

SUNAIR ELECTRONICS INC

Form PRE 14A

January 06, 2005

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**SCHEDULE 14A  
(RULE 14a-101)**

**INFORMATION REQUIRED IN PROXY STATEMENT  
SCHEDULE 14A INFORMATION**

**Proxy Statement Pursuant to Section 14(A)  
of the Securities Exchange Act of 1934**

Filed by the registrant  x

Filed by a party other than the registrant  o

Check the appropriate box:

- x Preliminary proxy statement
- o **Confidential, For Use of the Commission only (as permitted by Rule 14a-6(e)(2))**
- o Definitive proxy statement
- o Definitive additional materials
- o Soliciting material pursuant to Rule 14a-11(c) or Rule 14a-12

**SUNAIR ELECTRONICS, INC.**

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**(Name of Registrant as Specified in Its Charter)**

**Payment of filing fee** (Check the appropriate box):

- x No fee required.
- o Fee computed on the table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

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(2) Aggregate number of securities to which transaction applies:

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11:

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(4) Proposed maximum aggregate value of transaction:

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(5) Total fee paid:

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- o Fee paid previously with preliminary materials.
  - o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.
    - (1) Amount previously paid:
    - (2) Form, schedule or registration statement no.:
    - (3) Filing party:
    - (4) Date Filed:
-

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**SUNAIR ELECTRONICS, INC.  
3005 S.W. THIRD AVENUE  
FT. LAUDERDALE, FL 33315**

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS  
TO BE HELD ON FEBRUARY 4, 2005**

To our shareholders:

The Annual Meeting of Shareholders (the Annual Meeting ) of Sunair Electronics, Inc. (the Company, us, our or we ) will be held at the Embassy Suites, 1100 SE 17th St., Fort Lauderdale, FL 33316 on February 4, 2005 at 10:00 am, local time, for the following purposes:

- (1) To approve the issuance of shares of our common stock in connection with our proposed sale to Coconut Palm Capital Investors II, Ltd., a Florida limited partnership ( Coconut Palm ) of up to 5,000,000 units at a purchase price of \$5.00 per unit. Each unit will consist of: (i) one share of our common stock; (ii) a warrant to purchase one additional share of our common stock, at an exercise price of \$6.00 per share, which will be immediately exercisable and will expire after three years; and (iii) a warrant to purchase one additional share of our common stock, at an exercise price of \$7.00 per share, which will be immediately exercisable and will expire after five years;
  - (2) To increase the size of our Board of Directors from 5 to 7 members;
  - (3) To approve amendments to our Articles of Incorporation to: (i) change our corporate name to Sunair, Inc.; (ii) allow the Company to engage in any lawful business; and (iii) increase the number of our authorized shares of capital stock to 108,000,000 shares, of which 100,000,000 shares will be common stock and 8,000,000 shares will be preferred stock (Proposals 1, 2 and 3 are collectively referred to as the Transaction );
  - (4) To elect 6 members, including Richard C. Rochon and Mario B. Ferrari (both of whom are nominees and affiliates of Coconut Palm), to our Board of Directors, each to serve until the 2005 Annual Meeting of Shareholders or until their successors have been duly elected and qualified, with the 1 additional newly created vacancy set forth in Proposal 2 above to be filled by a Coconut Palm nominee. In addition, if Steven P. Oppenheim, who is one of the director nominees, is elected by our shareholders at the Annual Meeting, he will resign from our Board of Directors upon the closing of the Transaction, and Coconut Palm will have the right to nominate an additional director to fill the vacancy created by Mr. Oppenheim s resignation. Each of the Coconut Palm nominees will be elected by a majority vote of our Board of Directors within 30 days of the creation of each of the respective vacancies, as provided by our bylaws;
  - (5) To approve the issuance of an aggregate of 60,000 options to purchase shares of our common stock to 3 of our current directors outside of our existing stock option plan;
  - (6) To approve our 2004 Stock Incentive Plan; and
  - (7) To act upon such other business as may properly come before the Annual Meeting and any and all adjournments or postponements of the Annual Meeting.
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While the proposals in this proxy statement are being listed separately for purposes of voting, Proposals 1, 2 and 3 are all interdependent. Accordingly, obtaining the requisite shareholder approval for each such proposal is a condition precedent to the effectiveness of the other such proposals. In addition, that portion of Proposal 4 relating to the election of Messrs. Rochon and Ferrari to our Board of Directors, the resignation of Mr. Oppenheim from our Board of Directors and the filling of the 2 vacancies by Coconut Palm nominees (including the 1 additional newly created vacancy if Proposal 2 is approved by our shareholders, and the vacancy created by Mr. Oppenheim's resignation), are each contingent upon the closing of the Transaction. If the Transaction does not close: (i) the election of Messrs. Rochon and Ferrari to our Board of Directors will not become effective; (ii) Mr. Oppenheim will not resign from our Board of Directors; and (iii) Coconut Palm will not fill any vacancies on our Board of Directors. That portion of Proposal 4 relating to the election of Messrs. Herman, Heggstad, Laurent and Oppenheim, Proposal 5, relating to the issuance of an aggregate of 60,000 options to purchase shares of our common stock to 3 of our current directors outside of our existing stock option plan, and Proposal 6, relating to the approval of our 2004 Stock Incentive Plan, are each independent of the other proposals in this proxy statement and will become effective, if approved, irrespective of whether our shareholders approve the Transaction.

All shareholders of record at the close of business on [January 7, 2005] will be entitled to vote at the Annual Meeting or any adjournments or postponements thereof.

By Order of the Board of Directors

/s/ SYNNOTT B. DURHAM

Synnott B. Durham

Secretary and Chief Financial Officer

Fort Lauderdale, FL

[January 18, 2005]

*This is an important meeting and you are invited to attend the Annual Meeting in person. Whether or not you expect to be present at the Annual Meeting, please complete, sign and date the enclosed proxy card and return it promptly in the enclosed return envelope. No postage is required if mailed in the United States. Shareholders who execute a proxy card may nevertheless attend the Annual Meeting, revoke their proxy and vote their shares in person.*

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**SUNAIR ELECTRONICS, INC.  
3005 S.W. THIRD AVENUE  
FT. LAUDERDALE, FL 33315**

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**PROXY STATEMENT  
ANNUAL MEETING OF SHAREHOLDERS**

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This proxy statement is furnished in connection with the solicitation by the Board of Directors of Sunair Electronics, Inc. (the Company, us, our or we ), of proxies to be used with respect to the matters to be voted upon at the Annual Meeting of Shareholders (the Annual Meeting ) to be held on February 4, 2005, beginning at 10:00 am, local time, at the Embassy Suites, 1100 SE 17th St., Fort Lauderdale, FL 33316, and at any adjournments or postponements thereof.

The approximate date that this proxy statement and the enclosed form of proxy are first being sent to shareholders is [January 19, 2005]. You should review the information provided in this proxy statement together with our Annual Report on Form 10-KSB for the fiscal year ended September 30, 2004, which is being delivered to shareholders simultaneously with this proxy statement. The cost of solicitation of proxies is being borne by the Company.

