

SUNAIR ELECTRONICS INC

Form 8-K/A

December 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) October 5, 2004

SUNAIR ELECTRONICS, INC.

(Exact name of registrant as specified in its charter)

Florida

(State or Other Jurisdiction
of Incorporation)

1-04334

(Commission
File Number)

**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)

59-0780772

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

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 October 12, 2004, relating to the acquisition by Sunair Electronics, Inc., through a wholly-owned subsidiary, Sunair Communications, Limited, a private limited company incorporated in England, of substantially all the assets of Telecom FM Limited, a private limited company incorporated in England.

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:

CPM FM Limited (formerly known as Telecom FM Limited)
Financial statements for the years ended 31 May 2004 and 2003

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Report of the independent registered public accounting firm

To the members of CPM FM Limited:

We have audited the accompanying balance sheets of CPM FM Limited as of 31 May 2004 and 2003 and the profit and loss accounts for the years then ended. These financial statements are the responsibility of CPM FM Limited's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in the United Kingdom and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 present fairly, in all material respects, the financial position of CPM FM Limited as of 31 May 2004 and 2003 and the results of its operations for the years then ended, in conformity with generally accepted accounting principles in the United Kingdom.

Accounting principles generally accepted in the United Kingdom vary in certain significant respects from accounting principles generally accepted in the United States of America. Information relating to the nature and effect of such differences is presented in Note 25 to the financial statements.

GRANT THORNTON UK LLP
REGISTERED AUDITORS
CHARTERED ACCOUNTANTS
OXFORD

Date: December 15, 2004

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**CPM FM Limited
Financial statements for the years ended 31 May 2004 and 2003**

Principal accounting policies

Basis of accounting

The financial statements have been prepared under the historical cost convention and in accordance with United Kingdom applicable accounting standards. The principal accounting policies of the company have remained unchanged from the previous year and are set out below.

Cash flow statement

The director has taken advantage of the exemption in Financial Reporting Standard No 1 (revised) from including a cash flow statement in the financial statements on the grounds that the company is wholly owned and its parent publishes a consolidated cash flow statement.

Turnover

Turnover is the total amount receivable by the company for goods supplied and services provided, excluding VAT and trade discounts. Revenue from installation of equipment is recognised on completion. All other revenue is recognised on delivery.

Research and development

Research and development expenditure is written off in the year in which it is incurred.

Depreciation

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value by equal annual installments over the useful economic life of that asset as follows:

| | |
|----------------------------------|--------|
| Fixtures, fittings and equipment | 25-33% |
| Computer equipment | 33% |

Investments

Investments are included at cost less amounts written off.

Stocks

Stocks are stated at the lower of cost and net realisable value. Short-term work in progress cost includes all costs incurred in bringing the stock to its current location and condition.

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CPM FM Limited
Financial statements for the years ended 31 May 2004 and 2003

Operating lease agreements

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged against profits on a straight line basis over the period of the lease.

Pension costs

The company operates a defined contribution pension scheme for employees. The assets of the scheme are held separately from those of the company. The annual contributions payable are charged to the profit and loss account.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax.

Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Foreign currencies

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Exchange differences are taken into account in arriving at the operating profit.

Table of Contents**CPM FM Limited****Financial statements for the years ended 31 May 2004 and 2003****Profit and loss account**

| | Note | 2004 £ | 2003 £ |
|---|-------------|-------------------------|-------------------------|
| Turnover | 1 | 2,782,007 | 2,916,195 |
| Cost of sales | | (1,057,597) | (1,271,036) |
| | | <hr/> | <hr/> |
| Gross profit | | 1,724,410 | 1,645,159 |
| Other operating charges | 2 | (2,033,740) | (2,285,076) |
| Exceptional items | 3 | 442,313 | |
| | | <hr/> | <hr/> |
| Operating profit/(loss) | 4 | 132,983 | (639,917) |
| Intercompany debt forgiven | 5 | | (360,777) |
| Interest receivable | | 2,849 | 7,165 |
| Interest payable and similar charges | | (44,241) | (23,336) |
| | | <hr/> | <hr/> |
| Profit/(loss) on ordinary activities before taxation | | 91,591 | (1,016,865) |
| Tax on profit/(loss) on ordinary activities | 8 | 26,871 | 116,747 |
| | | <hr/> | <hr/> |
| Profit/(loss) for the financial year | 20 | 118,462 | (900,118) |
| | | <hr/> | <hr/> |

All of the activities of the company are classed as continuing.

