HUNTINGTON BANCSHARES INC/MD
Form S-8
July 06, 2007

As filed with the Securities and Exchange Commission on July 6, 2007

Registration No. 333 - _________________

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

Form S-8
REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

HUNTINGTON BANCSHARES INCORPORATED
(Exact name of Registrant as specified in its charter)

Maryland	31-0724920
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

Huntington Center
41 South High Street
Columbus, Ohio 43287
(Address of Registrant's principal executive offices)

Huntington Bancshares Incorporated 2007 Stock and Long-Term Incentive Plan
Sky Financial Group, Inc. Profit Sharing, 401(k) and ESOP Plan, as amended
Sky Financial Group, Inc. Non-Qualified Retirement Plan, as amended
Sky Financial Group, Inc. Non-Qualified Retirement Plan II, as amended
Inducement Grant
(Full title of the Plan)

Richard A. Cheap, Esq.
General Counsel and Secretary
Huntington Bancshares Incorporated
Huntington Center
41 South High Street
Columbus, Ohio 43287
614/480-8300
(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies of Correspondence to:
Mary Beth M. Clary, Esq.
Erin F. Siegfried, Esq.

Porter, Wright, Morris & Arthur LLP
41 South High Street
Columbus, Ohio 43215

Calculation of Registration Fee

Title of Securities to be registered	Amount to be Registered (1)(2)	Proposed Maximum Offering Price Per Share (3)	Proposed Maximum Aggregate Offering Price (3)	Amount of Registration Fee
Common Stock, $0.01 par value, to be issued under the Huntington Bancshares Incorporated 2007 Stock and Long-Term Incentive Plan	9,000,000	$22.55	$202,950,000	$6,230.57
Common Stock, $0.01 par value, to be issued under the Sky Financial Group, Inc. Profit Sharing, 401(k) and ESOP Plan	1,000,000	$22.55	$22,550,000	$692.29
Common Stock, $0.01 par value, to be issued				

under the Sky Financial Group, Inc. Non-Qualified Retirement Plan	0	$22.55	$0	$0.00
Common Stock, $0.01 par value, to be issued under the Sky Financial Group, Inc. Non-Qualified Retirement Plan II	0	$22.55	$0	$0.00
Common Stock, $0.01 par value, to be issued as an inducement grant	221,569	$22.55	$4,996,381	$153.39
Total	10,221,569		$230,496,381	$7,076.25

(1) Pursuant to Rule 416(a) of the Securities Act of 1933 (the "Securities Act"), this Registration Statement shall be deemed to cover an indeterminate number of additional shares of Common Stock that become issuable under the Huntington Bancshares Incorporated 2007 Stock and Long-Term Incentive Plan, the Sky Financial Group, Inc. Profit Sharing, 401(k) and ESOP Plan, the Sky Financial Group, Inc. Non-Qualified Retirement Plan, the Sky Financial Group, Inc. Non-Qualified Retirement Plan II and the inducement grant by reason of any future stock dividends, stock splits or similar transactions.

(2) In addition, pursuant to Rule 416(c) of the Securities Act, this Registration Statement also covers an indeterminate amount of interests to be offered or sold pursuant to the Sky Financial Group, Inc. Profit Sharing, 401(k) and ESOP Plan, the Sky Financial Group, Inc. Non-Qualified Retirement Plan and the Sky Financial Group, Inc. Non-Qualified Retirement Plan II.

(3) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(h) of the Securities Act, based upon the average of the high and low sales prices of our Common Stock as reported on the Nasdaq National Market as of July 2, 2007.

PART I

INFORMATION REQUIRED IN THE SECTION 10(a) PROSPECTUS

The information specified in Item 1 and Item 2 of Part I of the Registration Statement is omitted from this filing in accordance with the provisions of Rule 428 of the Securities Act and the introductory note to Part I of the Registration Statement. The documents containing the information specified in Part I will be delivered to the participants in the plans covered by this Registration Statement as required by Rule 428(b)(1).

PART II

INFORMATION REQUIRED IN THE REGISTRATION STATEMENT

Item 3. Incorporation of Documents By Reference.

The following documents previously filed by us with the SEC are incorporated by reference:

1. Annual Report on Form 10-K for the fiscal year ended December 31, 2006;

2. Joint Proxy Statement/Prospectus dated April 19, 2007, in connection with our 2007 Annual Meeting of Shareholders;

3. Quarterly Report on Form 10-Q for the quarter ended March 31, 2007;

4. Current Reports on Form 8-K, dated January 18, 2007, April 5, 2007, April 18, 2007, April 19, 2007, May 1, 2007, May 2, 2007, May 7, 2007 (2 reports), May 14, 2007, May 30, 2007, June 4, 2007, June 20, 2007 and July 2, 2007, to report annual and/or quarterly earnings and certain other developments disclosed therein; and

We also incorporate by reference any future filings we make with the Securities and Exchange Commission under Sections 13(a), 13(c), 14, or 15(d) of the Securities Exchange Act of 1934, as amended, until we sell all of the securities offered by the prospectus or otherwise terminate the offering. Any statement contained in a document incorporated or deemed to be incorporated by reference in this registration statement shall be deemed to be modified

or superseded for purposes of this Registration Statement to the extent that a statement contained herein or in any other subsequently filed document that also is or is deemed to be incorporated by reference in this Registration Statement modifies or supersedes the statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Registration Statement.

Item 4. Description of Securities.

Not applicable.

Item 5. Interests of Named Experts and Counsel.

Not applicable.

Item 6. Indemnification of Directors and Officers.

Our Articles of Incorporation, as amended, provide that we shall indemnify our officers and directors to the full extent of the general laws of the State of Maryland now or hereafter in force, including the advance of expenses to our officers and directors. Our obligation to advance expenses incurred by our officers and directors as a result of any threatened, pending or completed action, suit or proceeding, whether it be civil, criminal, administrative or investigative is subject to the procedures provided by Section 2-418 and other sections of the Maryland general corporation law. Our Articles of Incorporation, as amended, also provide that we may indemnify our officers who are not directors to such further extent as shall be authorized by the Board of Directors, provided that such additional indemnification is consistent with the law.

Section 2-418 of the Maryland general corporation law provides, generally, that a corporation may indemnify any officer or director made a party to any proceeding by reason of his or her service in that capacity against judgments, penalties, fines, settlements, and reasonable expenses actually incurred by the officer or director in connection with the proceeding, unless it is proved that the act or omission of the officer or director was material to the cause of action adjudicated in the proceeding and that such act or omission was committed in bad faith or was the result of active and deliberate dishonesty; or the officer or director actually received an improper personal benefit in money, property, or services; or, in the case of any criminal proceeding, the officer or director had reasonable cause to believe that the act or omission was unlawful. Notwithstanding the above, an officer or director may not be indemnified for any judgments, penalties, fines, settlements or expenses arising out of any proceeding brought by or in the right of the corporation, in which such officer or director shall have been adjudged liable to the corporation or any judgments, penalties, fines, settlements or expenses arising out of any proceeding charging improper receipt of a personal benefit by such officer or director.

The termination of any proceeding by judgment, order, or settlement does not create a presumption that the officer or director did not meet the standard of conduct required for such officer or director to be indemnified. However, the termination of any proceeding by conviction, plea of nolo contendere or its equivalent, or the entry of an order of probation prior to judgment, creates a rebuttable presumption that the officer or director did not meet standard of conduct required for such officer or director to be indemnified. Indemnification of an officer or director is not permitted unless authorized for a specific proceeding. Such authorization shall only be given following a determination (1) by a majority of a quorum of directors not at the time parties to the proceeding (or a majority of a committee of two or more such directors designated by the full board); (2) by special legal counsel selected by the board of directors; or (3) by the stockholders, that indemnification is permissible because the officer or director met the standard of conduct required for such officer or director to be indemnified.