**PURPOSES OF THE ANNUAL MEETING**

At the Annual Meeting, our shareholders will consider and vote upon the following matters:

- (1) the issuance of shares of our common stock in connection with our proposed sale to Coconut Palm Capital Investors II, Ltd., a Florida limited partnership ( Coconut Palm ) of up to 5,000,000 units at a purchase price of \$5.00 per unit. Each unit will consist of: (i) one share of our common stock; (ii) a warrant to purchase one additional share of our common stock, at an exercise price of \$6.00 per share, which will be immediately exercisable and will expire after three years; and (iii) a warrant to purchase one additional share of our common stock, at an exercise price of \$7.00 per share, which will be immediately exercisable and will expire after five years;
  - (2) an increase in the size of our Board of Directors from 5 to 7 members;
  - (3) the approval of amendments to our Articles of Incorporation to: (i) change our corporate name to Sunair, Inc.; (ii) allow the Company to engage in any lawful business; and (iii) increase the number of our authorized shares of capital stock to 108,000,000 shares, of which 100,000,000 shares will be common stock and 8,000,000 shares will be preferred stock (Proposals 1, 2 and 3 are collectively referred to as the Transaction );
  - (4) the election of 6 members, including Richard C. Rochon and Mario B. Ferrari (both of whom are nominees and affiliates of Coconut Palm), to our Board of Directors, each to serve until the 2005 Annual Meeting of Shareholders or until their successors have been duly elected and qualified, with the 1 additional newly created vacancy set forth in Proposal 2 above to be filled by a Coconut Palm nominee. In addition, if Steven P. Oppenheim, who is one of the director nominees, is elected by our shareholders at the Annual Meeting, he will resign from our Board of Directors upon the closing of the Transaction, and Coconut Palm will have the right to nominate an additional director to fill the vacancy created by Mr. Oppenheim s resignation. Each of the Coconut Palm nominees will be elected by a majority vote of our Board of Directors within 30 days of the creation of each of the respective vacancies, as provided by our bylaws;
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- (5) the approval of the issuance of an aggregate of 60,000 options to purchase shares of our common stock to 3 of our current directors outside of our existing stock option plan;
- (6) the approval of our 2004 Stock Incentive Plan; and
- (7) any other business as may properly come before the Annual Meeting and any and all adjournments or postponements of the Annual Meeting.

**While the proposals in this proxy statement are being listed separately for purposes of voting, Proposals 1, 2 and 3 are all interdependent. Accordingly, obtaining the requisite shareholder approval for each such proposal is a condition precedent to the effectiveness of the other such proposals. In addition that portion of Proposal 4 relating to the election of Messrs. Rochon and Ferrari to our Board of Directors, the resignation of Mr. Oppenheim from our Board of Directors and the filling of the 2 vacancies by Coconut Palm nominees (including the 1 additional newly created vacancy if Proposal 2 is approved by our shareholders, and the vacancy created by Mr. Oppenheim's resignation), are each contingent upon the closing of the Transaction. If the Transaction does not close: (i) the election of Messrs. Rochon and Ferrari to our Board of Directors will not become effective; (ii) Mr. Oppenheim will not resign from our Board of Directors; and (iii) Coconut Palm will not fill any vacancies on our Board of Directors. That portion of Proposal 4 relating to the election of Messrs. Herman, Heggstad, Laurent and Oppenheim, Proposal 5, relating to the issuance of an aggregate of 60,000 options to purchase shares of our common stock to 3 of our current directors outside of our existing stock option plan, and Proposal 6, relating to the approval of our 2004 Stock Incentive Plan, are each independent of the other proposals in this proxy statement and will become effective, if approved, irrespective of whether our shareholders approve the Transaction.**

Our Board of Directors considered and evaluated the Transaction mentioned above. In connection with its evaluation, our Board of Directors engaged Paul D. DeStefanis, P.A. d/b/a Advanced Business Valuations to act as its financial advisor. Advanced Business Valuations has rendered its opinion, dated as of November 16, 2004 to the effect that, as of that date and based upon and subject to the assumptions, limitations and qualifications set forth in its opinion, the issuance of the units at the price stated in this proxy statement is fair, from a financial point of view, to our shareholders. A copy of this opinion is attached to the accompanying proxy statement as Annex A.

Our Board of Directors has determined that the: (i) Transaction; (ii) election of the 6 nominees to our Board of Directors; (iii) issuance of options to purchase shares of our common stock to 3 of our current directors; and (iv) approval of our 2004 Stock Incentive Plan are in our best interests and the best interests of our shareholders. Our Board of Directors has approved, and unanimously recommends that you vote in favor of the: (i) Transaction; (ii) issuance of options to purchase shares of our common stock to 3 of our current directors; and (iii) approval of our 2004 Stock Incentive Plan. In addition, our Board of Directors has approved the nomination of, and unanimously recommends that you vote to elect, each of the 6 nominees to our Board of Directors.

As of the record date, [January 7, 2005], there were issued and outstanding [4,014,870] shares of our common stock. Only shareholders of record as of the close of business on such date will be entitled to notice of, and to vote at, the Annual Meeting. Proxies may be revoked at any time prior to the Annual Meeting by giving written notice of revocation to our corporate Secretary, by giving a later dated proxy, or by attending the Annual Meeting and voting in person.

Brokers who hold shares in street name for customers have the authority under the rules of the various stock exchanges to vote on certain items when they have not received instructions from the beneficial owners of our common stock. Brokers that do not receive instructions from such beneficial owners of our common stock are entitled to vote those shares with respect to Proposal 4 but cannot vote on the other Proposals at the Annual Meeting. Shares for which brokers have not received instructions, and therefore are not voted with respect to a certain proposal, are



referred to as broker non-votes.

Under Florida law and our Articles of Incorporation, the presence in person or by proxy of shareholders entitled to cast a majority of all votes entitled to be cast on the matters at the Annual Meeting constitutes a quorum. A share that is represented for any purpose is deemed present for quorum purposes. Therefore, abstentions and

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broker non-votes will count for purposes of determining if there is a quorum present at the Annual Meeting, will have no effect on Proposal 4 and will count as no votes for the other Proposals.

This proxy statement is first being mailed to our shareholders on or about [January 19, 2005]. A copy of our Annual Report on Form 10-KSB for the fiscal year ended September 30, 2004, except for exhibits, accompanies this proxy statement and is incorporated in this proxy statement by reference. Upon request, we will provide copies of the exhibits to the Annual Report on Form 10-KSB at no additional cost. All requests for copies should be directed to our corporate Secretary c/o Sunair Electronics, Inc., 3005 S.W. Third Avenue, Ft. Lauderdale, FL 33315.