The company has no recognised gains or losses other than the results for the year as set out above.

The accompanying accounting policies and notes form part of these financial statements.

Table of Contents**CPM FM Limited****Financial statements for the years ended 31 May 2004 and 2003****Balance sheet**

| | Note | 2004 £ | 2003 £ |
|--|------|------------------|-----------|
| Fixed assets | | | |
| Tangible assets | 9 | 18,023 | 52,890 |
| Investments | 10 | | 500,060 |
| | | <hr/> | <hr/> |
| | | 18,023 | 552,950 |
| | | <hr/> | <hr/> |
| Current assets | | | |
| Stocks | 11 | 901,707 | 982,215 |
| Debtors | 12 | 531,505 | 891,719 |
| Cash at bank and in hand | | 859,362 | 259,919 |
| | | <hr/> | <hr/> |
| | | 2,292,574 | 2,133,853 |
| Creditors: amounts falling due within one year | 13 | 2,357,353 | 1,852,021 |
| | | <hr/> | <hr/> |
| Net current (liabilities)/assets | | (64,779) | 281,832 |
| | | <hr/> | <hr/> |
| Total assets less current liabilities | | (46,756) | 834,782 |
| Creditors: amounts falling due after more than one year | 14 | 50,000 | 1,050,000 |
| | | <hr/> | <hr/> |
| | | (96,756) | (215,218) |
| | | <hr/> | <hr/> |
| Capital and reserves | | | |
| Called-up equity share capital | 19 | 1,000 | 1,000 |
| Profit and loss account | 20 | (97,756) | (216,218) |
| | | <hr/> | <hr/> |
| Deficiency in shareholders funds | 21 | (96,756) | (215,218) |
| | | <hr/> | <hr/> |

The accompanying accounting policies and notes form part of these financial statements.

Table of Contents**CPM FM Limited****Financial statements for the years ended 31 May 2004 and 2003****Notes to the financial statements****1 Turnover**

The turnover and profit/(loss) before tax are attributable to the one principal activity of the company. An analysis of turnover is given below:

| | 2004 | 2003 |
|----------------|-------------------------|------------------|
| | £ | £ |
| United Kingdom | 790,195 | 2,029,714 |
| Europe | 1,109,325 | 413,451 |
| Rest of world | 882,487 | 473,030 |
| | <u>2,782,007</u> | <u>2,916,195</u> |

2 Other operating income and charges

| | 2004 | 2003 |
|-------------------------|-------------------------|------------------|
| | £ | £ |
| Distribution costs | 1,421,726 | 1,560,886 |
| Administrative expenses | 612,014 | 724,190 |
| | <u>2,033,740</u> | <u>2,285,076</u> |

3 Exceptional items

| | 2004 | 2003 |
|---|-----------------------|-------------|
| | £ | £ |
| Waiver of intercompany debt by group undertakings | 942,373 | |
| Provision against investments | (500,060) | |
| | <u>442,313</u> | <u>-</u> |

4 Operating profit/(loss)

Operating profit/(loss) is stated after charging:

| | 2004 | 2003 |
|------------------------------------|---------------|-------------|
| | £ | £ |
| Depreciation of owned fixed assets | 34,867 | 48,390 |
| Auditors remuneration: | | |
| Audit fees | 10,300 | 9,600 |
| Operating lease costs: | | |
| Land and buildings | 61,230 | 60,500 |

Table of Contents**CPM FM Limited****Financial statements for the years ended 31 May 2004 and 2003****5 Intercompany debt forgiven**

The charge of £nil (2003 £360,777) relates to the waiver of the intercompany debtor due from CPM FM Development Limited (formerly known as Telecom FM Developments Limited).

6 Directors and employees

The average number of staff employed by the company during the financial year amounted to:

| | 2004 | 2003 |
|---|-------------|-------------|
| | No | No |
| Number of sales and marketing staff | 7 | 8 |
| Number of administration and support services staff | 12 | 18 |
| Number of development staff | 6 | 7 |
| | <u>—</u> | <u>—</u> |
| | 25 | 33 |
| | — | — |

The aggregate payroll costs of the above were:

| | 2004 | 2003 |
|-----------------------|------------------|------------------|
| | £ | £ |
| Wages and salaries | 1,104,255 | 1,244,199 |
| Social security costs | 128,685 | 137,774 |
| Other pension costs | 51,958 | 59,320 |
| | <u>—</u> | <u>—</u> |
| | 1,284,898 | 1,441,293 |
| | — | — |

7 Director

Remuneration in respect of the director was as follows:

| | 2004 | 2003 |
|--|----------------|----------------|
| | £ | £ |
| Emoluments receivable | 131,763 | 132,240 |
| Value of company pension contributions to money purchase schemes | 12,995 | 12,995 |
| | <u>—</u> | <u>—</u> |
| | 144,758 | 145,235 |
| | — | — |



The director is accruing benefits under the company pension scheme.