The reasonable expenses incurred by an officer or director who is a party to a proceeding may be paid or reimbursed by the corporation in advance of the final disposition of the proceeding upon receipt by the corporation of both a

written affirmation by the officer or director of his or her good faith belief that the standard of conduct necessary for indemnification by the corporation has been met, and a written undertaking by or on behalf of the officer or director to repay the amount if it shall be ultimately determined that the standard of conduct has not been

met.

The indemnification and advancement of expenses provided or authorized by Section 2-418 are not exclusive of any other rights to which an officer or director may be entitled both as to action in his official capacity and as to action in another capacity while holding such office.

Pursuant to Section 2-418, a corporation may purchase and maintain insurance on behalf of any person who is or was a director, officer, employee, or agent of the corporation, or who, while serving in such capacity, is or was at the request of the corporation serving as a director, officer, partner, trustee, employee, or agent of another corporation or legal entity or of an employee benefit plan, against liability asserted against and incurred by such person in any of those capacities or arising out of such person's position, regardless of whether or not the corporation would have the power to indemnify against liability under Section 2-418. A corporation may provide similar protection, including a trust fund, letter of credit, or surety bond, so long as the form of such protection is not inconsistent with Section 2-418. Additionally, a subsidiary or an affiliate of the corporation may provide the insurance or similar protection.

Subject to certain exceptions, our directors and officers and our affiliates are insured to the extent of 100% of loss up to a maximum of $40,000,000 (subject to certain deductibles) in each policy year because of any claim or claims made against them by reason of their wrongful acts while acting in their capacities as such directors or officers and up to a maximum of $40,000,000 (subject to certain deductibles) in each policy year because of any claim or claims made against them by reason of their wrongful acts while acting in their capacities as fiduciaries in the administration of certain of our employee benefit programs. We are insured, subject to certain retentions and exceptions, to the extent we shall have indemnified our directors and officers for such loss.

Item 7. Exemption from Registration Claimed.

Not applicable.

Item 8. Exhibits.

Exhibit Number	Exhibit Description
4(a)	Huntington Bancshares Incorporated 2007 Stock and Long-Term Incentive Plan, effective for long-term performance award cycles beginning on or after January 1, 2007, and for grants of stock options, restricted stock, restricted stock units, stock appreciation rights, and deferred stock on or after May 30, 2007 - previously filed as Appendix G to Definitive Proxy Statement for the 2007 Annual Meeting of Stockholders, and incorporated herein by reference.
4(b)*	Sky Financial Group, Inc. Profit Sharing, 401(k) and ESOP Plan.
4(c)*	Sky Financial Group, Inc. Non-Qualified Retirement Plan.
4(d)*	Sky Financial Group, Inc. Non-Qualified Retirement Plan II.
4(e)*	Inducement grant.
4(f)	Articles V, VIII and X of Articles of Restatement of Charter, as amended and supplemented - previously filed as Exhibit 3(i) to Annual Report on Form 10-K for the year ended December 31, 1993, and Exhibit 3(i)(c) to Quarterly Report on Form 10-Q for the quarterly period ended March 31, 1998, and incorporated

herein by reference. Instruments defining the rights of holders of long-term debt will be furnished to the Securities and Exchange Commission upon request.

5(a)*	Opinion of Porter, Wright, Morris & Arthur LLP regarding the legality of the Common Stock being registered pursuant hereto.
5(b)*	IRS determination letter for the Sky Financial Group, Inc. Profit Sharing, 401(k) and ESOP Plan.
23(a)*	Consent of Porter, Wright, Morris & Arthur LLP (included in Exhibit 5 filed herewith).
23(b)*	Consent of Deloitte & Touche LLP.
23(c)*	Consent of Deloitte & Touche LLP.
24*	Power of Attorney.

*Filed herewith.

Item 9. Undertakings.

We hereby undertake:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this Registration Statement: (i) to include any prospectus required by Section 10(a)(3) of the Securities Act of 1933; (ii) to reflect in the prospectus any facts or events arising after the effective date of the Registration Statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the Registration Statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than a 20% change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective Registration Statement; and (iii) to include any material information with respect to the plan of distribution not previously disclosed in the Registration Statement or any material change to such information in the Registration Statement. Provided, however, that paragraphs (1)(i) and (1)(ii) do not apply if the Registration Statement is on Form S-8, and the information required to be included in a post-effective amendment by those paragraphs is contained in periodic reports filed by us pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934 that are incorporated by reference in the Registration Statement.

(2) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(4) That, for purposes of determining any liability under the Securities Act of 1933, each filing of Registrant's annual report pursuant to Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934 (and, where applicable, each filing of an employee benefit plan's annual report pursuant to Section 15(d) of the Securities Exchange Act of 1934) that is incorporated by reference in the Registration Statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(5) That, insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of Registrant pursuant to Registrant's indemnification provisions, or otherwise, Registrant has been advised that in the opinion of the Securities and Exchange Commission such

indemnification is against public policy as expressed in such Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than payment by Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, we will, unless in the opinion of our counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

Signatures

Pursuant to the requirements of the Securities Act of 1933, Huntington Bancshares Incorporated certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-8 and has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Columbus, State of Ohio, on July 6, 2007.

HUNTINGTON BANCSHARES INCORPORATED

By /s/ Richard A. Cheap
Richard A. Cheap, Secretary and General Counsel

Pursuant to the requirements of the Securities Act of 1933, the trustees (or other person who administer the Sky Financial Group, Inc. Profit Sharing, 401(k) and ESOP Plan (the "Plan")) have duly caused this Registration Statement to be signed on behalf of the Plan by the undersigned, thereunto duly authorized, in the City of Columbus, State of Ohio, on July 6, 2007.

By /s/ Lee Topley
Lee Topley, Senior Vice President, Sky Trust,
National Association

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

Signature	Title		Date
/s/ Thomas E. Hoaglin*	Chairman, Chief Executive Officer,	)	
Thomas E. Hoaglin	President, and Director (Principal	)	
	Executive Officer)	)	
/s/ Donald R. Kimble*	Chief Financial Officer, Executive	)	
Donald R. Kimble	Vice President, and Treasurer	)	
	(Principal Financial Officer)	)	
/s/ Thomas P. Reed*	Senior Vice President and Controller	)	
Thomas P. Reed	(Principal Accounting Officer)	)	
/s/ Raymond J. Biggs*	Director	)	
Raymond J. Biggs		)	
/s/ Don M. Casto, III*	Director	)	July 6, 2007
Don M. Casto, III		)	
/s/ Michael J. Endres*	Director		

In December 2007, the FASB issued Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51* (*FASB No. 160*). The objective of FASB No. 160 is to improve the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements by establishing accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. This Statement applies to all entities that prepare consolidated financial statements, except not-for-profit organizations. FASB No. 160 amends ARB 51 to establish accounting and

reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It also amends certain of ARB 51 s consolidation procedures for consistency with the requirements of FASB No. 141 (R). This Statement is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008 (that is, January 1, 2009, for entities with calendar year-ends). Earlier adoption is prohibited. The effective date of this Statement is the same as that of the related Statement 141(R). FASB No. 160 will be effective for the Company s fiscal 2010. This Statement shall be applied prospectively as of the beginning of the fiscal year in which this Statement is

initially applied, except for the presentation and disclosure requirements. The presentation and disclosure requirements shall be applied retrospectively for all periods presented. The Company is currently assessing the impact of FASB No. 160 as its consolidated financial statements.