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**SUMMARY TERM SHEET**

This term sheet provides a summary of the material terms of the proposed sale of up to 5,000,000 units, at a purchase price of \$5.00 per unit, to Coconut Palm Capital Investors II, Ltd. ( Coconut Palm ), and the transactions contemplated in the purchase agreement between us and Coconut Palm, including without limitation, an increase in the size of our Board of Directors from 5 to 7 members and amendments to our Articles of Incorporation (collectively referred to as the Transaction ). This term sheet does not contain all of the information regarding the Transaction that you may consider important. To better understand the Transaction, as well as the other proposals that you are voting on at the Annual Meeting of Shareholders (the Annual Meeting ), you should carefully read this entire document, its attachments and the other documents to which we refer.

On November 17, 2004, we announced that we had entered into a purchase agreement with Coconut Palm that is conditioned upon, among other things, our shareholders approval of the issuance of shares of our common stock in connection with the purchase agreement.

We are proposing to issue and sell to Coconut Palm up to a total of 5,000,000 units at a purchase price of \$5.00 per unit as follows: (i) 3,000,000 units for an aggregate purchase price of \$15,000,000; and (ii) at the option of Coconut Palm, up to an additional 2,000,000 units for an aggregate purchase price of up to \$10,000,000, pursuant to an exemption from registration under Section 4(2) of the Securities Act of 1933, as amended. (See Description of the Purchase Agreement on page 44).

Each unit will consist of: (i) one share of our common stock; (ii) a warrant to purchase one additional share of our common stock, at an exercise price of \$6.00 per share, which will be immediately exercisable and will expire after three years; and (iii) a warrant to purchase one additional share of our common stock, at an exercise price of \$7.00 per share, which will be immediately exercisable and will expire after five years. (See Summary on page 4).

The initial purchase price of \$15,000,000 for the 3,000,000 units, and the additional purchase price of up to \$10,000,000, if Coconut Palm exercises its option to purchase up to 2,000,000 additional units, will be payable in cash.

We have been investigating strategic alternatives to our current line of business since January 2004, and we intend to use the proceeds from the sale of the units to form a new Pest and Termite Control Services Division and to enter the pest and termite control services industry by targeting potential acquisitions, or initial acquisitions, of pest and termite control services companies in the United States and its territories. The growth of our new Pest and Termite Control Services Division may also be financed by accessing the equity and debt capital markets to the extent access to such markets is deemed to be favorable by our Board of Directors. (See Description of the Purchase Agreement on page 44).

Ultimately, we anticipate that, with the sale of the units and the formation of the Pest and Termite Control Services Division, we will no longer operate solely through our traditional business segments. In the long term, we expect the Pest and Termite Control Services Division to become our dominant operation. Accordingly, we also agreed in the purchase agreement to use our best efforts to enter into a definitive agreement as soon as practicable to divest ourselves of certain non-core assets acquired in connection with our purchase of: (i) Percipia, Inc. and its wholly-owned subsidiary Percipia Networks, Inc.; and (ii) the assets of Telecom FM, at a purchase price equal to the amount we paid for such assets plus the amount of any intercompany debt incurred and advances made in connection with such purchases. The non-core assets are currently held in separate wholly-owned subsidiaries. (See Shift in Focus of Business on page 15).

As a result of the shift in focus of our business, we have also agreed to amend our Articles of Incorporation to: (i) change our corporate name from Sunair Electronics, Inc. to Sunair, Inc.; (ii) change the description of the general nature of our business from the electronics industry to any business permitted by law; and (iii) increase the number of our authorized shares of capital stock to 108,000,000 shares, of which 100,000,000 shares will be common stock and 8,000,000 shares will be preferred stock. Such changes to our Articles of Incorporation are subject to shareholder approval. (See Amendment to our Articles of Incorporation on page 28).

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To further assist in the shift in focus of our business, we have agreed, upon the closing of the Transaction, to employ John J. Hayes as our President and Chief Executive Officer, and Donald K. Karnes and David M. Slott as executive officers of our newly created Pest and Termite Control Services Division. The anticipated aggregate compensation we will pay to Messrs. Hayes, Karnes and Slott will be approximately \$975,000 in annual salary plus options to purchase 500,000 shares of our common stock at an exercise price of \$5.00 per share, which options will be granted outside of our existing stock option plan. Messrs. Hayes, Karnes and Slott will also be entitled to participate in our new stock option plan after the closing. Messrs. Hayes, Karnes and Slott previously served as executives with TruGreen, the lawn care services division of The ServiceMaster Company ( ServiceMaster ). On December 10, 2004, ServiceMaster filed a suit against Messrs. Hayes, Karnes and Slott. We are not a party to this action. ServiceMaster alleged in its complaint that Messrs. Karnes and Slott had breached certain non-compete agreements with TruGreen and that Hayes had induced Karnes and Slott to breach these agreements. The complaint alleges that all three individuals had breached fiduciary duties owed to ServiceMaster, that the three individuals had usurped certain corporate opportunities and misappropriated trade secrets and that the three individuals would interfere with ServiceMaster's business relations with its customers and employees. The suit seeks to enjoin the named parties from performing services of any kind for any entity, including our company, planning to provide pest and termite control services. A hearing on this matter was first held on December 10, 2004. At this hearing, the Court restrained the named individuals from soliciting for employment any person who is, or within three months of the proposed hiring date was, an employee of TruGreen or its affiliates, including but not limited to Terminix, and from using or disclosing ServiceMaster's confidential information or trade secrets. The Court refused, however, to restrain the named individuals from (i) pursuing acquisitions of pest and termite control businesses identified as potential acquisition candidates, or (ii) performing, encouraging or inducing others to perform services for any entity, including our company, or from performing services competitive with those provided to TruGreen or its affiliates, including Terminix. A full evidentiary hearing on ServiceMaster's motion to enjoin the named individuals will be held on January 24, 2005. The purchase agreement contains a closing condition that the referenced individuals have not been enjoined from performing the contemplated services for the Pest and Termite Control Services Division. Although we and Coconut Palm have indicated our intent to consummate the Transaction regardless of the outcome of the January 24, 2005 evidentiary hearing, either we or Coconut Palm may attempt to terminate the Transaction if the hearing results in an injunction against Messrs. Karnes, Slott and Hayes. (See Nominations of Specified Directors to our Board of Directors and Additions to our Management Team on page 33).

We have also agreed, upon the closing of the Transaction, to enter into a 5 year management services agreement with an affiliate of Coconut Palm, RPC Financial Advisors, LLC ( RPC ), to provide management services for our Pest and Termite Control Services Division, pursuant to which we will pay a management fee during the first year of an amount equal to 1/16 times the aggregate purchase price paid for the units by Coconut Palm. Following the first year and thereafter, the management fee will be equal to 1% of the gross revenues from operations of our new Pest and Termite Control Services Division. Certain officers and directors of RPC will also serve as members of our Board of Directors upon the closing of the Transaction. (See Description of the Management Services Agreement on page 49).