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Table of Contents**CPM FM Limited****Financial statements for the years ended 31 May 2004 and 2003****8 Taxation on ordinary activities**

(a) Analysis of charge in the year

| | 2004 | 2003 |
|--|-----------------|-------------|
| | £ | £ |
| Current tax: | | |
| Corporation tax based on the results for the year at 19% (2003 - 19%) | (26,206) | (80,234) |
| Under provision in prior year | (665) | (36,513) |
| | <hr/> | <hr/> |
| Total current tax | (26,871) | (116,747) |
| | <hr/> | <hr/> |

(b) Factors affecting current tax charge

The tax assessed on the profit/(loss) on ordinary activities for the year is higher than the standard rate of corporation tax in the UK of 19% (2003 - 19%).

| | 2004 | 2003 |
|---|-----------------|-------------|
| | £ | £ |
| Profit/(loss) on ordinary activities before taxation | 91,591 | (1,016,865) |
| | <hr/> | <hr/> |
| Profit/(loss) on ordinary activities by rate of tax | 17,402 | (193,204) |
| Expenses not deductible for tax purposes | (81,331) | 70,479 |
| Depreciation in excess of capital allowances | 2,192 | 3,008 |
| Group relief | | 57,273 |
| Adjustments to tax charge in respect of prior year (Excess)/ deficit of research and development expense uplift over losses surrendered | (665) | (36,513) |
| | (2,553) | 51,822 |
| Research and development tax credit | (26,206) | (80,234) |
| Unrelieved tax losses | 64,290 | 10,622 |
| | <hr/> | <hr/> |
| Total current tax (note 8(a)) | (26,871) | (116,747) |
| | <hr/> | <hr/> |

(c) Factors that may affect future tax charges

Unrelieved tax losses of £584,000 (2003 - £232,000) remain available to offset against future taxable trading profits. No deferred tax asset has been recognised in respect of these losses as it is considered unlikely to be

recovered in the foreseeable future.

Table of Contents**CPM FM Limited****Financial statements for the years ended 31 May 2004 and 2003****9 Tangible fixed assets**

| | Fixtures, fittings and equipment £ | Computer equipment £ | Total £ |
|--------------------------------|---|-------------------------------------|--------------------|
| Cost | | | |
| At 1 June 2003 and 31 May 2004 | 100,318 | 107,441 | 207,759 |
| | <hr/> | <hr/> | <hr/> |
| Depreciation | | | |
| At 1 June 2003 | 70,722 | 84,147 | 154,869 |
| Charge for the year | 17,070 | 17,797 | 34,867 |
| | <hr/> | <hr/> | <hr/> |
| At 31 May 2004 | 87,792 | 101,944 | 189,736 |
| | <hr/> | <hr/> | <hr/> |
| Net book value | | | |
| At 31 May 2004 | 12,526 | 5,497 | 18,023 |
| | <hr/> | <hr/> | <hr/> |
| At 31 May 2003 | 29,596 | 23,294 | 52,890 |
| | <hr/> | <hr/> | <hr/> |

10 Investments

| | Shares in group undertakings £ |
|--------------------------------|---|
| Cost | |
| At 1 June 2003 | 500,060 |
| Amounts written off | |
| At 1 June 2003 | |
| Provided in the year | 500,060 |
| | <hr/> |
| At 31 May 2004 | <hr/> |
| Net book amount at 31 May 2004 | <hr/> |

Net book amount at 31 May 2003

500,060

Table of Contents**CPM FM Limited****Financial statements for the years ended 31 May 2004 and 2003**

At 31 May 2004 the company held more than 20% of the allotted share capital of the following subsidiary undertakings:

| | Class of share capital held | Proportion held by company | Proportion held by parent company | Nature of business |
|---|------------------------------------|-----------------------------------|--|----------------------------------|
| CPM Capital PLC (formerly known as Telecom Capital PLC) | Ordinary | 100% | | Credit finance by way of leasing |
| CPM FM Developments Limited (formerly known as Telecom FM Developments Limited) | Ordinary | 60% | 40% | Non-trading |

The company has not prepared consolidated financial statements as the ultimate parent undertaking, CPM FM Group Limited, has prepared consolidated financial statements.

