

SUNAIR ELECTRONICS INC

Form 8-K/A

October 20, 2004

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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) August 6, 2004

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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Item 9.01 Financial Statements and Exhibits.

This Current Report on Form 8-K/A amends the Form 8-K filed with the Commission on August 23, 2004, relating to the acquisition by Sunair Electronics, Inc. of the outstanding stock of Percipia, Inc., and its wholly owned subsidiary, Percipia Networks, Inc.

This Current Report on Form 8-K/A contains the information required by Item 9.01(a)(4) and Item 9.01(b)(2) of Form 8-K.

(a) Financial Statements of Business Acquired.

The following financial statements are filed herewith:

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**PERCIPIA, INC. AND SUBSIDIARY
CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended June 30, 2004 and 2003**

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors of
Percipia, Inc. and Subsidiary

We have audited the accompanying consolidated balance sheet of Percipia, Inc. (Company), and its wholly-owned subsidiary, Percipia Networks, Inc. (Subsidiary), as of June 30, 2004 and the related statements of operations, stockholders' equity (deficiency) and cash flows for the years ended June 30, 2004 and 2003. 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 audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards required 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 audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Percipia, Inc. and Subsidiary as of June 30, 2004 and the results of its operations and its cash flows for the years ended June 30, 2004 and 2003, in conformity with generally accepted accounting principles.

Berenfeld Spritzer Shechter and Sheer
Certified Public Accountants
Sunrise, FL
September 30, 2004

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PERCIPIA, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEET
As of June 30, 2004

ASSETS

Current Assets:

| | |
|--|-----------|
| Cash | \$ 17,690 |
| Accounts receivable (net of allowance for doubtful accounts of \$48,485) | 425,417 |
| Deferred tax asset | 653,000 |
| Inventory | 380,750 |

| | |
|----------------------|------------------|
| Total current assets | <u>1,476,857</u> |
|----------------------|------------------|

| | |
|---|---------------|
| Property and equipment (net of accumulated depreciation of \$296,329) | <u>95,453</u> |
|---|---------------|

Other Assets

| | |
|---|-----------|
| Software costs (net of accumulated amortization of \$642,010) | 2,223,390 |
| Note receivable from affiliate | 79,010 |
| Deposits | 1,352 |

| | |
|--------------------|------------------|
| Total other assets | <u>2,303,752</u> |
|--------------------|------------------|

| | |
|--------------|--------------------|
| Total Assets | <u>\$3,876,062</u> |
|--------------|--------------------|

LIABILITIES AND STOCKHOLDERS EQUITY

Current Liabilities

| | |
|--|------------|
| Accounts payable | \$ 239,098 |
| Accrued expenses and other current liabilities | 286,216 |
| Deferred tax liability | 860,000 |
| Sales tax payable | 203,375 |
| Interest payable | 66,286 |
| Unearned revenues | 145,106 |
| Capital leases | 38,875 |
| Bank line of credit | 99,300 |

| | |
|---------------------------|------------------|
| Total current liabilities | <u>1,938,256</u> |
|---------------------------|------------------|

Long-Term Debt

| | |
|---------------|-----------|
| Notes payable | 1,428,089 |
|---------------|-----------|

| | |
|---|--------------------|
| Total Liabilities | <u>3,366,345</u> |
| Stockholders' Equity: | |
| Common stock (1,000,000 shares authorized, no par value, 167,218 shares issued and outstanding) | 818,500 |
| Retained earnings | <u>(308,783)</u> |
| Total stockholders' equity | <u>509,717</u> |
| Total Liabilities and Stockholders' Equity | <u>\$3,876,062</u> |