In connection with the Transaction, our Board of Directors has approved the nominations of Richard C. Rochon and Mario B. Ferrari, affiliates of Coconut Palm, to our Board of Directors, as Chairman and Vice Chairman, respectively. (See Nominees on page 31). We have also agreed, provided our shareholders vote in favor of expanding our Board of Directors from 5 to 7 members, to allow Coconut Palm to nominate 1 additional director to fill the newly created vacancy on our Board of Directors. In addition, if Steven P. Oppenheim, who is one of the director nominees, is elected by our shareholders at the Annual Meeting, he will resign from our Board of Directors upon the closing of the Transaction, and Coconut Palm will have the right to nominate an additional director to fill the vacancy created by Mr. Oppenheim's resignation. Each of the Coconut Palm nominees will be elected by a majority vote of our Board of Directors within 30 days of the creation of each of the respective vacancies, as provided by our bylaws. (See Increase in the Size of our Board of Directors from 5 to 7 Members on page 27).





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Coconut Palm and our Chairman, Michael D. Herman, who beneficially owns approximately 51% of our currently outstanding common stock, have entered into a voting agreement pursuant to which Mr. Herman has agreed to vote all the shares of our common stock beneficially owned by him in favor of the Transaction, subject to termination of the voting agreement upon the earlier to occur of: (i) consummation of the Transaction; (ii) any termination of the purchase agreement in accordance with its terms; or (iii) our Board of Directors' withdrawal of its approval of the Transaction pursuant to Section 8(n) of the purchase agreement. (See Description of the Voting Agreement on page 49).

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**SUMMARY**

*This summary highlights selected information from this proxy statement and may not contain all of the information that is important to you. To understand the proposed transaction fully and for a more complete description of the terms of the transaction, you should read carefully this entire document, including the annexes, and the documents to which we have referred you.*

***The Entities to the Transaction***

Sunair Electronics, Inc.  
3005 S.W. Third Avenue  
Ft. Lauderdale, FL 33315  
(954) 525-1505

We are a Florida corporation organized in 1956. We are engaged in the design, manufacture and sale of high frequency single sideband communications equipment utilized for long range voice and data communications in fixed station, airborne, mobile and marine para-military applications.

Coconut Palm Capital Investors II, Ltd.  
595 South Federal Highway  
Boca Raton, Florida 33342  
(561) 955-7300

Coconut Palm Capital Investors II, Ltd. ( Coconut Palm ) has informed us that: (i) Coconut Palm was formed as a special-purpose entity by Richard C. Rochon to acquire equity interests in our company; (ii) Coconut Palm is an affiliate of Royal Palm Capital Partners, LLLP ( Royal Palm ); (iii) Royal Palm is a private equity investment and management firm whose Chairman and Chief Executive Officer, Richard. C. Rochon, served for 14 years as President of Huizenga Holdings, Inc. ( Huizenga Holdings ), a management and holding company owned by H. Wayne Huizenga; and (iv) Huizenga Holdings' investments included several publicly-held companies that became market leaders in their respective industries, including Blockbuster Entertainment Corporation, Republic Waste Industries, Inc., AutoNation, Inc., and Boca Resorts, Inc.

***Proposed Sale of up to 5,000,000 Units to Coconut Palm (page 13)***

If our shareholders approve Proposals 1, 2 and 3 set forth in this proxy statement (such proposals are collectively referred to as the Transaction ), subject to specified conditions, we will issue and sell to Coconut Palm up to a total of 5,000,000 units at a purchase price of \$5.00 per unit as follows: (i) 3,000,000 units for an aggregate purchase price of \$15,000,000; and (ii) at the option of Coconut Palm, up to an additional 2,000,000 units for an aggregate purchase price of up to \$10,000,000, in accordance with the purchase agreement between us. The purchase agreement is attached as Annex B to this proxy statement. We urge you to carefully read the purchase agreement in its entirety.

Under the purchase agreement, Coconut Palm is obligated to purchase 3,000,000 units at the closing, subject to the satisfaction of specified conditions. Coconut Palm has the right, but not the obligation, to elect to purchase up to 2,000,000 additional units within 5 days prior to the closing of the Transaction. The closing of the purchase of the 2,000,000 additional units is anticipated to occur at the same time as the closing of the 3,000,000 units; however, if, despite our best efforts, we and Coconut Palm are unable to close on the purchase of the 2,000,000 additional units at such time, then we and Coconut Palm may mutually agree on a closing date which may not be later than 7 business days after the closing of the 3,000,000 units.

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Each unit will consist of the following:

one share of our common stock;

a warrant to purchase one additional share of our common stock, at an exercise price of \$6.00 per share, which will be immediately exercisable and will expire after three years; and

a warrant to purchase one additional share of our common stock, at an exercise price of \$7.00 per share, which will be immediately exercisable and will expire after five years.

Coconut Palm has advised us that, at some time after the closing of the Transaction and from time to time, it may separate the shares of common stock and warrants comprising the units into the securities that comprise them. There are no prohibitions against this separation in the transaction documents so long as the separation and subsequent distribution is in compliance with applicable securities laws.

***Increase in the Size of Our Board of Directors (page 27)***

Pursuant to the purchase agreement, we have agreed to increase the size of our Board of Directors from 5 to 7 members, and to allow Coconut Palm to nominate 1 additional director to fill the newly created vacancy. In addition, if Steven P. Oppenheim, who is one of the director nominees, is elected by our shareholders at the Annual Meeting, he will resign from our Board of Directors upon the closing of the Transaction, and Coconut Palm will have the right to nominate an additional director to fill the vacancy created by Mr. Oppenheim's resignation. Each of the nominees will be elected by a majority vote of our Board of Directors within 30 days of the creation of each of the respective vacancies, as provided by our bylaws. Our Articles of Incorporation state that our Board of Directors must consist of 3 to 11 members, and that such number may be set from time to time in accordance with our bylaws. Our bylaws state that the number of directors on our Board of Directors must be determined by our shareholders. Our Board of Directors presently consists of 5 members. Therefore, we are seeking shareholder approval to fix the size of our Board of Directors at 7 members.

***Amendments to our Articles of Incorporation (page 28)***

Following the closing of the Transaction, we plan to pursue a strategic alternative to our current line of business by entering into the pest and termite control services industry. As a result of such shift in focus of our business, we have also agreed to amend our Articles of Incorporation to: (i) change our corporate name from Sunair Electronics, Inc. to Sunair, Inc., (ii) change the description of the general nature of our business from the electronics industry to any business permitted by law; and (iii) increase the number of our authorized shares of capital stock to 108,000,000 shares, of which 100,000,000 shares will be common stock and 8,000,000 shares will be preferred stock. Such amendments to our Articles of Incorporation are subject to shareholder approval.

***No Dissenters' Rights of Appraisal (page 16)***

Our shareholders will not have the opportunity to dissent from the Transaction or to receive an agreed or judicially appraised value for their shares of common stock.