11 Stocks

| | 2004 | 2003 |
|------------------|-----------------------|-----------------------|
| | £ | £ |
| Work in progress | 771,847 | 832,354 |
| Finished goods | 129,860 | 149,861 |
| | <u>901,707</u> | <u>982,215</u> |

12 Debtors

| | 2004 | 2003 |
|--------------------------------|-----------------------|-----------------------|
| | £ | £ |
| Trade debtors | 401,196 | 640,471 |
| Taxation recoverable | 30,492 | 116,980 |
| Other debtors | 69,746 | 81,852 |
| Prepayments and accrued income | 30,071 | 52,416 |
| | <u>531,505</u> | <u>891,719</u> |

The debtors above include the following amounts falling due after more than one year:

| | 2004 | 2003 |
|--|----------------------|----------------------|
| | £ | £ |
| Rent deposit recoverable in more than one year | <u>23,100</u> | <u>23,100</u> |

Table of Contents**CPM FM Limited****Financial statements for the years ended 31 May 2004 and 2003****13 Creditors: amounts falling due within one year**

| | 2004 | 2003 |
|------------------------------------|------------------|-------------|
| | £ | £ |
| Bank overdraft | 908,043 | 594,621 |
| Trade creditors | 461,161 | 528,631 |
| Amounts owed to group undertakings | 850,000 | 464,625 |
| Other taxation and social security | 41,963 | 45,567 |
| Other creditors | 5,814 | 33,757 |
| Accruals and deferred income | 90,372 | 184,820 |
| | <hr/> | <hr/> |
| | 2,357,353 | 1,852,021 |
| | <hr/> | <hr/> |

The bank overdraft is secured by a fixed and floating charge over all assets of the company.

14 Creditors: amounts falling due after more than one year

| | 2004 | 2003 |
|--|---------------|-------------|
| | £ | £ |
| Loan from TFM pension scheme | 50,000 | 50,000 |
| Amount due to immediate parent company | <hr/> | 1,000,000 |
| | <hr/> | <hr/> |
| | 50,000 | 1,050,000 |
| | <hr/> | <hr/> |

The loan from TFM pension scheme is repayable on 31 May 2006 with interest being charged at 3% above the Bank of Scotland base rate.

15 Pensions

The company operates a defined contribution pension scheme for the benefit of the employees. The assets of the scheme are administered by trustees in a fund independent from those of the company.

16 Leasing commitments

At 31 May 2004 the company had annual commitments under non-cancellable operating leases as set out below.

Land & Buildings

| | 2004 | 2003 |
|--------------------------------|---------------|-------------|
| | £ | £ |
| Operating leases which expire: | | |
| After more than 5 years | 60,500 | 60,500 |

17 Contingent liabilities

The company guarantees the bank loans and overdrafts of its subsidiaries and parent company. The total of loans and overdrafts at 31 May 2004 amounted to £ nil (2003 - £ nil).

At 31 May 2004 a claim had been made against the company by a customer. Having taken legal advice the company is rigorously defending the action which it believes to be without merit. The director does not consider that any significant financial liability will arise as a result of this matter.

Table of Contents**CPM FM Limited****Financial statements for the years ended 31 May 2004 and 2003****18 Related party transactions**

As a wholly owned subsidiary of CPM FM Group Limited, the company is exempt from the requirements of FRS 8 to disclose transactions with other members of the group on the grounds that the accounts are publicly available from Companies House.

At 31 May 2004 the company owed the TFM pension scheme £50,000 (2003: £50,000) as detailed in note 14. Interest payable on this loan during the year was £ 3,383 (2003: £3,455).

19 Share capital

Authorised share capital:

| | 2004 | 2003 |
|----------------------------------|--------------|-------------|
| | £ | £ |
| 505 A Ordinary shares of £1 each | 505 | 505 |
| 495 B Ordinary shares of £1 each | 495 | 495 |
| | <hr/> | <hr/> |
| | 1,000 | 1,000 |
| | <hr/> | <hr/> |

Allotted, called up and fully paid:

| | 2004 | | 2003 | |
|------------------------------|--------------|--------------|-------------|----------|
| | No | £ | No | £ |
| A Ordinary shares of £1 each | 505 | 505 | 505 | 505 |
| B Ordinary shares of £1 each | 495 | 495 | 495 | 495 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| | 1,000 | 1,000 | 1,000 | 1,000 |
| | <hr/> | <hr/> | <hr/> | <hr/> |

The shares rank pari passu.