Table of Contents**PERCIPIA, INC. AND SUBSIDIARY****CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS****For the Years Ended June 30, 2004 and 2003**

| | 2004 | 2003 |
|--|-----------------------------|-----------------------------|
| | <u> </u> | <u> </u> |
| Revenues | \$1,943,781 | \$3,371,845 |
| Cost of revenues | <u>1,005,495</u> | <u>1,494,801</u> |
| Gross profit | 938,286 | 1,877,044 |
| Selling, general and administrative expenses | <u>1,161,356</u> | <u>1,681,360</u> |
| Income (loss) from operations | <u>(223,070)</u> | <u>195,684</u> |
| Other income (expenses): | | |
| Other income | | 1,560 |
| Loss on litigation | (20,000) | |
| Interest expense | <u>(212,162)</u> | <u>(112,500)</u> |
| Total other expense | <u>(232,162)</u> | <u>(110,940)</u> |
| Income (loss) before benefit from (provision for) income taxes | (455,232) | 84,744 |
| Benefit from (provision for) income taxes | | |
| Current | | |
| Deferred | <u>177,000</u> | <u>33,000</u> |
| Total benefit from (provision for) income taxes | 177,000 | 33,000 |
| NET INCOME (LOSS) | (278,232) | 117,744 |
| Retained earnings, beginning of year | <u>(30,551)</u> | <u>(148,295)</u> |
| Retained earnings, end of year | <u>\$ (308,783)</u> | <u>\$ (30,551)</u> |

Table of Contents**PERCIPIA, INC. AND SUBSIDIARY****CONSOLIDATED STATEMENTS OF CASH FLOWS****For the Years Ended June 30, 2004 and 2003**

| | June 30, 2004 | June 30, 2003 |
|---|--------------------------|--------------------------|
| | <hr/> | <hr/> |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income (loss) | \$(278,232) | \$ 117,744 |
| Adjustments to reconcile net income (loss) to net cash provided (used in) by operating activities | | |
| Depreciation and amortization | 261,248 | 186,012 |
| Change in allowance for doubtful accounts | 33,485 | (5,000) |
| (Increase) decrease in: | | |
| Accounts receivable | 84,591 | 123,423 |
| Employee advances | 112,503 | (51,163) |
| Inventory | 91,972 | (218,973) |
| Deferred tax asset | (311,000) | (168,000) |
| Prepaid expenses and other current expenses | (699) | 722 |
| Increase (decrease) in: | | |
| Cash overdraft | (211,671) | 211,671 |
| Accounts payable | (61,278) | (133,708) |
| Accrued expenses and other current liabilities | 35,920 | 92,616 |
| Deferred tax liability | 134,000 | 135,000 |
| Unearned revenues | 68,568 | (170,568) |
| Sales tax payable | (65,152) | 70,099 |
| Interest payable | 46,953 | 19,333 |
| Income taxes payable | | |
| | <hr/> | <hr/> |
| Net cash provided by (used in) operating activities | (58,792) | 209,208 |
| | <hr/> | <hr/> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of property and equipment | (35,315) | (62,362) |
| Software development costs | (561,317) | (612,091) |
| | <hr/> | <hr/> |
| Net cash used in investing activities | (596,632) | (674,453) |
| | <hr/> | <hr/> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Note receivable from affiliate | 11,286 | 13,441 |
| Note receivable from related party | 3,878 | 2,687 |
| Sale of common stock | 315,000 | 56,000 |
| Proceeds from loan payable | 286,539 | 395,779 |
| Capital lease payments | (42,889) | (72,542) |
| Proceeds from line of credit | 99,300 | |

| | | |
|---|------------|-----------|
| Net cash provided by financing activities | 673,114 | 395,365 |
| NET INCREASE (DECREASE) IN CASH | 17,690 | (69,880) |
| Cash, beginning of year | | 69,880 |
| Cash, end of year | \$ 17,690 | \$ |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION: | | |
| Cash paid during the year for interest | \$ 145,876 | \$ 93,167 |
| Cash paid during the year for income taxes | \$ | \$ |

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PERCIPIA, INC. AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended June 30, 2004 and 2003

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of business

The Company and Subsidiary were each incorporated under the laws of the State of Ohio on July 1, 2000 as a result of a tax-free spin-off from Intercontinental Software Solutions, Inc. The Company provides installation and maintenance of telephony systems. In addition, the Company develops and customizes software for telephony systems to various industries, most notably hospitality.

Principles of consolidation

The financial statements reflect the accounts of Percipia, Inc. and its wholly-owned subsidiary, Percipia Networks, Inc. All significant inter-company balances and transactions have been eliminated upon consolidation.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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.

Accounts receivable

The Company provides for estimated losses on accounts receivable based on prior bad debt experience and a review of existing customer receivables.

Inventory

Inventory is valued at lower of cost or market value, using the average cost method.

