Company and was taxed as a partnership prior to the acquisition. In lieu of partnership income taxes, under the Internal Revenue Code the partners were taxed on their proportionate shares of the Company's taxable income. Therefore, the historical financial information does not contain provisions or liabilities for federal and state income taxes. Adjustment is necessary to account for the income tax effect on the pro forma financial information. The income tax effect adjustment is based on a blended tax rate of 37%.

Ron Fee

(10) The Ron Fee acquisition was completed on March 31, 2006. The March 31, 2006 balance sheet of Sunair incorporates the respective assets acquired and liabilities assumed in the acquisition. The March 31, 2006 statement of operations of Sunair does not include the operations of Ron Fee for the six months ended March 31, 2006. The historical unaudited financial information for Ron Fee represents the operations for the six month period ended March 31, 2006.

Ron Fee existed as a Subchapter S Corporation and was taxed under the provisions as such prior to the acquisition. In lieu of the Subchapter S provisions, Ron Fee did not pay federal corporate income taxes on its taxable income. Therefore, the historical financial information does not contain provisions or liabilities for federal and state income taxes. Adjustment is necessary to account for the income tax effect on the pro forma financial information. The income tax effect adjustment is based on a blended tax rate of 37%.