20 Profit and loss account

| | 2004 | 2003 |
|--|------------------|-------------|
| | £ | £ |
| Balance brought forward | (216,218) | 683,900 |
| Accumulated profit/(loss) for the financial year | 118,462 | (900,118) |
| | <hr/> | <hr/> |

| | | |
|-------------------------|-----------------|-----------|
| Balance carried forward | (97,756) | (216,218) |
|-------------------------|-----------------|-----------|

21 Reconciliation of movements in shareholders funds

| | 2004 | 2003 |
|--------------------------------------|------------------|-------------|
| | £ | £ |
| Profit/(loss) for the financial year | 118,462 | (900,118) |
| Opening shareholders (deficit)/funds | (215,218) | 684,900 |
| | <hr/> | <hr/> |
| Closing shareholders deficit | (96,756) | (215,218) |
| | <hr/> | <hr/> |

Table of Contents**CPM FM Limited****Financial statements for the years ended 31 May 2004 and 2003****22 Ultimate parent company**

The directors consider that the ultimate parent undertaking of this company is CPM FM Group Limited, a company registered in England and Wales.

The largest group of undertakings for which consolidated financial statements will be drawn up is headed by CPM FM Group Limited.

23 Capital commitments

The director has confirmed that there were no capital commitments at 31 May 2004 or 31 May 2003.

24 Post balance sheet event

The company sold its trade and assets for US\$1,500,000 in September 2004, US\$250,000 of which is deferred consideration.

25 Summary of the differences between accounting principles generally accepted in the United Kingdom and the United States

The financial statements are prepared in conformity with accounting principles generally accepted in the United Kingdom (U.K. GAAP) which differ in certain respects from accounting principles generally accepted in the United States of America (U.S. GAAP).

As permitted by Item 17 of Form 20-F, the following statements of cash flows were prepared in conformity with U.S. GAAP.

The following is a summary of the significant adjustments to turnover, profit (loss) on ordinary activities, and shareholders' deficiency when reconciling amounts recorded in the financial statements to the corresponding amounts in accordance with U.S. GAAP

| | | Year ended May 31, 2004 | Year ended May 31, 2003 |
|---------------------------------------|-----|------------------------------------|------------------------------------|
| Turnover under U.K. GAAP | | £2,782,007 | £2,916,195 |
| U.S. GAAP adjustments | | | |
| Turnover of consolidated subsidiaries | (a) | <u>24,975</u> | <u>78,172</u> |
| Turnover under U.S. GAAP | | <u>£2,806,982</u> | <u>£2,994,367</u> |
| | | Year ended May 31, 2004 | Year ended May 31, 2003 |

| | | | |
|--|-----|-----------------------------|-----------------------------|
| Profit (loss) on ordinary activities under U.K. GAAP | | £ 118,462 | £(900,118) |
| U.S. GAAP adjustments: | | | |
| Elimination of waiver of intercompany debt of consolidated subsidiaries | (a) | (534,721) | 360,777 |
| Profit (loss) on ordinary activities of consolidated subsidiaries | (a) | (32,097) | 116,111 |
| Elimination of provision against investments | (a) | 500,060 | |
| add another a Reclassification of waiver of intercompany debt by group undertakings to shareholders fund | (b) | (407,652) | |
| | | <u> </u> | <u> </u> |
| Loss on ordinary activities under U.S. GAAP | | <u>£(355,948)</u> | <u>£(423,230)</u> |

Table of Contents**CPM FM Limited****Financial statements for the years ended 31 May 2004 and 2003**

| | | Year ended May 31, 2004 | Year ended May 31, 2003 |
|--|-----|------------------------------------|------------------------------------|
| Shareholders' deficiency under U.K. GAAP | | £ (96,756) | £(215,218) |
| U.S. GAAP adjustments: | | | |
| Shareholders' funds of consolidated subsidiaries | (a) | 57,560 | 625,070 |
| Elimination of provision against investments | (a) | 500,060 | |
| Elimination of consolidated subsidiaries' capital accounts | (a) | (500,100) | (500,100) |
| | | <u> </u> | <u> </u> |
| Shareholders' deficiency under U.S. GAAP | | £ (39,236) | £ (90,248) |
| | | <u> </u> | <u> </u> |

(a) Principles of consolidation

The Company held 100% of the allotted share capital of CPM Capital PLC (formerly known as Telecom Capital PLC) and 60% of the allotted share capital of CPM FM Developments Limited (formerly known as Telecom FM Developments Limited). Under U.K. GAAP, the Company is exempted from consolidating its majority-owned investments, as the ultimate parent undertaking, CPM FM Group Limited, has prepared consolidated financial statements.