Property and equipment

Property and equipment is depreciated over an estimated useful life of 5 to 7 years on a straight line basis.

Software costs

The Company capitalizes certain costs associated with software development in accordance with Statement of Financial Accounting Standard #86(FASB) Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed. The Company computes amortization based on the ratio of current gross revenues related to the product to the total current and anticipated future gross revenues for that product.

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PERCIPIA, INC. AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended June 30, 2004 and 2003

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition and unearned revenues

Installation revenues are considered earned at the time the project is completed. Maintenance contracts are recorded as unearned revenues at the time of collection and are recognized as income monthly over the term of the contract.

Advertising costs

The Company recognizes advertising costs as incurred. Advertising expense for the years ended June 30, 2004 and 2003 was \$3,562 and \$2,001, respectively.

Impairment of long-lived assets

The Company reviews long-lived assets for impairments 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 asset exceeds the fair value. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

Income taxes

The Company accounts for income taxes using SFAS No. 109, *Accounting for Income Taxes*, which requires recognition of deferred tax liabilities and assets for expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax liabilities and assets are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. A valuation allowance is recorded for deferred tax assets if it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Fair value of financial instruments

The carrying amounts of cash and cash equivalents, accounts receivable, inventory, accounts payable and accrued liabilities, approximately fair value due to the short-term maturities of these assets and liabilities. Other financial instruments approximate their fair values by the use of quoted market prices and other approximate valuation techniques, based on information available as of year-end.

NOTE 2 NOTE RECEIVABLE FROM AFFILIATE

The Company has a note receivable due from an affiliated company. The note has no stated interest rate or maturity date. Management believes that the note is fully collectible.

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PERCIPIA, INC. AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended June 30, 2004 and 2003

NOTE 3 PROPERTY AND EQUIPMENT

Property and equipment consists of the following at June 20, 2004:

| | |
|--------------------------|--|
| Furniture and fixtures | \$ 59,649 |
| Machinery and equipment | 332,131 |
| | <hr/> |
| | 391,783 |
| | (|
| Accumulated depreciation | 296,329) |
| | <hr/> |
| Total | \$ 95,454 |
| | <hr style="border-top: 3px solid black;"/> |

Depreciation expense for the years ended June 30, 2004 and 2003 was \$44,006 and \$73,512, respectively.

NOTE 4 BANK LINE OF CREDIT

The Company has a line of credit with a financial institution. The maximum credit limit is \$100,000. Interest is charged at 5.00 % annually and there is no stated maturity date. The line is callable by the financial institution at any time.

NOTE 5 NOTES PAYABLE

The Company has a note payable with a financial institution. The original amount of the note was \$324,258 with interest due monthly at 6.5%, maturing on April 27, 2008. The balance on the note at June 30, 2004 was \$312,388. The balance of the note was paid off on August 11, 2004.

The Company has 13 separate notes payable to third parties totaling \$1,115,701 as of June 30, 2004. These notes have varying interest rates between 7% and 21% per annum and mature at various dates through June 22, 2006. Each of these notes was paid in full on August 11, 2004.

NOTE 6 INCOME TAXES

The Company follows the liability method of accounting for income taxes. Under this method deferred tax liabilities and assets are recognized for the expected future tax consequences of temporary differences between the carrying amount and the tax basis of assets and liabilities at each year-end based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. As a result of timing differences associated with the carrying value of investments in marketable securities the company has recorded net deferred tax assets and liabilities.

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PERCIPIA, INC. AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended June 30, 2004 and 2003

NOTE 6 INCOME TAXES (Continued)

The benefit from income taxes in consolidated statements of operations consists of the following:

| | <u>2004</u> | <u>2003</u> |
|-----------|-------------|-------------|
| Current: | | |
| Federal | \$ | \$ |
| State | | |
| | _____ | _____ |
| | _____ | _____ |
| Deferred: | | |
| Federal | 155,000 | 28,800 |
| State | 22,000 | 4,200 |
| | _____ | _____ |
| | 177,000 | 33,000 |
| | _____ | _____ |
| Total | \$177,000 | \$33,000 |
| | _____ | _____ |

As of June 30, 2004, the component of the deferred tax liabilities is as follows:

| | Deferred Tax Liability | Deferred Tax Asset |
|----------------------------------|-----------------------------------|-------------------------------|
| Net operating loss carryover | \$ | \$635,000 |
| Tax/book basis of software costs | (860,000) | |
| Allowance for doubtful accounts | | 18,000 |
| | _____ | _____ |
| | \$(860,000) | \$653,000 |
| | _____ | _____ |

The Company has approximately \$1,648,000 in net operating loss carryforwards which expire beginning in 2021.