***Recommendation of our Board of Directors and Reasons for the Transaction (page 16)***

We have been investigating strategic alternatives to our current line of business since January 2004. We believe that, notwithstanding the fact that we have enjoyed the benefits of experienced and qualified employees and executives as well as periods of positive cash flow, our business has not been growing at a rate we believe it could achieve and is generally in need of a new or additional industry focus as a catalyst for growth. When we were

approached by Coconut Palm, we believed the best interests of our shareholders required us to pursue an opportunity for an investment from Coconut Palm and to use the cash resources, as well as the experience and other resources Coconut Palm could offer, to pursue a strategic alternative to our current line of business by entering into the pest and termite control services industry. In making this determination, we considered that Richard C. Rochon had, in

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our opinion, a positive history of investing in and improving companies. Although we cannot assure you pursuing a strategic alternative in the pest and termite control services industry will ultimately benefit us and lead to increased profitability, we believe undertaking this aggressive growth strategy is in our best interests at this point in our company's life.

In formulating our decision to pursue the pest and termite control services industry, our Board of Directors reviewed the characteristics of the sector with respect to its key operating characteristics, competitive landscape, comparable transactions, and comparable companies. Based on this review, our Board of Directors made the following observations:

The pest and termite control services industry, a highly fragmented industry which is actively consolidating, represents \$6.8 billion in annual revenues distributed among approximately 20,000 firms.

The sector is dominated by a number of large players (e.g. Terminix International, Orkin Pest Control, Ecolab Pest Elimination and others) who together make up a large percentage of the market. The remainder of the market consists of small companies with under \$100 million in sales.

Competition in the market for pest and termite control services is strong, coming mainly from the larger noted companies and thousands of regional and local independently owned firms to homeowners who treat their own pest and termite control problems.

Revenue growth in the sector for the larger companies has been relatively flat in recent years, while the entire market growth rate is approximately 10% per year.

There are significant economies of scale advantages through the consolidation of pest and termite control companies.

There are no publicly listed companies in the United States that are exclusively engaged in the pest and termite control services industry. Paul D. DeStefanis, P.A. d/b/a Advanced Business Valuations reviewed the financial characteristics of several companies in the industrials-diversified commercial services industry, including The ServiceMaster Company, Ecolab, Inc., ABM Industries, and Carlisle Holdings Ltd. Advanced Business Valuations noted that the equity value-to-revenue multiples ranged from 1.04 to 2.23 times, and equity value to earnings multiples ranged from 22.90 to 29.91 times.

We believe that our company will experience rapid growth as a result of Coconut Palm's investment. We also believe the experience, skills and resources contributed by the Coconut Palm principals will offer significant benefits towards implementing our strategic alternative in the pest and termite control services industry.

Our Board of Directors has evaluated the terms of the Transaction with Coconut Palm and has considered whether to approve the issuance and sale of the units and whether the Transaction would be in our best interests and the best interests of our shareholders.

These and other factors led our Board of Directors to determine that the Transaction is in our best interests and in the best interests of our shareholders and to recommend that our shareholders approve the Transaction. We intend to complete the Transaction as soon as possible after the Annual Meeting of Shareholders.

Each member of our Board of Directors individually stated for the record his vote in favor of and approval of the Board of Directors' determination that the Transaction was in the best interests of our company and our shareholders.

***Opinion of Financial Advisor (page 18)***

In deciding to approve the Transaction, our Board of Directors considered the opinion of its financial advisor, Paul D. DeStefanis, P.A. d/b/a Advanced Business Valuations, that the issuance of the units at the price

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stated in this proxy statement is fair, from a financial point of view, to our company and our shareholders. The opinion of our financial advisor is attached as Annex A to this proxy statement.

***Annual Meeting Date; Record Date; Voting Power (page 11)***

Our Annual Meeting of Shareholders (the Annual Meeting ) will be held on February 4, 2005 at 10:00 am, local time, at the Embassy Suites, 1100 SE 17th St., Fort Lauderdale, FL, 33316.

You are entitled to vote at the Annual Meeting if you own shares of our common stock as of the close of business on [January 7, 2005], the record date.

At the close of business on [January 7, 2005], the record date, [4,014,870] shares of our common stock were outstanding and entitled to vote at the Annual Meeting. You will have one vote at the Annual Meeting for each share of our common stock that you own as of the record date.

Whether or not you plan to attend the Annual Meeting, please sign, date and return the accompanying proxy card to us. You may revoke your proxy at any time before it is exercised by giving written notice to our corporate Secretary at the address listed above. You may also revoke your proxy by attending the Annual Meeting, but only if (i) you have provided the written notice discussed above or (ii) you vote by ballot at the Annual Meeting.

The affirmative vote of the majority of the votes cast by the holders of our common stock present or represented by proxy and voting on the matter is required to approve: (i) the issuance of shares of our common stock in connection with our proposed sale of up to 5,000,000 units to Coconut Palm, as described in Proposal 1; (ii) an increase in the size of our Board of Directors from 5 to 7 members, with the 1 additional newly created vacancy to be filled by a Coconut Palm nominee and elected by a majority vote of our Board of Directors within 30 days of the Annual Meeting; (iii) the issuance of an aggregate of 60,000 options to purchase shares of our common stock to 3 of our current directors outside of our existing stock option plan, as described in Proposal 5; and (iv) the approval of our 2004 Stock Incentive Plan, as described in Proposal 6.

The affirmative vote of the holders of a majority of the shares of our common stock entitled to vote on the matter is required to approve the amendments to our Articles of Incorporation, as described in Proposal 3.

The affirmative vote of a plurality of the votes cast by our shareholders is required to approve the election of the 6 nominees to our Board of Directors, as described in Proposal 4.

***Ownership Following the Transaction; Consequences of the Transaction; Future Plans (page 50)***

Coconut Palm may acquire up to 5,000,000 shares of our common stock in the Transaction and, provided Coconut Palm purchases all 5,000,000 shares of our common stock, will be entitled to purchase up to an additional 10,000,000 shares of our common stock upon exercise of the warrants. Based on that number and the number of shares of our common stock outstanding on [January 7, 2005], the record date, if Coconut Palm: (i) purchases only the 3,000,000 units, Coconut Palm will acquire approximately 43% of our common stock outstanding immediately after the closing of the Transaction; (ii) exercises its option to purchase the 2,000,000 additional units, Coconut Palm will acquire approximately 56% of our common stock outstanding immediately after the closing of the Transaction. In addition, Coconut Palm will be entitled, on a fully diluted basis, to acquire up to: (i) 69% of our common stock outstanding immediately after the closing of the Transaction, upon exercise of the 6,000,000 warrants acquired in connection with the purchase of the 3,000,000 units; and (ii) 79% of our common stock outstanding immediately after the closing of the Transaction upon exercise of an additional 4,000,000 warrants, if Coconut Palm exercises its option to purchase the 2,000,000 additional units. If Coconut Palm were to: (i) exercise its option to purchase up to 2,000,000 additional



units; (ii) exercise the warrants acquired with the 3,000,000 units or (iii) exercise the warrants acquired if it exercises its option to purchase the 2,000,000 additional units, it would have enough shares of our common stock to control our company.