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In February 2007, the FASB issued Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities including an amendment of FASB Statement No. 115* (FASB No. 159). FASB No. 159 gives the Company the irrevocable option to carry most financial assets and liabilities at fair value, with changes in fair value recognized in earnings. FASB No. 159 is effective for the Company s 2009 fiscal year, although early adoption is permitted. The Company is currently assessing the impact of FASB No. 159 on its consolidated financial statements.
In September 2006, the FASB issued Statement No. 157, *Fair Value Measurements* (FASB No. 157). FASB No. 157 provides a common definition of fair value and establishes a framework to make the measurement of fair value in generally accepted accounting principles more consistent and comparable. FASB No. 157 also requires expanded disclosures to provide information about the extent to which fair value is used to measure assets and liabilities, the methods and assumptions used to measure fair value, and the effect of fair value measures on earnings. On December 14, 2007, the FASB issued proposed FASB Staff Position No. FAS 157-b, Effective Date of FASB No. 157 (Proposed FSP). The Proposed FSP would amend FASB No. 157, to delay the effective date of FASB No. 157 for all nonfinanical assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (that is, at least annually). The Proposed FSP defers the effective date of FASB No. 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years for items within the scope of the Proposed FSP. FASB No. 157 will be effective for the Company s 2010 fiscal year, although early adoption is permitted. The Company is currently assessing the potential effect of FASB No. 157 on its consolidated financial statements.

3. Acquisitions

Acquisition of Marshall Pest Control of SW FL, Inc.

On October 2, 2007, Middleton acquired substantially all the assets of Marshall Pest Control of SW FL, Inc. (Marshall) , a lawn and pest control services company located in Naples, Florida for $1.6 million, consisting of $1.0 million in cash and $600,000 in the form of a promissory note. In addition, the Company incurred working capital adjustments and transaction costs of approximately $0.3 million.
The following table sets forth the allocation of the purchase price to Marshall tangible and intangible assets acquired and liabilities assumed as of October 2, 2007:

Goodwill	$ 1,487,775
Customer list	225,204
Accounts receivable	68,989
Inventory	13,199
Fixed assets	62,475
Total	$ 1,857,642

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Acquisition of Archer Exterminators, Inc. (Archer)

On November 30, 2006, Middleton entered into an Asset Purchase Agreement to acquire substantially all of the assets of Archer for $3,300,000 consisting of $1,500,000 cash, $1,500,000 in the form of a subordinated promissory note and 73,529 shares of the Company s common stock valued at $300,000. In addition, the Company incurred working capital adjustments and transaction costs totaling $0.1 million. The shares were issued in January, 2007.

Acquisition of Valentine s Indoor Pest Management, Inc. (Valentine)

On February 8, 2007, Middleton acquired substantially all the assets of Valentine, headquartered in St. Cloud, Florida for approximately $43,400, consisting of $18,432 in cash and $25,000 in the form of a promissory note.

Acquisition of David Burke, Inc. D/B/A Florida Exterminating (Florida Exterminating)

On April 30, 2007, Middleton acquired substantially all the assets of Florida Exterminating, a pest control company headquartered in Tampa, Florida for approximately $815,000 consisting of $580,000 in cash and $235,000 in the form of a promissory note.

Acquisition of Summer Rain Fertilization Company (Summer Rain)

On May 31, 2007, Middleton acquired substantially all the assets of Summer Rain, a lawn care services company headquartered in Margate, Florida for approximately $1.0 million, consisting of $500,000 in cash and $500,000 in the form of a promissory note.

Acquisition of Howell Environmental, Inc. (Howell)

On August 21, 2007, Middleton acquired substantially all the assets of Howell, a lawn care and pest control services company located in West Palm Beach, Florida, for approximately $2.3 million, consisting of $925,000 in cash and $1.4 million in the form of a promissory note with $1.0 million secured by a letter of credit.

Acquisition of Longboat Key Pest Control, Inc. (Longboat Key)

On September 20, 2007, Middleton acquired substantially all of the assets of Longboat Key, a lawn care and pest control services company located in Longboat, Florida for $1.7 million, consisting of $1.0 million in cash, $542,000 in the form of a promissory note and $158,000 to be paid over a two year period at 50% of the collections related to a large commercial customer. The $158,000 is considered contingent purchase price and will be recorded as part of the purchase price allocation at the time it becomes probable that the contingency will be resolved and payment will be received.

The following table sets forth the allocation of the purchase price for tangible and intangible assets associated with the above 2007 and 2008 acquisitions and their related acquired assets and liabilities assumed as of December 31, 2007:

Goodwill	$ 9,344,859
Customer list	2,159,885
Accounts receivable	641,666
Inventory	62,418
Fixed assets	576,424
Prepaid expenses	210,644
Customer deposits	(79,281)
Deferred revenue	(677,539)
Total	$ 12,239,076

Pro-Forma Results of Operations

The following sets forth the Company s results of operations for the three months ended December 31, 2006 as if the acquisitions had taken place on October 1, 2006.

	For the Three Months Ended December 31, 2006
Revenues	$ 16,656,825
Net (loss)	$ (428,899)
Net (loss) per share Basic and diluted	$ (0.03)

The pro-forma results of operations for the three months ended December 31, 2007 are not presented since there was an insignificant difference between pro-forma and actual results for the period as Marshall was acquired on October 2, 2007.

4. Inventories

Inventories consist of the following:

	December 31, 2007	September 30, 2007
Materials	$ 1,188,726	$ 1,146,261
Finished goods	412,454	680,375
	$ 1,601,180	$ 1,826,636

The Company establishes reserves for inventory shrinkage and obsolescence. Reserves for inventory shrinkage and obsolescence amounted to $692,330 and $691,954 at December 31, 2007 and September 30, 2007, respectively.

5. Note Receivable

Pursuant to the Asset Purchase Agreement on September 8, 2006 between the Company and Sunair Holdings, LLC (Sunair Holdings), the Company received a three year subordinated promissory note as partial payment for the sale of substantially all of the assets of Sunair Communications, Inc. (Sunair Communications). The $2.0 million note issued by Sunair Holdings is guaranteed by the members of Sunair Holdings, matures on September 8, 2009 and bears interest at one year LIBOR plus 3% (7.43% at December 31, 2007) which is payable monthly starting on October 1, 2006. At September 30, 2007 interest receivable included in the accompanying consolidated balance sheets amounted to $55,560, which was paid together with interest due through December 2007. The Company s former Chief Financial Officer, who also was the former Chief Financial Officer of Sunair Communications, and the Company s former President, who also was the former President of Sunair Communications, are also affiliates of Sunair Holdings.

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6. Property, Plant and Equipment

Property, plant and equipment consist of the following:

	December 31, 2007	September 30, 2007
Leasehold improvements	$ 1,050,561	$ 1,146,561
Automobiles	3,402,452	3,288,057
Machinery and equipment	3,799,200	3,545,880
	8,252,213	7,980,498
Accumulated Depreciation	6,058,551	5,861,946
	$ 2,193,662	$ 2,118,552

Depreciation expense consists of $227,383 and $235,918 during the three months ended December 31, 2007 and 2006, respectively.

7. Revolving Line of Credit

The Company has a line of credit with a financial institution collateralized by substantially all of the assets of the Company. The maximum credit limit was $16,000,000 as of December 31, 2007. Interest is compounded daily based upon the London Interbank Offering Rate (LIBOR) plus a variable percentage based on the leverage ratio. The interest rate at December 31, 2007 was approximately 7.10%. The revolving line of credit has a commitment fee in the amount of .375% per annum on the average daily unused amount of the aggregate revolving committed amount. The outstanding balance on the revolving line of credit at December 31, 2007 and September 30, 2007, respectively, amounted to $9,832,796 and $6,732,796. At December 31, 2007, the availability under the revolving line of credit amounted to $1.4 million.