NOTE 7 BENEFIT PLAN

The Company has a savings plan under Section 401(k) of the Internal Revenue Code. The savings plan allows eligible employees to contribute up to 15% of their compensation on a pre-tax basis. Additionally, the plan includes a Company matching contribution of 10% of the employees' contribution up to 6% of the employees base compensation. Under the plan, the Company's matching contributions for the years ended June 30, 2004 and 2003 were \$1,534 and \$5,666, respectively.

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PERCIPIA, INC. AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended June 30, 2004 and 2003

NOTE 8 LEASE COMMITMENT

The Company leases its office and warehouse space. The lease calls for \$2,777 per month until August 31, 2006. Future lease payment commitments are as follows for the year ended June 30:

| | |
|-------|----------|
| 2005 | \$39,032 |
| 2006 | 5,576 |
| | <hr/> |
| Total | \$39,032 |
| | <hr/> |

Rent expense for the years ended June 30, 2004 and 2003 was \$36,868 and \$66,463, respectively.

NOTE 9 CONTINGENCY

The Company is currently involved in a legal matter with a customer in which the customer is demanding a refund of \$19,283 for certain services and goods provided by the Company. While management intends to vigorously defend itself against this claim, the Company has reserved \$20,000 for a potential loss from a negative judgment. This amount is included in accrued expenses at June 30, 2004.

NOTE 10 SUBSEQUENT EVENTS

On August 6, 2004, 100% of the common shares of each of Percipia, Inc. and Subsidiary were purchased by Sunair Electronics, Inc., resulting in the Company becoming a wholly-owned subsidiary of Sunair. The stock was purchased for \$660,000 and 190,000 shares of common stock of Sunair. Sunair also purchased all of the outstanding stock options of Percipia for approximately \$53,550, which is considered part of the acquisition price. In connection with the purchase, Sunair also paid in full all the outstanding notes payable of Percipia.

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(b) Pro Forma Financial Information.

The following pro forma financial information is filed herewith:

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**PERCIPIA, INC. AND SUBSIDIARY
PRO FORMA FINANCIAL INFORMATION**

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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 Percipia, Inc. (Percipia), and its wholly-owned subsidiary, Percipia Networks, Inc. (Subsidiary), each organized under the laws of the State of Ohio.

On August 6, 2004, the Registrant, Sunair Electronics, Inc. (Sunair) completed an acquisition (the Acquisition) of all the issued and outstanding common stock of Percipia and Subsidiary. The Acquisition was consummated pursuant to the terms and provisions of a Stock Purchase Agreement dated August 6, 2004. As a result, Percipia became a wholly owned-subsiary of Sunair. The consideration paid by Sunair consisted of cash of \$713,550 (including \$53,550 paid to retire all outstanding stock options of Percipia) and 190,000 shares of its common stock valued at \$997,500 based on an average price of \$5.25 over the thirty days prior to the Acquisition.

The unaudited pro forma condensed combined balance sheet gives effect to the Acquisition as if it had occurred on June 30, 2004. The unaudited pro forma combined statements of operations for the year ended September 30, 2003 and the nine months ended June 30, 2004 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 June 30, 2004 or October 1, 2003 or 2002. 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, 2003 and the related notes included in this Current Report on Form 8-K/A.