U.S. GAAP require consolidation of all majority-owned subsidiaries.

(b) Waiver of intercompany debt by group undertakings

Under U.K. GAAP, waiver of debt to or from related parties are included in the profit and loss account.

Under U.S. GAAP, waiver of debt to or from related parties are included in shareholders' funds (deficiency) accounts.

Presentational Differences:

Deferred income taxes

Under U.K. GAAP, deferred tax is provided in full on timing differences that result in a obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallize based on current tax rates and laws. Deferred tax assets are recognized to the extent it is regarded as more likely than not that they will be recovered.

Under U.S. GAAP, deferred taxes are provided for all temporary differences on a full asset and liability basis. A valuation allowance is established in respect of those deferred tax assets where it is more likely than not that some portion will not be realized. Under U.S. GAAP, the Company's net deferred tax assets have been fully valued at both May 31, 2004 and 2003 (resulting in a net deferred tax asset of nil at both dates).

Balance sheet presentation

Under U.K. GAAP, assets in the balance sheet are presented in ascending order of liquidity.

Under U.S. GAAP, assets are presented in descending order of liquidity.

Table of Contents**CPM FM Limited****Financial statements for the years ended 31 May 2004 and 2003**

Comprehensive Income (Loss)

The comprehensive income (loss) under U.S. GAAP is the same as net income (loss) under U.S. GAAP for all periods presented.

Cash Flow Statement

The following is a cash flow statement under U.S. GAAP.

| | 2004 | 2003 |
|---|----------------|------------------|
| | <hr/> | <hr/> |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net loss | £(355,948) | £(423,230) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation | 34,867 | 48,390 |
| Changes in operating assets and liabilities: | | |
| (Increase) decrease in: | | |
| Inventories | 80,508 | 530,264 |
| Tax receivable | 90,399 | (34,327) |
| Accounts receivable | 239,275 | (409,877) |
| Net investment in finance leases | 324,725 | (71,137) |
| Prepaid and other current assets | 89,941 | (54,465) |
| Increase (decrease) in: | | |
| Accounts payable | (64,686) | (572,606) |
| Due to related party | (206,973) | |
| Accrued expenses and other current liabilities | (131,432) | 53,711 |
| | <hr/> | <hr/> |
| Net Cash Provided by (Used In) Operating Activities | 100,676 | (933,277) |
| | <hr/> | <hr/> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Collections on receivables from related parties | 211,221 | |
| Purchase of machinery and equipment | | (12,318) |
| | <hr/> | <hr/> |
| Net Cash Provided by (Used In) Investing Activities | 211,221 | (12,318) |
| | <hr/> | <hr/> |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Bank overdraft | 313,422 | 582,290 |
| | <hr/> | <hr/> |
| Net Cash Provided by Financing Activities | 313,422 | 582,290 |

| | | |
|--|-----------|-----------|
| | _____ | _____ |
| NET INCREASE (DECREASE) IN CASH | 625,319 | (363,305) |
| CASH, BEGINNING OF PERIOD: | 262,832 | 626,137 |
| | _____ | _____ |
| CASH, END OF PERIOD | £ 888,151 | £ 262,832 |
| | _____ | _____ |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION: | | |
| Interest paid during the period | £ 45,083 | £ 23,398 |
| | _____ | _____ |
| Income taxes paid during the period | £ 28,619 | £ |
| | _____ | _____ |
| SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES: | | |
| Waiver of related party debt credited to additional paid-in capital | £ 407,652 | £ |
| | _____ | _____ |

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(b) Pro Forma Financial Information.

The following pro forma financial information is filed herewith:

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**SUNAIR ELECTRONICS INC. AND SUBSIDIARIES
UNAUDITED PRO FORMA CONDENSED COMBINED 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 CPM FM Limited (formerly known as Telecom FM Limited) (Telecom).

On October 5, 2004, Sunair Electronics, Inc. (the Registrant), (Sunair), through a wholly-owned subsidiary, Sunair Communications, Limited, a private limited company incorporated in England (SCL), entered into a definitive Asset Purchase Agreement by and amount SCL, Telecom, a private limited company incorporated in England, and TFM Group Limited, a private limited company incorporated in England and the sole shareholder of Telecom, pursuant to which Sunair acquired substantially all of the assets and assumed certain liabilities of Telecom for \$1,500,000 cash.

