

SECURITIES AND EXCHANGE COMMISSION

FORM PRE 14A

Preliminary proxy statement not related to a contested matter or merger/acquisition

Filing Date: **1994-02-10** | Period of Report: **1994-03-11**
SEC Accession No. **0000950168-94-000025**

([HTML Version](#) on secdatabase.com)

FILER

HEALTH EQUITY PROPERTIES INC

CIK: **822415** | IRS No.: **561591771** | State of Incorporation: **NC** | Fiscal Year End: **1231**
Type: **PRE 14A** | Act: **34** | File No.: **001-09826** | Film No.: **94506148**
SIC: **6798** Real estate investment trusts

Mailing Address
P O BOX 348
WINSTON-SALEM NC 27102

Business Address
915 WEST 4TH ST
P O BOX 348
WINSTON SALEM NC 27102
9197237580

(xx) Filing Fee of \$125.00 was previously paid on February 10, 1994, the date the Preliminary Proxy Statement was filed.

HEALTH EQUITY PROPERTIES INCORPORATED
915 West Fourth Street
Winston-Salem, North Carolina 27101

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

To be Held April 28, 1994

NOTICE IS HEREBY GIVEN that the Annual Meeting of Shareholders of Health Equity Properties Incorporated (the "Company") will be held in Forsyth Ballroom B on the second floor of the Adams Mark Winston Plaza Hotel, 435 North Cherry Street, Winston-Salem, North Carolina on Thursday, April 28, 1994 at 10:00 o'clock a.m. for the following purposes:

1. To elect Directors;
2. To approve certain amendments to the Company's Stock Option Plan;
3. To authorize the Board of Directors to purchase, or cause to be purchased on behalf of the Company, shares of the Company's common stock with an aggregate maximum purchase price of \$7,000,000; and
4. To transact such other business as may properly come before the meeting or any adjournment thereof.

The transfer books of the Company will not be closed. The date fixed by management as the record date for the determination of shareholders entitled to notice of and to vote at the Annual Meeting or any adjournment thereof is the close of business on March 11, 1994.

Winston-Salem, North Carolina

March 15, 1994

By Order of the Board of Directors

SUSAN L. CHRISTIANSEN, Secretary

IF YOU ARE UNABLE TO ATTEND THE MEETING IN PERSON, MANAGEMENT REQUESTS THAT YOU SIGN AND DATE THE ENCLOSED PROXY AND MAIL IT AT ONCE IN THE ENCLOSED ENVELOPE WHICH REQUIRES NO POSTAGE IF MAILED WITHIN THE UNITED STATES.

HEALTH EQUITY PROPERTIES INCORPORATED

PROXY STATEMENT

ANNUAL MEETING OF SHAREHOLDERS

To be Held April 28, 1994

The enclosed proxy is solicited by the Board of Directors of Health Equity Properties Incorporated (the "Company") to be voted at the annual meeting of shareholders to be held on April 28, 1994, or at any adjournment thereof. The proxy may be revoked at any time before it is voted by: (a) giving written notice to the Secretary of the Company before the annual meeting; (b) attending the annual meeting and voting in person; or (c) delivering a proxy bearing a later date to the Company before the annual meeting or to a person attending the meeting. The cost of the preparation of the Proxy Statement and solicitation of proxies, which is anticipated to be the amount normally expended for such a solicitation, will be borne by the Company. The solicitation will be by mail. Certain officers and regular employees of the Company may solicit proxies by letter, telephone and personal interview. No additional compensation shall be paid to any such persons participating in such further solicitation. Further, the Company has retained Doring & Co. to aid in the solicitation of proxies for a fee not to exceed \$3,000, plus out-of-pocket expenses. Arrangements have also been made for brokerage houses, nominees and other custodians to send this Proxy Statement, Form of Proxy and Annual Report to their principals and the Company will reimburse them for doing so.

The Company intends to mail Proxy Statements, Forms of Proxy and Annual Reports to shareholders on or about March 15, 1994.

Shareholders of record at the close of business on March 11, 1994 and no other persons shall be entitled to notice of, and to vote at, the meeting. The shares represented by all properly executed proxies which are received prior to the final call for delivery of proxies at the meeting will be voted in accordance with the directions given thereon. If no directions are given on a proxy, the shares represented by such proxy will be counted for purposes of determining the presence of a quorum and will be voted for the nominees for directors named herein, for the amendments to the Stock Option Plan and for the authorization of the Board of Directors to repurchase shares of the Company's common stock. A shareholder marking the proxy "Abstain" will be counted as present for determining a quorum, but will not be counted as voting in favor or against the particular proposal from which the shareholder has elected to abstain.