Table of Contents**SUNAIR ELECTRONICS, INC. AND SUBSIDIARIES****UNAUDITED PRO-FORMA CONDENSED BALANCE SHEET**

As of June 30, 2004

| | Sunair Electronics, Inc. Historical | Percipia, Inc. Historical | Total | Pro- Forma Adjustments | | Pro- Forma Combined |
|--|--|--------------------------------------|---------------------|---------------------------------------|---|------------------------------------|
| ASSETS | | | | | | |
| Cash | \$ 1,684,526 | \$ 17,690 | \$ 1,702,216 | \$ (713,550) | 1 | \$ 988,666 |
| Accounts receivable, net | 1,297,293 | 425,417 | 1,722,710 | | | 1,722,710 |
| Inventory | 6,906,744 | 380,750 | 7,287,494 | | | 7,287,494 |
| Deferred tax assets | | 653,000 | 653,000 | | | 653,000 |
| Investments | 4,968,068 | | 4,968,068 | | | 4,968,068 |
| Property and equipment, net | 585,881 | 95,453 | 681,334 | | | 681,334 |
| Software costs, net | | 2,223,390 | 2,223,390 | 476,610 | 2 | 2,700,000 |
| Notes receivable and other assets | 522,347 | 80,362 | 602,709 | | | 602,709 |
| Investment in subsidiary | | | | 1,711,050 | 1 | |
| | | | | (1,711,050) | 2 | |
| Goodwill | | | | 724,723 | 2 | 724,723 |
| Total Assets | \$15,964,859 | \$3,876,062 | \$19,840,921 | \$ 487,783 | | \$20,328,704 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | | | | | |
| Accounts payable | \$ 357,281 | \$ 239,098 | \$ 596,379 | \$ | | \$ 596,379 |
| Accrued expenses and other liabilities | | 555,877 | 555,877 | | | 555,877 |
| Deferred tax liability | | 860,000 | 860,000 | | | 860,000 |
| Unearned revenues | | 145,106 | 145,106 | | | 145,106 |
| Bank line of credit | | 99,300 | 99,300 | | | 99,300 |
| Notes payable and capital leases | | 1,466,964 | 1,466,964 | | | 1,466,964 |
| Total Liabilities | 357,281 | 3,366,345 | 3,723,626 | | | 3,723,626 |
| Common stock | 381,662 | 818,500 | 1,200,162 | 19,000 | 1 | |
| | | | | (818,500) | 2 | 400,662 |
| Additional paid-in capital | 2,873,606 | | 2,873,606 | 978,500 | 1 | 3,852,106 |

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| | | | | | | |
|---|---------------------|--------------------|---------------------|-------------------|---|---------------------|
| Retained earnings (deficit) | <u>12,352,310</u> | <u>(308,783)</u> | <u>12,043,527</u> | <u>308,783</u> | 2 | <u>12,352,310</u> |
| Total Stockholders Equity | <u>15,607,578</u> | <u>509,717</u> | <u>16,117,295</u> | <u>487,783</u> | | <u>16,605,078</u> |
| Total Liabilities and Stockholders Equity | <u>\$15,964,859</u> | <u>\$3,876,062</u> | <u>\$19,840,921</u> | <u>\$ 487,783</u> | | <u>\$20,328,704</u> |

Table of Contents**SUNAIR ELECTRONICS, INC. AND SUBSIDIARIES****UNAUDITED PRO-FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS****For the Nine Months ended June 30, 2004**

| | Sunair Electronics, Inc. Historical | Percipia, Inc. Historical | Pro Forma Adjustments | Pro Forma Combined |
|--|--|--------------------------------------|--------------------------------------|-------------------------------|
| Revenues | \$5,951,143 | \$1,680,832 | \$ | \$7,631,975 |
| Cost of revenues | <u>3,284,769</u> | <u>726,773</u> | <u>—</u> | <u>4,011,542</u> |
| Gross profit | 2,666,374 | 954,059 | | 3,620,433 |
| Selling, general and administrative expenses | <u>1,557,428</u> | <u>796,696</u> | <u>—</u> | <u>2,354,124</u> |
| Income (loss) from operations | 1,108,946 | 157,363 | | 1,266,309 |
| Other income (expenses): | <u>170,467</u> | <u>(183,317)</u> | <u>—</u> | <u>(12,850)</u> |
| Income (loss) before benefit from (provision for) income taxes | 1,279,413 | (25,954) | | 1,253,459 |
| Benefit from (provision for) income taxes | <u>(372,100)</u> | <u>10,122</u> | <u>—</u> | <u>(361,978)</u> |
| NET INCOME (LOSS) | <u>\$ 907,313</u> | <u>\$ (15,832)</u> | <u>\$</u> | <u>\$ 891,481</u> |
| Pro-forma net income per common share | | | | |
| Basic | <u>\$ 0.24</u> | | | <u>\$ 0.22</u> |
| Diluted | <u>\$ 0.23</u> | | | <u>\$ 0.22</u> |
| Weighted average of pro-forma shares outstanding: | | | | |
| Basic | <u>3,797,004</u> | | | <u>3,987,004</u> |
| Diluted | <u>3,905,854</u> | | | <u>4,095,854</u> |