On May 14, 2007, the Company amended the terms of its credit agreement to extend the maturity date to April 1, 2008 and to reduce the capacity under the revolving line of credit from $20.0 million to $16.0 million. This amendment also modifies certain financial covenants. The leverage ratio was increased and the consolidated EBITDA requirement was reduced. On August 14, 2007, the Company obtained a subsequent extension of the maturity date on the credit agreement to October 1, 2008.

On February 12, 2008, the Company amended certain terms and conditions of the credit agreement. Among the amended terms and conditions were an extension of the maturity date to January 7, 2009 as well as amendments to the financial covenants relating to consolidated EBITDA, the leverage ratio and the fixed charge coverage ratio, which amendments are effective as of December 31, 2007. As of December 31, 2007, the Company was in compliance with its financial covenants. See Note 19- Subsequent Events for additional information.

8. Notes Payable

The Company has a capital lease for certain office equipment. The balance of the capital lease at December 31, 2007 and September 30, 2007, totaled $15,513 and $16,353, respectively.

Notes payable with a financial institution for leased office build out costs and computer equipment. The notes bear interest at 5.60% and 5.25% per annum, respectively, payable in monthly installments of principal and interest in the amount of $3,285 through March 29, 2011 and $5,795 through September 20, 2008, respectively. Balances at December 31, 2007 and September 30, 2007, totaled $167,683 and $192,367, respectively.

Notes payable with financial institutions for automobile loans. Interest rates range from 0% to 9% per annum, payable in monthly installments of principal and interest ranging in the amounts of $220 to $687, expiring in various years through 2010. Balances at December 31, 2007 and September 30, 2007, totaled $61,973 and $68,765, respectively.

The Company has notes payable relating to certain acquisitions as described in Note 3- Acquisitions which bear interest at 6% and 7%, with one not payable bearing interest at LIBOR plus 2% per annum (6.43% at December 31, 2007), with interest payable in semi-annual installments ranging in the amounts of $3,000 to $36,000 and principal due at maturity. The notes expire in various years through 2011. The note payable balances for the acquisition debt at December 31, 2007 and September 30, 2007, totaled $6,277,000 and $5,677,000, respectively. At December 31, 2007 and September 30, 2007, $275,000 of these acquisition notes payable were classified as current portion.
Interest expense incurred for the notes payable amounted to $109,888 and $36,914 for the three months ended December 31, 2007 and 2006, respectively.
Minimum future principal payments required under the above notes payable as of December 31, 2007, for each of the next five years and in the aggregate are:

2008	$ 392,540
2009	3,286,477
2010	1,686,979
2011	1,156,174
2012	
Thereafter	
	6,522,170
Less: current portion	392,540
Long term portion	$ 6,129,630

9. Notes Payable-Related Party
The Company has a $5,000,000 subordinated note payable to related parties, in connection with the acquisition of Middleton. As of December 31, 2007 these parties include the former CEO of Middleton and a Director of the Company, who was appointed CEO of Middleton effective January 18, 2008. See Note 19 Subsequent Events. Interest is paid semi-annually at prime (7.25% as of December 31, 2007). The note payable is due in full on June 7, 2010. Interest expense related to this note payable amounted to $108,767 and $104,284, for three months ended December 31, 2007 and 2006, respectively.
10. Income Taxes
The Company had an income tax provision for continuing operations of $0 and $317,303 for the three months ended December 31, 2007 and 2006,respectively. The Company did not have an income tax benefit for the three months ended December 31, 2007 as the Company has $13.5 million of net operating losses carryforwards which expire in 2026 and which are fully reserved. In addition, the Company does not have any net operating loss carrybacks . As a result the Company was unable to recognize an income tax benefit for the quarter ended December 31, 2007. For the three months ended December 31, 2006, the Company had an income tax provision of $769,703 related to discontinued operations.
11. Stock Options
At the annual meeting of shareholders held on February 4, 2005, the shareholders approved the adoption of the Company s 2004 Stock Incentive Plan with an aggregate of 800,000 shares of the Company s unissued common stock, to replace the Company s 2000 Stock Option Plan, which was approved by the Company s shareholders at a shareholders meeting held on January 24, 2000. The 800,000 shares authorized under the 2004 Stock Incentive Plan are reserved for issuance to officers, directors, employees and prospective employees as incentive stock options, non-qualified stock options, restricted stock awards, other equity awards and performance based stock incentives. The option price, numbers of shares and grant date are determined at the discretion of the Company s board of directors or the committee overseeing the 2004 Stock Incentive Plan.

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No stock options were granted during the three months ended December 31, 2007 and 2006. There were no stock options exercised during the three months ended December 31, 2007.
Stock options activity for the three months ended December 31, 2007 are as follows:

	Shares	Weighted Avg. Exercise Price	Remaining Life
Balances, beginning of period	585,092	$ 6.94	
Granted		$	
Exercised		$	
Expired/Forfeited	(33,812)	$ 9.68	
Options outstanding, end of period	551,280	$ 6.77	5.39
Options exercisable, end of period	411,247	$ 6.75	5.23
Options available for future grants	455,387		

Stock options outstanding and exercisable at December 31, 2007 are as follows:

	Options Outstanding		Options Exercisable	
Exercise Price	Options Outstanding	Weighted Average Remaining Life	Exercise Price	Options Exercisable
$ 3.23	35,000	7.1	$ 3.23	31,356
$ 3.40	25,000	7.62	$ 3.40	2,380
$ 4.79	40,000	1.59	$ 4.79	40,000
$ 5.00	166,667	5.09	$ 5.00	131,850
$ 5.35	20,000	6.12	$ 5.35	20,000
$ 5.60	90,000	5.96	$ 5.60	67,993
$ 6.09	17,500	6.1	$ 6.09	8,307
$11.40	157,113	5.43	$11.40	109,361
	551,280			411,247

Included in the 551,280 options outstanding are 206,667 options that were granted outside of the 2004 Stock Incentive Plan.

Fair Value

On January 1, 2006, the Company adopted the provisions of FASB No. 123R which requires the Company to recognize expense related to the fair value of stock-based compensation awards. The Company elected the modified prospective transition method as permitted by FASB No. 123R, under which stock-based compensation for the three months ended December 31, 2007 and 2006 is based on grant date fair value estimated in accordance with the provisions of FASB No. 123R and compensation expense for all stock-based compensation awards granted subsequent to January 1, 2006, as well as the unvested portion of previously granted awards that remained outstanding as of January 1, 2006 based on the grant date fair value estimated in accordance with the provisions of FASB No. 123R. In addition, options granted to certain members of the board of directors as payment for Board Services recorded in accordance with FASB No. 123R and the issuance of restricted stock awards and stock units are also included in stock-based compensation for the three months ended December 31, 2007 and 2006. The Company recognizes compensation expense for restricted stock awards and restricted stock units on a straight-line basis over the requisite service period of the award. For the three months ended December 31, 2007 and 2006, respectively, the

Company recorded $142,012 and $216,984 of stock-based compensation expense which has been classified as selling, general and administrative expenses.

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The fair value of stock-based awards was estimated using the Black-Scholes model, on the date of grant, with the following weighted-average assumptions:

	For the Three Months Ended December 31,	
	2007	2006
Expected dividend yield		
Expected price volatility	61.75-70.07%	65.21-70.07%
Risk-free interest rate	3.76-4.76%	3.76-4.61%
Expected life of options	5-8.25 years	5-8.25 years

The Company s computation of the expected volatility for the three months ended December 31, 2007 and 2006 is based primarily upon historical volatility and the expected term of the option. The expected term is based on the historical exercise experience under the share-based plans of the underlying award (including post-vesting employment termination behavior) and represents the period of time the share-based awards are expected to be outstanding. The interest rate is based on the U.S. Treasury yield in effect at the time of grant for a period commensurate with the estimated expected life.