Two of the nominees for election to our Board of Directors, Richard C. Rochon and Mario B. Ferrari, are designees of Coconut Palm. Coconut Palm has advised us that Messrs. Rochon and Ferrari are expected to

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eventually receive some of the units, or the securities comprising the units, purchased by Coconut Palm as a distribution from Coconut Palm for performance of services by Messrs. Rochon and Ferrari.

As Coconut Palm is a partnership, it may ultimately distribute the units to its partners and/or principals, which may have the effect of eliminating any control Coconut Palm acquires. Coconut Palm has not informed us of any intent to distribute any of the units, or any portion of the securities comprising the units, to anyone other than Messrs. Rochon and Ferrari. Coconut Palm has agreed that any distributions it makes to anyone, including its partners, must be in compliance with applicable securities laws.

Ultimately, we anticipate that with the sale of the units and the formation of the Pest and Termite Control Services Division, we will no longer operate solely through our traditional business segments. In the long term, we expect the Pest and Termite Control Services Division to become our dominant operation. Thus, embarking upon this new strategy will represent a fundamental shift in the nature and focus of our business.

We are currently exploring avenues towards effecting initial acquisitions to be financed with a combination of equity and debt; however, we cannot assure you that these efforts will result in the successful implementation of our new Pest and Termite Control Services Division.

***Interests of Certain Persons in the Transaction (page 43)***

In considering our Board of Directors' recommendation to approve the Transaction, you should be aware that a number of our directors and executive officers have interests in the Transaction that are different from, or in addition to, your interests as a shareholder. These interests include:

The terms of the Transaction contemplate that: (i) our Chairman, Michael D. Herman, will be permitted to register for resale the shares of our common stock owned by him; and (ii) if Proposal 5 is approved, 3 of our current directors, Arnold Heggstad, Ph.D., Gerard P. Laheney and Steven P. Oppenheim, will be permitted to register for resale the shares of our common stock underlying the options to purchase shares of our common stock owned by them, along with, and to the same extent as, the shares of our common stock being acquired by (and the shares of our common stock underlying the warrants being acquired by) Coconut Palm.

Our President and Chief Executive Officer, James E. Laurent, our corporate Secretary and Chief Financial Officer, Synnott B. Durham, and our Vice President of Operations, Henry A. Budde, will each be entitled to enter into an employment agreement with us, which, by its terms, will be effective upon, and only upon, the closing of the Transaction.

***Nominations of Specified Directors to our Board of Directors and Additions to our Management Team (page 33)***

As a result of Coconut Palm's desire that it be provided with sufficient ability to monitor and protect its investment in our company, Coconut Palm has nominated, and our Board of Directors has approved the nominations of, Richard C. Rochon and Mario B. Ferrari to our Board of Directors, as Chairman and Vice Chairman, respectively, upon, and only upon, the closing of the Transaction. The remaining nominees presented for election consist of incumbents. We have also agreed, provided our shareholders vote in favor of expanding our Board of Directors from 5 to 7 members, to allow Coconut Palm to nominate 1 additional director to fill the vacancy on our Board of Directors. In addition, if Steven P. Oppenheim, who is one of the director nominees, is elected by our shareholders at the Annual Meeting, he will resign from our Board of Directors upon the closing of the Transaction, and Coconut Palm will have the right to nominate an additional director to fill the vacancy created by Mr. Oppenheim's resignation. Each of the nominees will be elected by a majority vote of our Board of Directors within 30 days of the creation of each of the respective vacancies, as provided by our bylaws.

In addition, John J. Hayes will become our President and Chief Executive Officer, and Donald K. Karnes and David M. Slott will become executive officers of our newly created Pest and Termite Control Services Division after the closing of the Transaction. Messrs. Hayes, Karnes and Slott will serve under the terms of employment agreements they have entered into with us which, by their terms, will be effective upon, and only upon, the closing

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of the Transaction. We anticipate the aggregate compensation for this management team will be approximately \$975,000 in annual salary plus options to purchase 500,000 shares of our common stock at an exercise price of \$5.00 per share, which such options will be granted outside our stock option plan. Messrs. Hayes, Karnes and Slott will also be entitled to participate in our equity-based compensation plans and shall be entitled to other employee benefits to the same extent as our other similarly situated senior executives participate after the closing of the Transaction.

***Registration Rights (page 47)***

The purchase agreement provides Coconut Palm with specified registration rights under which we have agreed to file a registration statement to register the resale of each of the shares of common stock being issued to Coconut Palm, as well as the shares of common stock underlying the warrants being issued to Coconut Palm, in the Transaction.

We have agreed that we will file the registration statement with the Securities and Exchange Commission as soon as practicable, but not later than 60 days after the closing of the Transaction. We have further agreed to use our reasonable best efforts to cause this registration statement to become effective within 60 days of its filing with the Securities and Exchange Commission.

***Additional Arrangements (page 44)***

Covenants in the purchase agreement will require us to pursue specified proposed strategies in order to utilize the investment of Coconut Palm to begin our entry into the pest and termite control services industry. These strategies include the following:

Diversifying our operations into the pest and termite control services sector;

Targeting potential acquisitions, or initial acquisitions, of pest and termite control services companies in the United States and its territories from which we may form the Pest and Termite Control Services Division;

Financing the growth of our new Pest and Termite Control Services Division by accessing the equity and debt capital markets to the extent access to such markets is deemed to be favorable by our Board of Directors; and

Divesting ourselves of certain non-core assets acquired in connection with our purchase of: (i) Percipia, Inc. and its wholly-owned subsidiary Percipia Networks, Inc.; and (ii) the assets of Telecom FM, at a purchase price equal to the amount we paid for such assets plus the amount of any intercompany debt incurred and advances made in connection with such purchases.

We anticipate that the initial acquisition(s) will occur after we complete the sale of the units and will be financed with a combination of equity and debt, with \$1,000,000 of our existing cash and the investment made by Coconut Palm in the Transaction being dedicated to acquisitions in furtherance of these strategies and objectives and costs reasonably incidental to the furtherance of these strategies, including the new management team to be formed and led by Messrs. Hayes, Karnes and Slott.

We have also agreed, upon the closing of the Transaction, to enter into a 5 year management services agreement with an affiliate of Coconut Palm, RPC Financial Advisors, LLC ( RPC ), to provide management services for our Pest and Termite Control Services Division, pursuant to which we will pay a management fee during the first year of an amount equal to 1/16 times the aggregate purchase price paid for the units by Coconut Palm. Following the first year and thereafter, the management fee will be equal to 1% of the gross revenues from operations of our new Pest and Termite Control Services Division. Certain officers and directors of RPC will also serve as members of our Board of Directors upon the closing of the Transaction.