Table of Contents**SUNAIR ELECTRONICS, INC. AND SUBSIDIARIES****UNAUDITED PRO-FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS
For the Year Ended September 30, 2003**

| | Sunair Electronics, Inc. Historical | Percipia, Inc. Historical | Pro Forma Adjustments | Pro Forma Combined |
|--|--|--------------------------------------|--------------------------------------|-------------------------------|
| Revenues | \$5,910,739 | \$2,908,581 | \$ | \$8,819,320 |
| Cost of revenues | <u>3,293,258</u> | <u>1,300,641</u> | <u>—</u> | <u>4,593,899</u> |
| Gross profit | 2,617,481 | 1,607,940 | | 4,225,421 |
| Selling, general and administrative expenses | <u>1,770,079</u> | <u>1,355,733</u> | <u>—</u> | <u>3,125,812</u> |
| Income (loss) from operations | 847,402 | 252,207 | | 1,099,609 |
| Other income (expenses): | <u>312,676</u> | <u>(141,950)</u> | <u>—</u> | <u>170,726</u> |
| Income (loss) before benefit from (provision for) income taxes | 1,160,078 | 110,257 | | 1,270,335 |
| Benefit from (provision for) income taxes | <u>(384,250)</u> | <u>(43,000)</u> | <u>—</u> | <u>(427,250)</u> |
| NET INCOME (LOSS) | <u>\$ 775,828</u> | <u>\$ 67,257</u> | <u>\$</u> | <u>\$ 843,085</u> |
| Pro-forma net income per common share | | | | |
| Basic | <u>\$ 0.20</u> | | | <u>\$ 0.21</u> |
| Diluted | <u>\$ 0.21</u> | | | <u>\$ 0.21</u> |
| Weighted average of pro-forma shares outstanding: | | | | |
| Basic | <u>3,797,004</u> | | | <u>3,987,004</u> |
| Diluted | <u>3,751,037</u> | | | <u>3,941,037</u> |

Table of Contents**SUNAIR ELECTRONICS, INC AND SUBSIDIARY****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 August 6, 2004, Sunair paid \$660,000 in cash and issued an aggregate number of 190,000 shares of its common stock in exchange for all of the issued and outstanding shares of Percipia and Subsidiary. On or around that date, Sunair also purchased all of the outstanding stock options of Percipia for \$53,550.

The following table set forth the preliminary allocation of the purchase price to Percipia's tangible and intangible assets acquired and liabilities assumed as of June 30, 2004:

| | |
|----------------------------------|--------------|
| Cash | \$ 17,690 |
| A/R | 425,417 |
| Inventory | 380,750 |
| Deferred tax assets | 653,000 |
| Fixed assets | 95,453 |
| Software | 2,700,000 |
| Note receivable and other assets | 80,362 |
| Goodwill | 724,723 |
| Accounts payable | (239,098) |
| Accrued liabilities | (555,877) |
| Deferred tax liability | (860,000) |
| Unearned revenues | (145,106) |
| Line of Credit | (99,300) |
| Notes Payable | (1,428,089) |
| Capital leases | (38,875) |
| | <hr/> |
| Total | \$ 1,711,050 |
| | <hr/> |

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NOTE 3 PRO FORMA ADJUSTMENTS

1. Reflects common stock of Sunair issued at \$.10 par value and additional paid-in capital as a result of the issuance, and the cash disbursed in connection with the acquisition of Percipia.
2. To reflect consolidation of the common stock and retained deficit of Percipia and to reflect adjustment from book value to market value. The excess of purchase price over the book value was allocated first to increase the software costs to the appraised value on the date of purchase. The remainder was allocated to goodwill.

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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 ELECTRONICS, INC.

Date: October 20, 2004

By: /s/ SYNNOTT B. DURHAM

Synnott B. Durham
Chief Financial Officer