As of December 31, 2007, approximately $683,291 of total unrecognized compensation costs related to non-vested stock options is expected to be recognized over a weighted average period of 1.21 years.

12. Discontinued Operations

On August 1, 2007, the Companysold all the outstanding shares of Percipia, a wholly-owned subsidiary, in our Telephone Communications segment for approximately $4.0 million in cash, of which $750,000 was placed in an escrow account pending the resolution of certain tax matters.

On November 20, 2006, the Company closed a transaction to sell the real estate property associated with the previously sold high frequency radio business for $2.7 million in cash and a recognized gain in the amount of $2.2 million, $1.4 million net of income taxes.

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The accompanying consolidated condensed statements of operations for the three months presented have been adjusted to classify Percipia as discontinued operations. Selected statements of operations data for the Company s discontinued operations is as follows:

		(dollars in thousands) For the Three Months Ended December 31, 2006
Percipia, Inc. Net loss	$	(151)
Pre-tax (loss) from discontinued operations		(151)
Income tax benefit		52
(Loss) from discontinued operations, net of income taxes		(99)
Gain on sale of assets from discontinued operations		2,183
Income tax (provision)		(822)
Gain on sale of assets from discontinued operations, net of income taxes		1,361
Income from discontinued operations, net of income taxes	$	1,262

13. Employee Benefits

Middleton has a profit sharing and 401(k) Plan. Under the Plan, eligible employees may contribute up to 15% of their annual compensation. During the three months ended December 31, 2007 and 2006, the Company contributed $57,354, and $48,046, respectively.

14. Commitments and Contingencies

The Company leases office space under operating leases expiring in various years through 2012, and vehicles under operating leases expiring in various years through 2014. Certain leases provide for renewal options for periods from one to five years at their fair rental value at the time of renewal. In the normal course of business, operating leases are generally renewed or replaced by other leases. Rent expense and vehicle lease expense was $837,367 and $818,516 for the three months ended December 31, 2007 and 2006, respectively.

Litigation

We are involved in litigation from time to time in the ordinary course of our business. Except for the litigation described below, we do not believe that any litigation in which we are currently involved, individually or in the aggregate, is material to our financial condition or results of operations.

In October 2007, the Company filed a lawsuit in the Circuit Court for the Ninth Judicial Circuit in the State of Florida against a number of former employees of Middleton for violation of their non-compete agreements. In addition, certain of these former employees pursued and hired away employees of Middleton which is also a violation of the existing employee non-compete agreements. The Company is seeking injunctive relief and damages. In October 2007, the Company also filed a lawsuit against a competitor for tortious interference as they hired these former employees knowing that they were in violation of the Company s non-compete agreement. The lawsuits were recently filed and are in discovery stages. At this time it is too early to tell what the likelihood of the outcome will be as well as the amount of damages that the Company may be entitled to.

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15. Goodwill and Intangible Assets

Goodwill and intangible assets consist of the following as December 31, 2007 and September 30, 2007:

	Goodwill	Customer Lists	Total
Ending balance, September 30, 2007	$ 60,675,353	$ 10,958,234	$ 71,633,587
Acquisition of businesses	1,487,775	225,204	1,712,979
Purchase price adjustment	(50,600)		(50,600)
	62,112,528	11,183,438	73,295,966
Less amortization expense		(933,432)	(933,432)
Ending balance, December 31, 2007	$ 62,112,528	$ 10,250,006	$ 72,362,534

The table below presents the weighted average life in years of the Company s intangible assets.

	2007	2006
Goodwill	(a)	(a)
Customer lists (b)	5	8
Weighted average	5	8

(a) Goodwill is not amortized but, along with all other intangible assets, is reviewed for possible impairment each year at September 30th or when indicators of impairment exist.

(b) Change in estimated useful life for customer lists during the fourth quarter of 2007. See Note 2- Summary of Significant Accounting Policies.

The table below reflects the estimated aggregate customer account amortization for each of the five succeeding years of the Company s existing customer account base as of December 31, 2007:

	Aggregate Amortization Expense
2008	$ 3,724,403
2009	3,724,403
2010	2,150,066
2011	539,535
2012	111,599
Total Aggregate Amortization Expense	$ 10,250,006

16. Net Income (Loss) Per Share

Basic net income (loss) per share is computed using the weighted average number of shares outstanding during the period. Due to the Company s losses from continuing operations, dilutive potential common shares were excluded from the computation of diluted loss per share, as inclusion would be anti-dilutive for the periods presented.

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Loss per share data for continuing operations were computed as follows:

	For the Three Months Ended December 31,	
	2007	2006
Basic and diluted net (loss) per share from continuing operations:		
Net (loss) from continuing operations	$ (2,113,813)	$ (662,452)
Shares used in computation:		
Weighted average shares outstanding	13,091,088	13,017,233
Basic and diluted net (loss) per share from continuing operations:	$ (0.16)	$ (0.05)

The following table summarizes the weighted average dilutive securities that were excluded from the above computation of diluted net income (loss) per share because their inclusion would have an anti-dilutive effect:

	For the Three Months Ended December 31,	
	2007	2006
Dilutive securities:		
Options/warrants	11,000,000	11,000,000
Total anti-dilutive shares	11,000,000	11,000,000

17. Segment and Geographic Information

The Company manages its business and has segregated its activities into two business segments; Installation and maintenance of telephone communication systems, and pest control, lawn and shrub care, subterranean and drywood termite control and mosquito reduction services.

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Certain financial information for each segment is provided below as of December 31, 2007 and September 30, 2007, and for the three months ended December 31:

	For the Three Months Ended December 31, 2007	For the Three Months Ended December 31, 2006
Net revenues:		
Lawn and pest control services	$ 13,448,897	$ 12,388,515
Telephone communications	2,471,204	2,559,088
Total net revenues	$ 15,920,101	$ 14,947,603
Operating income (loss):		
Lawn and pest control services	$ 467,511	$ 1,001,530
Telephone communications	124,376	20,441
Unallocated home office expenses	(2,384,647)	(1,759,471)
Total operating loss	$ (1,792,760)	$ (737,500)

	December 31, 2007	September 30, 2007
Identifiable property plant and equipment:		
Lawn and pest control services	$ 2,146,717	$ 2,112,214
Telephone communications	46,945	258,726
Total identifiable property plant and equipment	$ 2,193,662	$ 2,370,940

The Company operates worldwide, primarily in North America. No single country or geographic region, other than North America, is significant to the overall operations of the Company.

18. Related Parties

The Company pays management fees to RPC Financial Advisors, LLC (RPC), a related party. Management fees for the three months ended December 31, 2007 and 2006 totaled $390,625 and $391,769, respectively. On January 7, 2008, the Company entered into an Amended Management Services Agreement, see Note 19-Subsequent Events for additional information.

The Company issued a note payable to related parties in connection with the acquisition of Middleton, as discussed in Note 9-Note Payable-Related Party.

The Company received a note receivable from former related parties through the sale of Sunair Communications, the high frequency radio segment, as more fully described in Note 5-Note Receivable.

19. Subsequent Events

On January 7, 2008, the Company entered into a management services agreement (Management Services Agreement or the Amended Management Services Agreement) with RPC, which supersedes and replaces the management services agreement (the Previous Management Services Agreement) dated February 8, 2005, as amended, between the Company and RPC. Pursuant to the Amended Management Services Agreement, the Company provided RPC with notice that the Previous Management Services Agreement would not be renewed and that the Amended Management Services Agreement would be effective as of February 8, 2008.