In connection with the purchase agreement, Coconut Palm and our Chairman, Michael D. Herman, who beneficially owns approximately 51% of our currently outstanding common stock, entered into a voting agreement,

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dated November 17, 2004. Pursuant to the terms of the voting agreement, Mr. Herman agreed to vote his beneficially owned shares of common stock in favor of the issuance and sale of the units to Coconut Palm at the Annual Meeting and to grant Coconut Palm an irrevocable proxy to vote such shares of common stock: (i) in favor of the issuance and sale of the units to Coconut Palm, as contemplated by the purchase agreement; and (ii) against any actions or approval that could compete with or could serve to materially interfere with, delay, discourage adversely or inhibit the timely consummation of the issuance and sale of the units to Coconut Palm, as contemplated by the purchase agreement. The voting agreement also prohibits Mr. Herman from selling or transferring the shares of our common stock beneficially owned by him other than in certain permitted circumstances. The voting agreement terminates upon the earlier to occur of: (i) the consummation of the transactions contemplated by the purchase agreement; (ii) any termination of the purchase agreement in accordance with its terms; or (iii) the withdrawal by our Board of Directors of its approval of the transactions contemplated by the purchase agreement pursuant to Section 8(n) of the purchase agreement.

***Approval of Options to 3 of our Current Directors (page 36)***

On August 5, 2004, our Board of Directors approved the grant of an aggregate of 60,000 options to purchase shares of our common stock to Arnold Heggstad, Ph.D., Gerard P. Laheney and Steven P. Oppenheim, each of whom is a current member of our Board of Directors; however, the rules of the American Stock Exchange require that our shareholders approve the issuance of such options, because the options will be issued outside of our existing stock option plan.

***Interdependence of Proposals***

While the proposals in this proxy statement are being listed separately for purposes of voting, Proposals 1, 2 and 3 are all interdependent. Accordingly, obtaining the requisite shareholder approval for each such proposal is a condition precedent to the effectiveness of the other such proposals. In addition that portion of Proposal 4 relating to the election of Messrs. Rochon and Ferrari to our Board of Directors, the resignation of Mr. Oppenheim from our Board of Directors and the filling of the 2 vacancies by Coconut Palm nominees (including the 1 additional newly created vacancy if Proposal 2 is approved by our shareholders, and the vacancy created by Mr. Oppenheim's resignation), are each contingent upon the closing of the Transaction. If the Transaction does not close: (i) the election of Messrs. Rochon and Ferrari to our Board of Directors will not become effective; (ii) Mr. Oppenheim will not resign from our Board of Directors; and (iii) Coconut Palm will not fill any vacancies on our Board of Directors. That portion of Proposal 4 relating to the election of Messrs. Herman, Heggstad, Laurent and Oppenheim, Proposal 5 and Proposal 6 are each independent of the other proposals in this proxy statement and will become effective, if approved, irrespective of whether our shareholders approve the Transaction.

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**VOTING SECURITIES**

***Date; Time; Venue***

The Annual Meeting of Shareholders (the Annual Meeting ) will be held on February 4, 2005, at 10:00 am, local time, at the Embassy Suites, 1100 SE 17th St., Fort Lauderdale, FL, 33316.

***Quorum***

The presence, in person or by proxy, of the holders of shares representing a majority of the outstanding shares of our common stock will constitute a quorum.

***Shareholder Vote Necessary to Approve Proposals***

The affirmative vote of the majority of the votes cast by the holders of our common stock present or represented by proxy and voting on the matter is required to approve: (i) the issuance of shares of our common stock in connection with our proposed sale of up to 5,000,000 units to Coconut Palm, as described in Proposal 1; (ii) an increase in the size of our Board of Directors from 5 to 7 members, with the 1 additional newly created vacancy to be filled by a Coconut Palm nominee and elected by a majority vote of our Board of Directors within 30 days of the Annual Meeting, as described in Proposal 2; (iii) the issuance of an aggregate of 60,000 options to purchase shares of our common stock to 3 of our current directors outside of our existing stock option plan, as described in Proposal 5; and (iv) the approval of our 2004 Stock Incentive Plan, as described in Proposal 6.

The affirmative vote of the holders of a majority of the shares of our common stock entitled to vote on the matter is required to approve the amendments to our Articles of Incorporation, as described in Proposal 3.

The affirmative vote of a plurality of the votes cast by our shareholders is required to approve the election of the 6 nominees to our Board of Directors, as described in Proposal 4.

If any other matters should properly come before the Annual Meeting, proxies will be voted on these other matters in accordance with the judgment of the persons voting the proxies.

While the proposals in this proxy statement are being listed separately for purposes of voting, Proposals 1, 2 and 3 are all interdependent. Accordingly, obtaining the requisite shareholder approval for each such proposal is a condition precedent to the effectiveness of the other such proposals. In addition, that portion of Proposal 4 relating to the election of Messrs. Rochon and Ferrari to our Board of Directors, the resignation of Mr. Oppenheim from our Board of Directors and the filling of the 2 vacancies by Coconut Palm nominees (including the 1 additional newly created vacancy if Proposal 2 is approved by our shareholders, and the vacancy created by Mr. Oppenheim's resignation), are each contingent upon the closing of the Transaction. If the Transaction does not close: (i) the election of Messrs. Rochon and Ferrari to our Board of Directors will not become effective; (ii) Mr. Oppenheim will not resign from our Board of Directors; and (iii) Coconut Palm will not fill any vacancies on our Board of Directors. That portion of Proposal 4 relating to the election of Messrs. Herman, Heggstad, Laurent and Oppenheim, Proposal 5 and Proposal 6 are each independent of the other proposals in this proxy statement and will become effective, if approved, irrespective of whether our shareholders approve the Transaction.

***Proxy and Voting Mechanics***

If you hold of record shares of our common stock at the close of business on [January 7, 2005], the record date, you are entitled to vote at the Annual Meeting. Each share of our common stock is entitled to one vote upon all matters to be acted upon at the Annual Meeting. As of the record date, we had issued and outstanding [4,014,870] shares of common stock.

Abstentions are considered as shares present and entitled to vote for purposes of determining the outcome of any matter submitted to the shareholders for a vote, but are not counted as votes cast for or against any matter. The inspector of elections will treat shares referred to as broker or nominee non-votes (shares held by



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brokers or nominees as to which instructions have not been received from the beneficial owners or persons entitled to vote and the broker or nominee does not have discretionary voting power on a particular matter) as shares that are present and entitled to vote for purposes of determining the presence of a quorum. For purposes of determining the outcome on proposals as to which the proxies reflect broker or nominee non-votes, shares represented by these proxies will be treated as not present and not entitled to vote on that subject matter. Accordingly, these shares would not be considered by the inspectors as shares entitled to vote on that subject matter and therefore would not be considered by the inspector when counting votes cast on the matter.

Your vote is important. Accordingly, you are urged to sign, date and return the accompanying proxy card whether or not you plan to attend the Annual Meeting. If you do attend, you may vote by ballot at the Annual Meeting, which will have the effect of canceling any proxy previously given.