Sunair deferred payment of \$250,000 of the purchase price, which Sunair may set off against any indemnifiable damages pursuant to the Asset Purchase Agreement. Sunair agreed to deliver the deferred payment amount to Telecom no later than ten business days following the one hundred eightieth day after closing, unless any indemnifiable claims remain unresolved at such time.

The transaction was closed on October 11, 2004 and, as stated in the Asset Purchase Agreement, became effective on September 1, 2004.

The unaudited pro forma condensed combined balance sheet gives effect to this 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**

June 30, 2004

| | Sunair Electronics, Inc. Historical (1) | CPM FM Limited Historical | Total | Pro Forma Adjustments | | Pro Forma Combined |
|--|--|--|---------------------|--------------------------------------|-----|-----------------------------------|
| ASSETS | | | | | | |
| Cash | \$ 988,666 | \$ | \$ 988,666 | \$(1,250,000) | (2) | \$ (261,334) |
| Accounts receivable, net | 1,722,710 | 1,404,935 | 3,127,645 | | | 3,127,645 |
| Inventories | 7,287,494 | 1,563,764 | 8,851,258 | | | 8,851,258 |
| Deferred tax assets | 653,000 | | 653,000 | | | 653,000 |
| Prepaid expenses and other current assets | | | | | | 204,535 |
| Investments | 4,968,068 | | 4,968,068 | | | 4,968,068 |
| Property and equipment, net | 681,334 | 28,805 | 710,139 | | | 710,139 |
| Software costs, net | 2,700,000 | | 2,700,000 | | | 2,700,000 |
| Notes receivable and other assets | 602,709 | | 602,709 | | | 602,709 |
| Investment in subsidiary | | | | 1,500,000 | (2) | |
| | | | | (1,500,000) | (3) | |
| Goodwill | 724,723 | | 724,723 | 119,775 | (3) | 844,498 |
| | <u>20,328,704</u> | <u>3,202,039</u> | <u>23,530,743</u> | <u>(1,130,225)</u> | | <u>22,400,518</u> |
| Total Assets | \$20,328,704 | \$ 3,202,039 | \$23,530,743 | \$(1,130,225) | | \$22,400,518 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | | | | | |
| Accounts payable | \$ 596,379 | \$ 881,130 | \$ 1,477,509 | | | \$ 1,477,509 |
| Bank overdraft | | 595,444 | 595,444 | | | 595,444 |
| Accrued expenses and other liabilities | 555,877 | 254,870 | 810,747 | 250,000 | (2) | 1,060,747 |
| 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 | 90,370 | 1,557,334 | | | 1,557,334 |
| | <u>3,723,626</u> | <u>1,821,814</u> | <u>5,545,440</u> | <u>250,000</u> | | <u>5,795,440</u> |
| Total Liabilities | 3,723,626 | 1,821,814 | 5,545,440 | 250,000 | | 5,795,440 |

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| | | | | | | |
|---|---------------------|---------------------|---------------------|----------------------|-----|---------------------|
| Common stock | 400,662 | 1,619 | 402,281 | (1,619) | (3) | 400,662 |
| Additional paid-in capital | 3,852,106 | 3,252,725 | 7,104,831 | (3,252,725) | (3) | 3,852,106 |
| Retained earnings (deficit) | 12,352,310 | (1,816,702) | 10,535,608 | 1,816,702 | (3) | 12,352,310 |
| Accumulated other comprehensive loss | | | | | | <u>(57,417)</u> |
| Total Stockholders Equity | <u>16,605,078</u> | <u>1,380,225</u> | <u>17,985,303</u> | <u>(1,380,225)</u> | | <u>16,605,078</u> |
| Total Liabilities and Stockholders Equity | <u>\$20,328,704</u> | <u>\$ 3,202,039</u> | <u>\$23,530,743</u> | <u>\$(1,130,225)</u> | | <u>\$22,400,518</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 (1) | CPM FM Limited Historical | Total | Pro Forma Adjustments | Pro Forma Combined |
|--|--|--|---------------------|--------------------------------------|-----------------------------------|
| Revenues | \$7,631,975 | \$ 3,819,315 | \$11,451,290 | | \$11,451,290 |
| Cost of revenues | 4,011,542 | 3,008,078 | 7,019,620 | | 7,019,620 |
| Gross profit | 3,620,433 | 811,237 | 4,431,670 | | 4,431,670 |
| Selling, general and administrative expenses | 2,354,124 | 1,273,580 | 3,627,704 | | 3,627,704 |
| Income (loss) from operations | 1,266,309 | (462,343) | 803,966 | | 803,966 |
| Other income (expenses): | | | | | |
| Other expenses | (12,850) | (68,250) | (81,100) | | (81,100) |
| Loss on investment in subsidiaries | | (891,932) | (891,932) | — | (891,932) |
| Total other expenses | (12,850) | (960,182) | (973,032) | — | (973,032) |
| Income (loss) before income tax benefit | 1,253,459 | (1,422,525) | (169,066) | | (169,066) |
| Income tax benefit | (361,978) | | (361,978) | | (361,978) |
| NET INCOME (LOSS) | \$ 891,481 | \$(1,422,525) | \$ (531,044) | \$ | \$ (531,044) |
| Pro-forma net income (loss) per common share | | | | | |
| Basic | \$ 0.22 | \$ | \$ | \$ | \$ (0.13) |
| Diluted | \$ 0.22 | \$ | \$ | \$ | \$ (0.13) |
| Weighted average of pro-forma shares outstanding: | | | | | |
| Basic | 3,987,004 | | | | 3,987,004 |