The Amended Management Services Agreement is for a term of three years which commenced on February 8, 2008 and expires on February 7, 2011. The Company will pay RPC a monthly management fee equal to one (1%) of the monthly gross revenues of the Company, which will be payable monthly based on the average monthly revenues of

the preceding quarter. RPC will also receive a transaction fee of up to 2% of the Aggregate Consideration received by the Company in a Transaction (as such capitalized terms are defined in the Management Services Agreement). Pursuant to the Management Services Agreement, RPC will provide the Company with services similar to those provided in the Previous Management Services Agreement. After the initial term of three years, the Management Services Agreement will automatically renew for successive one year terms, unless either RPC or the Company terminates the agreement upon 30 days notice.

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Effective January 18, 2008, the Company appointed Charles P. Steinmetz to serve as the Chief Executive Officer of Middleton. Mr. Steinmetz was the majority owner of Middleton from 1977 until it was purchased by the Company in June 2005 and has served as a director of the Company since that time.

On February 12, 2008 (the Closing Date), the Company amended its revolving line of credit terms and conditions (the Second Amendment) which included an extension of the maturity date to January 7, 2009 from October 1, 2008, reduced the capacity under the credit agreement from $16.0 million to $13.5 million as of the Closing Date, to $12.75 million as of June 30, 2008 and to $11.75 million as of September 30, 2008. The Second Amendment also modified the financial covenants relating to consolidated EBITDA, the leverage ratio and the fixed charge coverage ratio, which amendments are effective as of December 31, 2007. Based on the revised financial covenants included in the Second Amendment, the Company was in compliance with the financial covenants in its revolving line of credit as of December 31, 2007.

Item 2. ***Management s Discussion And Analysis of Financial Condition and Results of Operations***

Cautionary Statement Regarding Forward Looking Information:

Some of the statements in this quarterly report, including those that contain the words anticipate, believe, plan, estimate, expect, should, intend and other similar expressions, are forward-looking statements within the meanir the Private Securities Litigation Reform Act of 1995. Those forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements or those of our industry to be materially different from any future results, performance or achievements expressed or implied by those forward-looking statements. Among the factors that could cause actual results, performance or achievement to differ materially from those described or implied in the forward-looking statements are general economic conditions, competition, potential technology changes, changes in or the lack of anticipated changes in the regulatory environment in various countries, the risks inherent in new product and service introductions and the entry into new geographic markets and other factors included in our Annual Report on Form 10-K for the fiscal year ended September 30, 2007 filed with the Securities and Exchange Commission (the SEC) on January 15, 2008 and other filings with the SEC. Copies of our SEC filings are available from the SEC or may be obtained upon request from us. We do not undertake any obligation to update the information contained herein, which speaks only as of this date.

Company Overview

Sunair Services Corporation is a Florida corporation organized in 1956. We changed our corporate name from Sunair Electronics, Inc. to Sunair Services Corporation in November of 2005. Previously, we operated through two business segments: Telephone Communications and High Frequency Radio. In June 2005 with the acquisition of Middleton Pest Control, Inc. (Middleton) we embarked on a new strategy to become a leading regional provider of lawn and pest control services focusing mainly on residential customers.

In order to execute our strategy, we shifted our focus to the Lawn and Pest Control Services business segment, which resulted in a series of acquisitions and divestitures planned to enable us to shed our legacy businesses (Telephone Communications and High Frequency Radio) and grow our core business, lawn and pest control. We intend to divest ourselves of our remaining telecommunications subsidiary, Telecom FM Limited (Telecom FM), as soon as is practicable. However, we cannot assure you of the timing of such disposition, or the amount of net proceeds we will receive upon such disposition.

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To date the acquisitions and divestitures have been as follows:

Acquisitions:

June 2005 we acquired the issued and outstanding stock of Middleton, our platform company, a leading provider of lawn and pest control services in Florida.

July 2005 we acquired substantially all the assets of Four Seasons Lawn and Pest Control, Inc.

December 2005 we acquired substantially all the assets of Spa Creek Services, LLC, D/B/A as Pest Environmental Services, Inc.

January 2006 we acquired substantially all the assets of Par Pest Control, Inc., D/B/A Paragon Termite & Pest Control.

February 2006 we acquired substantially all the assets of Pestec Pest Control, Inc.

March 2006 we acquired substantially all the assets of Ron Fee, Inc.

November 2006 we acquired substantially all the assets of Archer Exterminators, Inc.

February 2007 we acquired substantially all the assets of Valentine s Indoor Pest Management, Inc.

April 2007 we acquired substantially all the assets of David Burke, Inc., D/B/A Florida Exterminating.

May 2007 we acquired substantially all the assets of Summer Rain Fertilization Company.

August 2007 we acquired substantially all the assets of Howell Environmental, Inc.

September 2007 we acquired substantially all the assets of Longboat Key Pest Control, Inc.

October 2007 we acquired substantially all the assets of Marshall Pest Control of SW FL, Inc.

All of these acquisitions of lawn care and pest control companies have been made by Middleton, our platform company, and are being integrated into its operations.

Dispositions:

September 2006 we sold substantially all the assets of Sunair Communications Inc., our high frequency radio business.

November 2006 we sold real estate associated with the previously sold high frequency radio business.

August 2007 we sold all the issued and outstanding stock of Percipia, Inc. (Percipia), a wholly-owned subsidiary in our telephone communications segment.

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Results of Operations

Three Months Ended December 31, 2007 compared to the Three Months Ended December 31, 2006

Revenue:

	(dollars in thousands) For the Three Months Ended December 31,	
	2007	**2006**
Lawn and pest control services	$ 13,449	$ 12,389
Telephone communications	2,471	2,559
Total revenue	$ 15,920	$ 14,948

Lawn and Pest Control Services

Revenue from the lawn and pest control services segment is comprised of lawn, pest control and termite services. Revenue in the segment increased by $1.1 million or 8.6% for the three months ended December 31, 2007 as compared to the three months ended December 31, 2006. The revenue increase was primarily attributable to the integration of our acquisitions since December 31, 2006.

Telephone Communications

Our remaining telephone communications subsidiary, Telecom FM, manufactures and sells least cost routing devices. Revenue from Telecom FM decreased by $0.1 million or 3.4% for the three months ended December 31, 2007 as compared to the three months ended December 31, 2006.

Cost of Sales:

	(dollars in thousands) For the Three Months Ended December 31,	
	2007	**2006**
Lawn and pest control services	$ 4,967	$ 4,562
Telephone communications	1,152	1,486
Total cost of sales	$ 6,119	$ 6,048

Lawn and Pest Control Services

Cost of sales in the lawn and pest control services segment increased by $0.4 million or 8.9% to $5.0 million or 36.9% of revenue for the three months ended December 31, 2007 as compared to $4.6 million or 36.8% of revenue for the three months ended December 31, 2006.

Chemical costs increased by $0.2 million for the three months ended December 31, 2007 as compared to the same period in 2006, proportionate to the increase in revenue.

Payroll expenses increased by $0.1 million for the three months ended December 31, 2007 as compared to the same period in 2006 primarily due to an increase in sales training costs.

Vehicle costs increased by $0.1 million for the three months ended December 31, 2007 compared to the same period in 2006 primarily due to an increase in fuel costs.

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Telephone Communications

Cost of sales in our telephone communications segment decreased by $0.3 million or 22.5% to $1.2 million or 46.6% of revenue for the three months ended December 31, 2007 as compared to $1.5 million or 58.1% of revenue for the three months ended December 31, 2006, primarily related to a decrease in product costs due to a shift in product mix.