As of March 4, 1994, there were outstanding 14,581,237 shares of common stock, \$0.01 par value per share, of the Company. Each shareholder is entitled to one vote for each of said shares. At the election of directors, each shareholder is entitled to vote the number of shares held by him or her for as many persons as there are directors to be elected. The shareholders will not be entitled to cumulative voting.

A majority of the shares of the Company entitled to vote represented in person or by proxy shall constitute a quorum at the annual meeting. For purposes of determining the presence of a quorum, all signed proxies shall be included as shares represented by proxy regardless of whether or how the proxy has been voted.

1. ELECTION OF DIRECTORS - The number of directors of the Company constituting the entire Board of Directors shall be not

less than nine nor more than 12 directors, with the actual number constituting the entire Board of Directors to be established by resolution adopted from time to time by the Board of Directors. The Board of Directors has established the number of directors at nine. The Board of Directors is staggered by division into three classes. Class Three directors have terms expiring at the Annual Meeting of Shareholders to be held April 28, 1994. The Class Three directors whose terms will expire at the Annual Shareholder Meeting and who are being nominated for re-election shall be elected to hold office until the third succeeding Annual Meeting of Shareholders.

The Class Three directors who have been nominated for election to a three year term are as follows: William G. Benton, Susan L. Christiansen and David Weil.

Management knows of no reason why the nominees for election as directors will not be available for election or, if elected, will not be able to serve. If any individual nominee shall not be available for election as contemplated, it is the intention of those persons named in the proxy to vote for such other persons as the directors of the Company may recommend. The Form of Proxy does not authorize a vote for more than three directors.

Unless otherwise directed, the enclosed proxy will be voted in favor of William G. Benton, Susan L. Christiansen and David Weil in the election of directors, all of whom are currently members of the Board of Directors.

NOMINEES FOR DIRECTORS; DIRECTORS; AND CERTAIN STOCK OWNERSHIP

Set forth below are the names of the nominees for election to the Board of Directors, all of whom are currently directors of the Company; the names of the directors whose terms are not subject to re-election at this meeting; the principal occupation or employment of both nominees and other directors during the past five years; all their positions with the Company; and certain other information with respect to such persons:

William G. Benton - Director since 1987 (1)(4) Chairman of the Board and Chief Executive Officer since June 1989; President of the Company from October 1987 to June 1989 and since April 1991; Director and Chief Executive Officer of ACREMS, Inc. through November 1991 (the company which served as the Company's advisor from January 1988 through July 1990); principal shareholder, director and Chief Executive Officer of Taylor House Enterprises Limited since October, 1992, a holding company with several real estate related operating subsidiaries (ACREMS, Inc. merged with Taylor House Enterprises Limited in November 1991); sole Director of Benton Investment Company from its incorporation in 1984, President of Benton Investment Company from 1984 to August 1989, and Chief Executive Officer from August 1989 to present; Director of MBG Management Company, a company which manages residential real estate, and affiliated companies, from January 1992; Chairman since July 1992; President from January 1992 to June 1993; Director of Tanger Factory Outlet

Centers, Inc., a publicly traded REIT, since May 1993; active in real estate development since 1972. Age 48.

G. L. "Bud" Clark, Jr. - Director since 1988 Vice President of the Company since March 1989; Treasurer of the Company from March 1989 to April 1991; Chief Financial Officer since April 1991; Vice President, Chief Financial Officer and Director of ACREMS, Inc. through November 1991, (the company which served as the Company's Advisor from January 1988 through July 1990); Vice President and Chief Financial Officer of Taylor House Enterprises Limited since October 1991; Vice President of Benton Investment Company from 1986 to August 1989 and President of Benton Investment Company since August 1989; Vice President of MBG Management Company, a company which manages residential real estate, and affiliated companies, from January 1992 to present and Director of MBG Management Company, and affiliated companies, from July 1993 to present. Age 48.

Susan L. Christiansen - Director since 1990(4) Vice President and General Counsel of the Company since September 1990, Secretary of the Company since December 1989; Vice President and General Counsel of Taylor House Enterprises Limited since October 1991; attorney with the law firm of House & Blanco, P.A., Winston-Salem, North Carolina from August 1977 through September 1990 and a director and executive officer of House & Blanco, P.A. from March 1983 through September 1990. Age 41.