If the enclosed proxy is properly signed, dated and returned, the shares represented by the proxy will be voted in accordance with the instructions on the proxy card. If no instructions are indicated, the shares represented by the proxy will be voted in the following manner:

- (i) FOR the proposal to issue up to 5,000,000 shares of our common stock and up to an additional 10,000,000 shares of common stock upon the exercise of warrants issued to Coconut Palm;
- (ii) FOR the proposal to increase the size of our Board of Directors from 5 to 7 members;
- (iii) FOR the proposal to approve the amendments to our Articles of Incorporation;
- (iv) FOR the election of each of the nominees for director;
- (v) FOR the proposal to grant an aggregate of 60,000 options to 3 of our current directors outside of our existing stock option plan; and
- (vi) FOR the proposal to approve our 2004 Stock Incentive Plan.

If any other matters should properly come before the Annual Meeting, proxies will be voted on these other matters in accordance with the judgment of the persons voting the proxies. Discretionary authority to vote on such matters is conferred only by the granting of these proxies.

Any shareholder giving a proxy may revoke it by written notice to our corporate Secretary at the address provided above at any time before it is exercised. Attendance at the Annual Meeting will not have the effect of revoking the proxy unless this written notice is given or unless the shareholder votes by ballot at the Annual Meeting.

***Costs of Proxy Solicitation***

We will bear the cost of preparing, printing, assembling and mailing all proxy materials that may be sent to shareholders in connection with this solicitation. Arrangements will also be made with brokerage houses, other custodians, nominees and fiduciaries, to forward soliciting material to the beneficial owners of shares of our common stock held by these persons. We will reimburse these persons for reasonable out-of-pocket expenses incurred by them. In addition to the solicitation of proxies by use of the mails, our officers and regular employees may solicit proxies without additional compensation by telephone or telegraph. We do not expect to pay any compensation for the solicitation of proxies.



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**PROPOSAL NO. 1**

***Proposed Sale of up to 5,000,000 Units to Coconut Palm Capital Investors II, Ltd.***

***Background***

We have been investigating strategic alternatives to our business that would provide predictable, recurring revenue for our shareholders since January 2004. As a part of this new strategy, we have explored and analyzed the possibility of entering into different industries, and on September 2, 2004, our Chairman, Michael D. Herman, and Mario B. Ferrari, an affiliate of Coconut Palm Capital Investors II, Ltd. (Coconut Palm), held an introductory telephonic conversation, during which Mr. Herman detailed our company's history and current strategic position. On September 3, 2004, Messrs. Herman and Ferrari held a follow-up telephonic discussion to set up a potential meeting between the parties, and on September 8, 2004, Messrs. Herman and Ferrari held a telephonic discussion to setup the meeting for September 16, 2004.

In mid September, Richard C. Rochon, also an affiliate of Coconut Palm, held general discussions with John J. Hayes, Donald K. Karnes and David M. Slott regarding a potential investment in our company. Each of Messrs. Hayes, Karnes and Slott had a prior relationship working with Mr. Rochon when he served as President of Huizenga Holdings, Inc., a management and holding company, and also were investors in an additional transaction with Mr. Rochon that was completed since such time.

On September 16, 2004, Messrs. Rochon and Ferrari met with our Chief Financial Officer, Synnott B. Durham and our Board of Directors, including Mr. Herman, Gerard P. Laheney, James E. Laurent (who is also our President and Chief Executive Officer) and Steven P. Oppenheim. Our Board of Directors provided a background and history of our company in a general discussion. Messrs. Rochon and Ferrari then detailed an investment philosophy and interest in a potential control investment to be made in our company by Coconut Palm. Messrs. Rochon and Ferrari also introduced the concept of introducing a new services division to our company, which would provide stabilized earnings and recurring revenue to our existing lines of business.

On September 17, 2004, Mr. Ferrari met with Mr. Herman to detail a structure for the proposed investment, including an overview of Coconut Palm's investment philosophy. Messrs. Herman and Ferrari discussed a potential equity investment in our company in the range of approximately \$15,000,000, and also discussed the potential share price, approximately \$5.00, at which Coconut Palm would be interested in an investment. Mr. Herman stated that given the recent market prices, an investment at \$5.00 was a price that would create value for our shareholders. In addition, Mr. Herman and Mr. Ferrari discussed a potential management services agreement and the possibility of expanding our Board of Directors from 5 to 7 members. On September 18, 2004, Mr. Ferrari and Mr. Herman held a telephonic discussion, which detailed the timing and framework for both parties' moving forward.

On September 19, 2004, Mr. Ferrari and Mr. Herman held a telephonic discussion and a preliminary term sheet was prepared for Mr. Herman's review. The general parameters of the term sheet called for Coconut Palm to make an equity investment of between \$10,000,000 to \$25,000,000 in convertible preferred stock with an initial investment at \$5.00 per share with attached warrants that would be exercisable at ranging prices. The term sheet was then presented for review by our Board of Directors and legal counsel.

On September 20, 2004, Mr. Ferrari and Mr. Herman, together with our legal counsel, held a telephonic discussion to review the proposed term sheet and structure of the investment. Mr. Herman stated that we were more interested in a combination of convertible preferred and common stock investment. Our legal counsel stated that they would prepare an issues list for Coconut Palm's review. On September 23, 2004, Messrs. Rochon and Ferrari met with Messrs. Karnes, Slott and Hayes regarding potential opportunities with our company. On October 3, 2004,

Messrs. Ferrari and Herman held telephonic discussions to further review the strategy, terms and timeline.

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On October 7, 2004, Messrs. Rochon and Ferrari met with Mr. Laurent and Mr. Durham to discuss the strategy for entering the pest and termite control services industry. Messrs. Laurent and Durham presented an overview of the history of our company during their tenures of approximately 26 and 25 years, respectively. They also provided a context for Mr. Herman's involvement as an investor since November 2003 and the transition of the company since the leadership of its former controlling shareholder. Also on October 7, 2004, Mr. Ferrari and Mr. Herman met with Messrs. Karnes, Slott and Hayes for dinner to discuss possible opportunities to work together.

On October 8, 2004, Mr. Herman met with Mr. Ferrari and further discussed the terms and conditions for a proposed investment structure with an initial purchase price of \$5.00 and two tranches of warrants that would be exercisable at \$6.00 and \$7.00. A management structure and fee was also discussed, and Mr. Herman indicated that he would remain on our Board of Directors, and discussed allowing Coconut Palm to nominate 4 members to our Board of Directors. On October 11, 2004, Mr. Herman held a telephonic discussion with Mr. Ferrari and arranged an additional meeting.

On October 12, 2004, a term sheet was presented to Mr. Herman reflecting the latest negotiations. On October 13, 2004, Messrs. Rochon and Ferrari met with Mr. Herman to discuss the investment and held further discussions with lawyers and accountants regarding the investment process. On October 19, 2004, our Board of Directors held a meeting and approved the term sheet as proposed by Coconut Palm. On October 20, 2004, Mr. Herman held a meeting with Messrs. Ferrari, Durham and Oppenheim and addressed Messrs. Karnes, Slott and Hayes with the proposed strategy and timeline required to execute the strategy.

On November