Gross Profit:

	(dollars in thousands) For the Three Months Ended December 31,	
	2007	**2006**
Lawn and pest control services	$ 8,482	$ 7,827
Telephone communications	$ 1,319	1,073
Total gross profit	$ 9,801	$ 8,900

Lawn and Pest Control Services

The gross profit of the lawn and pest control services segment increased by $0.7 million or 8.4% to $8.5 million or 63.1% of revenue for the three months ended December 31, 2007 as compared to $7.8 million or 63.2% of revenue for the three months ended December 31, 2006:

The increase in gross profit of 8.4% period over period is proportionate to the increase in revenue period over period.

Telephone Communications

The gross profit in the telecommunications segment increased by $0.2 million or 23.0% to $1.3 million for the three months ended December 31, 2007 as compared to $1.1 million for the three months ended December 31, 2006.

Gross profit increased for the three months ended December 31, 2007 compared to the same time period in 2006 despite a decrease in revenue. The gross margin increased to 53.4% in 2007 compared to 41.9% in 2006 due to a shift in product mix.

Operating Expenses:

Selling, General and Administrative Expenses:

	(dollars in thousands) For the Three Months Ended December 31,	
	2007	**2006**
Selling	$ 2,023	$ 1,820
General and administrative	8,400	7,147
Depreciation and amortization	1,171	670
Total operating expenses	$ 11,594	$ 9,637

Selling, general and administrative expenses (SG&A expense) increased by $2.0 million or 20.3% to $11.6 million or 72.8% of revenue for the three months ended December 31, 2007 as compared to $9.6 million or 64.5% of revenue for the three months ended December 31, 2006.

Selling expenses increased by $0.2 million or 11.2% to $2.0 million or 12.7% of revenue for the three months ended December 31, 2007 as compared to $1.8 million or 12.2% of revenue for the three months ended December 31, 2006.

Middleton s selling costs increased by $0.1 million for the three months ended December 31, 2007 as compared to the same time period in 2006 as a result of costs associated with the recruiting and training of new sales consultants.

General and administrative expenses increased by $1.3 million or 17.5% to $8.4 million or 52.8% of revenue for the three months ended December 31, 2007 as compared to$7.1 million or 47.8% of revenue for the three months ended December 31, 2006.

Middleton s general and administrative expenses increased by $1.0 million for the three months ended December 31, 2007 as compared to the same period in 2006. The increase was primarily driven by payroll expenses which increased by $0.6 million for the three month period ended December 31, 2007 as compared to the same period in 2006 as a result of the purchase and integration of several acquisitions, expansion of staff related to meeting our compliance requirements with regards to Sarbanes-Oxley and an increase in staff related to the conversion of our existing operating software to a new system. Occupancy expenses increased by $0.1 million due to our expansion and increased facility lease rates. Vehicle expenses increased by $0.1 million due to higher fuel costs.

Depreciation and amortization expenses increased by $0.5 million or 74.7% to $1.2 million or 7.4% of revenue for the three months ended December 31, 2007 as compared to $0.7 million or 4.5% of revenue for the three months ended December 31, 2006.

Corporate depreciation and amortization expenses increased by $0.5 million for the three months ended December 31, 2007 as compared to 2006 due to a significant increase in the amortization of intangible assets due to our acquisition activity coupled with the change in estimated useful life for customer lists from 8 years to 5 years, which occurred during the fourth quarter of fiscal year 2007.

Other Income (Expenses):

	(dollars in thousands) For the Three Months Ended December 31,	
	2007	**2006**
Interest income	$ 54	$ 68
Interest expense	(380)	$ (288)
Gain (Loss) on disposal of assets	5	$ (22)
Total other income (expenses)	$ (321)	$ (242)

Other expenses decreased by $0.1 million or 32.5% for the three months ended December 31,2007 as compared to the three months ended December 31, 2006.

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Middleton s interest expense increased by $0.1 million for the three months ended December 31, 2007 as compared to the three months ended December 31, 2006. The lawn and pest services segment incurred an additional $4.2 million in debt related to acquisitions since December 31, 2006.

Income Tax (Expenses) Benefit from Continuing Operations:

	(dollars in thousands) For the Three Months Ended December 31,	
	2007	**2006**
Income tax (expense) benefit	$	$ 317

Income tax (expense) from continuing operations decreased by $0.3 million for the three months ended December 31, 2007 as compared to the three months ended December 31, 2006. The Company did not have an income tax benefit for the three months ended December 31, 2007 as the Company has $13.5 million of net operating losses carryforwards which expire in 2026 and which are fully reserved. In addition, the Company does not have any net operating loss carrybacks . As a result the Company was unable to recognize an income tax benefit for the quarter ended December 31, 2007.

Discontinued Operations:

	(dollars in thousands) For the Three Months Ended December 31, 2006
Percipia, Inc. Net loss	$ (151)
Pre-tax (loss) from discontinued operations	(151)
Income tax benefit	52
(Loss) from discontinued operations, net of income taxes	(99)
Gain on sale of assets from discontinued operations	2,183
Income tax (provision)	(822)
Gain on sale of assets from discontinued operations, net of income taxes	1,361
Income from discontinued operations, net of income taxes	$ 1,262

As indicated earlier, our significant divestitures have been recorded as discontinued operations:

On November 20, 2006, we closed a transaction to sell the real estate property associated with the previously sold high frequency radio business for $2.7 million in cash and a recognized gain in the amount of $2.2 million, $1.4 million net of income taxes.

On August 1, 2007, we sold all the outstanding shares of Percipia. The results of operations for the three months ended December 31, 2006 related to Percipia have been classified as discontinued operations.

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Liquidity and Capital Resources

Generally our working capital needs are funded from operations and advances under our revolving line of credit. In the lawn care and pest control business segment customers are billed when service is rendered and payment is usually received in less than thirty (30) days. In the telecommunication business segment customers are billed when orders are shipped and payment is usually received in sixty (60) to one hundred twenty (120) days from the billing date. Materials related to telecommunications equipment production must be purchased significantly in advance of the billing date and payment terms with vendors generally range between thirty (30) and sixty (60) days.

As of December 31, 2007, our liquidity and capital resources included cash and equivalents of $1.4 million, a working capital deficit of less than $(0.1) million and $1.4 million was available under our revolving line of credit. As of September 30, 2007, our liquidity and capital resources included cash and equivalents of $2.8 million, a working capital deficit of $(0.9) million and $9.0 million available under our revolving line of credit.

Cash used in operating activities was $3.2 million for the three months ended December 31, 2007 as compared to cash used in operating activities of $1.3 million for the three months ended December 31, 2006. During the three months ended December 31, 2007 the primary sources of cash from operating activities were reductions in prepaid expenses of $0.5 million and inventory of $0.2 million. The primary uses of cash from operating activities for the three months ended December 31, 2007 were increase in accounts receivable of $1.9 million, reduction in accounts payable and accrued expenses of $0.8 million, reduction in customer deposits of $0.3 million, reduction in unearned revenue of $0.2 million and funding of cash loss of $0.8 million.

Net cash used in investing activities was $1.2 million during the three months ended December 31, 2007 as compared to cash provided by investing activities of $0.8 million for the three months ended December 31, 2006. During the three months ended December 31, 2007 the primary uses of cash from investing activities during the three months ended December 31, 2007 were cash paid for business acquisitions of $1.0 million and the purchase of property, plant and equipment of $0.2 million.

Net cash provided by financing activities was $3.1 million for the three months ended December 31, 2007 as compared to $0.4 million for the three months ended December 31, 2006. During the three months ended December 31, 2007 the primary source of cash from financing activities was proceeds from revolving line of credit of $3.1 million.

Cash flows from discontinued operations are included in the consolidated statement of cash flows within operating, investing and financing activities for the three months ended December 31, 2006.