| | | | | | |
|---------|-------------------|-------------------|-------------------|-------------------|-------------------|
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Diluted | 4,095,854 | | | | 4,095,854 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </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 (1) | CPM FM Limited Historical | Total | Pro Forma Adjustments | Pro Forma Combined |
|--|--|--|---------------------|--------------------------------------|-----------------------------------|
| Revenues | \$8,819,320 | \$ 3,994,585 | \$12,813,905 | | \$12,813,905 |
| Cost of revenues | 4,593,899 | 3,266,444 | 7,860,343 | | 7,860,343 |
| Gross profit | 4,225,421 | 728,141 | 4,953,562 | | 4,953,562 |
| Selling, general and administrative expenses | 3,125,812 | 1,794,029 | 4,919,841 | | 4,919,841 |
| Income (loss) from operations | 1,099,609 | (1,065,888) | 33,721 | | 33,721 |
| Other income (expenses): | 170,726 | (36,370) | 134,356 | | 134,356 |
| Income (loss) before income tax benefit | 1,270,335 | (1,102,258) | 168,077 | | 168,077 |
| Income tax benefit | (427,250) | | (427,250) | | (427,250) |
| NET INCOME (LOSS) | \$ 843,085 | \$(1,102,258) | \$ (259,173) | \$ - | \$ (259,173) |
| Pro-forma net income (loss) per common share | | | | | |
| Basic | \$ 0.21 | \$ - | \$ - | \$ - | \$ (0.07) |
| Diluted | \$ 0.21 | \$ - | \$ - | \$ - | \$ (0.07) |
| Weighted average of pro-forma shares outstanding: | | | | | |
| Basic | 3,987,004 | | | | 3,987,004 |
| Diluted | 3,941,037 | | | | 3,941,037 |

Table of Contents**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 October 11, 2004 and effective September 1, 2004, Sunair acquired substantially all of the assets and assumed certain liabilities of Telecom for \$1,500,000, of which \$250,000 was deferred.

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

| | |
|----------------------------------|--------------|
| Inventories | \$ 1,563,764 |
| Accounts receivable | 1,404,935 |
| Prepaid and other current assets | 204,535 |
| Fixed assets | 28,805 |
| Goodwill | 119,775 |
| Accounts payable | (881,130) |
| Bank overdraft | (595,444) |
| Accrued expenses | (254,870) |
| Loan payable | (90,370) |
| | <hr/> |
| Total | \$ 1,500,000 |
| | <hr/> |

NOTE 3 PRO FORMA ADJUSTMENTS

1. On August 6, 2004, Sunair acquired Percipia, Inc. and its wholly owned subsidiary, Percipia Networks, Inc., as reported on a Form 8-K previously filed with the Securities and Exchange Commission. Sunair's historical balance sheet as of June 30, 2004 and income statements for the nine months ended June 30, 2004 and year ended September 30, 2003 were adjusted to reflect Percipia's acquisition.

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2. Reflects \$1,250,000 cash disbursed and \$250,000 cash to be disbursed in connection with Sunair's acquisition of Telecom.
3. Reflects the consolidation of Sunair and Telecom. The excess of the purchase price over the fair value of the net assets acquired amounted to \$119,775 and has been 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: December 20, 2004

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