Lisbeth C. Evans - Director since 1987(1) President, Director and sole shareholder of Clark, Evans & Tate, Inc. since its organization in 1991, a company which invests in long-term healthcare properties; Chief Executive Officer and Director of Salem Villages, Inc. since June 1991, a nonprofit corporation which invests in long-term healthcare properties; President and Chief Operating Officer of the Company from June 1989 to April 1991; Vice President and Secretary of the Company from October 1987 to June 1989;

Director of ACREMS, Inc. through December 1991, (the company which served as the Company's advisor from January 1988 through July 1990); Vice President and Chief Financial Officer of ACREMS, Inc. from December 1986 to March 1990; President of ACREMS, Inc. through November 1991. Age 41.

Perry C. Craven - Director since 1987(1)(2)(3)(5) Sole shareholder and Director of Perry C. Craven Associates, Inc. since 1977, a company which specializes in elderly housing development, nonprofit development, housing training, rural housing development and communications. Age 53.

Dr. Walter H. Ettinger, Jr. - Director since 1987(1)(2)(3)(5) Associate Professor of Medicine, Head of Section on Internal Medicine and Gerontology, Department of Medicine, Bowman Gray School of Medicine, Winston-Salem, North Carolina and Deputy Director of the J. Paul Sticht Center on Aging, Bowman Gray/Baptist Hospital Medical Center since 1987; from 1985 to 1987 Assistant Professor of Medicine, Division of Geriatrics and Gerontology, The Johns Hopkins University School of Medicine, Baltimore, Maryland; from 1982 to 1987, staff of Francis Scott Key Medical Center, Baltimore, Maryland. Age 42.

Dr. Thomas K. Hearn, Jr. - Director since 1987(2)(3)(5) President of Wake Forest University, Winston-Salem, North Carolina since October 1983. Mr. Hearn also serves as a Director of Wachovia Corporation. Age 57.

Floyd A. Schlossberg - Director since 1990(2)(5) Sole shareholder and President of Alden Management Services, Inc. since formation in 1977, a company which owns and manages long-term care nursing homes and, through subsidiaries, leases five properties of the Company; sole shareholder and President of Alden Realty Services, established in 1980 to purchase and manage property; sole shareholder and President of Alden Bennett Construction Co., Inc., a general contracting firm established in 1961. Age 56.

David Weil - Director since 1987(1)(2)(4)(5)(6) Involved in several diversified businesses in the past five years, including serving as Chairman of the Board and a shareholder of Southco Distributing Company, a wholesaler of cigarettes, groceries and candies, since 1981; a director and shareholder of Mount Olive Pickle Company, a pickle manufacturing company, since 1988; an officer, director and shareholder of Stackhouse Incorporated, a company which installs utility lines, since 1987 ; Director and Chief Executive Officer of MBG Management Company, a company which manages residential real estate, and affiliated companies, from January 1992 to June 1993. Age 58.

NOTES:

- (1) Member of Property Committee.
- (2) Member of Audit Committee.
- (3) Member of Compensation Committee.
- (4) The indicated directors are nominees for re-election at the meeting of shareholders.
- (5) The indicated directors are Independent Directors.
- (6) In April 1993 Mr. Weil and his spouse filed a petition for reorganization under Federal Bankruptcy Law. Although Mr. Weil's assets exceed his liabilities by an estimated \$10 million, the filing was precipitated by an aggressive stance taken by a creditor bank. Prior to the filing, Mr. Weil informed the Board of his decision to file and offered to tender his resignation from the Board. The remaining Board members voted unanimously to reject Mr. Weil's offer and to confirm his continuation as a Board member. The Board does not believe that the filing negatively impacts Mr. Weil's ability to continue to serve as a valued Board member.

Information Concerning Security Ownership

Under regulations of the Securities and Exchange Commission, persons who have power to vote or dispose of shares of the Company either alone or jointly with others, are deemed to be

beneficial owners of such shares. Because the voting or dispositive power of certain shares listed in the following table is shared, the same securities in such cases are listed opposite more than one name in the table. The total number of shares of Common Stock of the Company listed below for directors and executive officers as a group eliminates such duplication. Members of management intend to vote their shares in favor of all the proposals.

Set forth in the following table are the beneficial holdings as of the close of business on March 4, 1994 of individual directors and nominees, and directors and executive officers as a group. As of March 4, 1994, to the knowledge of the directors and executive officers, there were no persons who beneficially owned more than 5% of the outstanding stock of the Company.