Our uses of cash for fiscal 2008 will be principally for working capital needs, capital expenditures and debt service. We are not anticipating significant acquisition activity in fiscal 2008. We believe that we can fund our planned business activities from a combination of cash flows from operations and funds available under our revolving line of credit. On February 12, 2008, we amended our revolving line of credit terms and conditions (the Second Amendment) which included an extension of the maturity date to January 7, 2009 from October 1, 2008, reduced the capacity under the credit agreement from $16.0 million to $13.5 million effective February 12, 2008, to $12.75 million as of June 30, 2008 and to $11.75 million as of September 30, 2008. The Second Amendment also modified the financial covenants relating to consolidated EBITDA, the leverage ratio and the fixed charge coverage ratio, which amendments are effective as of December 31, 2007. Based on the revised financial covenants included in the Second Amendment, we were in compliance with the financial covenants in its revolving line of credit at December 31, 2007.

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Recent Accounting Pronouncements

See Note 2, Summary of Significant Accounting Policies in the Notes to the Condensed Consolidated Financial Statements for a discussion of recent accounting pronouncements and their effect, if any, on the Company.

Item 3. *Quantitative and Qualitative Disclosures About Market Risk*

Market risk represents the risk of loss that may impact our financial position, results of operations or cash flows due to adverse changes in financial and commodity market prices and rates. We are exposed to market risk in the areas of changes in United States and international borrowing rates and changes in foreign currency exchange rates. Historically and as of December 31, 2007, we have not used derivative instruments or engaged in hedging activities to minimize market risk.

Interest Rate Risk

Our exposure to market risk resulting from changes in interest rates results from the variable rate of our credit facility with Wachovia Bank, National Association. An increase in interest rates would result in lower earnings and increased cash outflow and lower borrowing capacity. The interest rate on our credit facility is compounded daily based upon the LIBOR rate, plus a variable percentage based on our leverage ratio. The effect of each 1% increase in the LIBOR rate on our credit facility would result in an annual increase in interest expense of less than $0.1 million. We do not believe that near-term changes in the interest rates, if any, will result in a material effect on our financial condition or results of operation.

Exchange Rate Risk

We generally conduct business in U.S. dollars, and as a result, we have limited foreign currency exchange rate risk. However, we are exposed to foreign currency risk through our operations in the Telephone Communications business. Foreign currency risk arises from transactions denominated in a currency other than our functional currency and from foreign denominated revenue and profit translated into U.S. dollars. The primary foreign currency to which we are exposed is the British pound sterling, Telecom FM s functional local currency. We do not currently use forward exchange contracts to limit potential losses in earnings or cash flows from foreign currency exchange rate movements. Our condensed consolidated balance sheets are translated at exchange rates in effect as of the balance sheet date and income statement accounts are translated at average exchange rates for the period of the income statement. Translation gains and losses are included as a separate component of stockholders equity as cumulative translation adjustments. Foreign currency transaction gains and losses are included in other income and expenses. The effect of an immediate change in foreign exchange rates would not have a material impact on our financial condition or results of operations.

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Item 4. ***Controls and Procedures***

(a) ***Evaluation of Disclosure Controls and Procedures***

As of the end of the period covered by this report, we conducted an evaluation, under the supervision and with the participation of our Chief Executive Officer and Interim Chief Financial Officer of our disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) of the Exchange Act). Based upon this evaluation, our Chief Executive Officer and Interim Chief Financial Officer concluded that, at December 31, 2007, our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Commission s rules and forms.

(b) ***Changes in Internal Controls***

There was no change in our internal controls or in other factors that could affect these controls during the quarter ended December 31, 2007 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II

OTHER INFORMATION

Item 1. ***Legal Proceedings***

We are involved in litigation from time to time in the ordinary course of our business. Except for the litigation described below, we do not believe that any litigation in which we are currently involved, individually or in the aggregate, is material to our financial condition or results of operations.

In October 2007, we filed a lawsuit in the Circuit Court for the Ninth Judicial Circuit in the State of Florida against a number of former employees of Middleton for violation of their non-compete agreements. In addition, certain of these former employees pursued and hired away employees of Middleton which is also a violation of the existing employee non-compete agreements. The Company is seeking injunctive relief and damages. In October 2007, we also filed a lawsuit against one of our competitors for tortuous interference as they hired these former employees knowing that they were in violation of our non-compete agreement. The lawsuits were recently filed and are in discovery stages. At this time it is too early to tell what the likelihood of the outcome will be as well as the amount of damages that we may be entitled to.

Item 1A. ***Risk Factors***

You should refer to Item 1A, Risk Factors included in the September 30, 2007 Annual Report on Form 10-K for a comprehensive list of our risk factors. The following risk factor was included in this section as a recent change in the risk factor materialized. If the following risk factor or those incorporated by reference into this report materialize, our financial condition and results of operations could be materially and adversely affected and the value of our stock could decline. The risks and uncertainties described below and incorporated by reference into this report are those that we currently believe may materially affect us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially and adversely affect our business operations.

Our shareholders may incur substantial dilution.

Our shareholders may incur substantial dilution of their percentage of ownership interests if our warrant holders exercise their warrants. As of February 11, 2008, we have warrants outstanding to purchase (i) 5 million shares of our common stock at an exercise price of $7.00 per share, will expire on February 7, 2010 and (ii) 1 million shares of our common stock at an exercise price of $6.30 per share, which will expire on January 27, 2011. Upon exercise of the warrants, up to an additional 6,000,000 shares of our common stock would be outstanding. In addition, the warrants issued to our warrant holders contain certain anti-dilution provisions that if triggered, would cause a decrease in the exercise price of the warrants and would result in more shares of common stock being issuable upon exercise of the warrants. The warrants also provide for other customary anti-dilution adjustments to the exercise price in the event of stock splits, stock dividends, recapitalizations, reorganizations, reclassifications, distributions and business combinations, as well as adjustments in the event of cash dividends and other specified distributions. Adjustments to the warrants pursuant to these provisions may result in significant dilution to the ownership interests of our existing shareholders and may adversely affect the market price of our common stock. The anti-dilution provisions may also limit our ability to obtain additional financing on terms favorable to us. On February 8, 2008, 5 million warrants to

purchase 5 million shares of our common stock at an exercise price of $6.00 per share expired.

Item 2. ***Unregistered Sales of Equity Securities and Use of Proceeds***

None.

Item 3. ***Defaults Upon Senior Securities***

None.

Item 4. ***Submission of Matters to a Vote of Security Holders***

None.

Item 5. ***Other Information***

None.

Item 6. ***Exhibits***

3.1	Sunair Services Corporation Amended and Restated Bylaws, effective as of December 18, 2007 (incorporated by reference to Exhibit 3.1 in the Company s Current Report Form 8-K filed with the SEC on December 20, 2007).
10.1	Separation and Release Agreement dated as of October 29, 2007 between Sunair Southeast Pest Holdings, Inc. and Gregory Clendenin (incorporated by reference to Exhibit 10.1 in the Company s Current Report Form 8-K filed with the SEC on November 1, 2007).
10.2	Consulting Agreement dated as of October 29, 2007 between Sunair Southeast Pest Holdings, Inc. and George Clendenin (incorporated by reference to Exhibit 10.2 in the Company s Current Report Form 8-K filed with the SEC on November 1, 2007).
31.1	Certification by Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification by Interim Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification by Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification by Interim Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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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 thereunto duly authorized.

SUNAIR SERVICES CORPORATION

Date: February 14, 2008

/s/ John J. Hayes
John J. Hayes
President and Chief Executive Officer

Date: February 14, 2008

/s/ Edward M. Carriero, Jr.
Edward M. Carriero, Jr.
Interim Chief Financial Officer

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