<TABLE>
<CAPTION>

Name	Sole Voting and/or Dispositive Power	Shared Voting and/or Dispositive Power	Options Exercisable Within 60 Days	% of Class
<S>	<C>	<C>	<C>	<C>
William G. Benton	287,245 (1)	16,950 (5)	81,228 (6)	3%
G.L."Bud" Clark, Jr.	5,032 (2)	16,950 (5)	74,703 (6)	*
Susan L. Christiansen	1,161	16,950 (5)	73,616 (6)	*
Lisbeth C. Evans	4,200	--	--	*
Perry C. Craven	625	--	--	*
Dr. Walter H. Ettinger, Jr.	500 (3)	--	--	*
Dr. Thomas K. Hearn, Jr.	750	--	--	*
Floyd A. Schlossberg	17,340	--	--	*
David Weil	23,825 (4)	--	--	*
Directors and Executive Officers as a Group (10 persons)	341,178	16,950	127,237	3%

* Less than 1%

</TABLE>

NOTES:

- (1) The amount indicated includes 9,275 shares which Mr. Benton owns in his own name, 254,211 shares owned by Taylor House Enterprises, Limited and 23,759 shares owned by Mr. Benton's spouse. Mr. Benton is the controlling shareholder of Taylor House Enterprises, Limited. Mr. Benton disclaims beneficial ownership of the shares owned by his spouse.
- (2) Mr. Clark has sole voting and investment power over 1,732 shares owned directly by him and 3,300 shares owned by a family partnership.
- (3) Dr. Ettinger co-owns the shares indicated with his spouse.
- (4) Includes 1,525 shares owned by Mr. Weil's spouse, as to which shares Mr. Weil disclaims beneficial ownership.
- (5) The indicated shares are owned by a limited partnership

for which Messrs. Benton and Clark and Ms. Christiansen serve as general partners. The percentage interest of each is as follows: Mr. Benton - 12.6%; Mr. Clark - 16.1%; Ms. Christiansen - 7.6%.

- (6) 56,422 of the indicated option shares are owned by the limited partnership referred to in Note 5 above. Option shares are owned directly as follows: Mr. Benton - 24,806; Mr. Clark - 18,281; Ms. Christiansen - 17,194.

Meetings and Committees of the Board

The Board of Directors of the Company has standing Audit, Compensation and Property Committees. The members of the committees are indicated in the preceding table. The Audit Committee held two meetings during the fiscal year for the purpose of reviewing the financial statements for the year ended December 31, 1992 and for the purpose of determining the scope of the engagement of the Company's auditors for the audit of financial statements for fiscal year ended December 31, 1993. The Property Committee and the Compensation Committee each met once during 1993. As discussed in more detail below, the Compensation Committee reviews compensation matters and administers the Company's Stock Option and Employee Stock Purchase Plans. See "Plans" and "Report of Compensation Committee" below. The Property Committee reviews proposed acquisitions and dispositions of properties and makes recommendations to the Board of Directors. The Board of Directors held five meetings during the past fiscal year ended December 31, 1993.

Compliance with Section 16(a) of the Securities and Exchange Act

Section 16(a) of the Securities and Exchange Act of 1934, as amended, requires officers, directors, and persons owning more than 10% of the Company's common stock to file initial statements of beneficial ownership on Form 3 and statements of changes in beneficial ownership on Forms 4 or 5 with the Securities and Exchange Commission and the New York Stock Exchange. The persons subject to these filing requirements are also required to provide the Company with copies of all such forms filed. To the Company's knowledge, based solely on review of the copies of such forms received by it and written representations received from persons subject to the reporting requirements that no additional forms were required to be filed, the Company believes that all filing requirements applicable to the reporting persons during year ended December 31, 1993 were complied with except as follows: Lisbeth C. Evans, one of the Company's directors, sold 300 shares of the Company's common stock in December of 1993. The Form 4 reflecting the sale was filed on January 21, 1994, 11 days after its due date.

Compensation of Directors and Executive Officers

- (a) Compensation to Directors

The Company pays each independent director a fee of \$10,000 per year for services as a director, plus \$500 for each meeting of the Board of Directors attended. The Company reimburses all directors for travel expenses incurred in connection with their duties as directors of the Company.

(b) Compensation to Executive Officers

The following tables provide compensation information regarding executive officers of the Company:

TABLE 1. SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Annual Compensation		Long-Term Compensation
		Salary(1) \$	Bonus(2) \$	Stock Option Shares #
William G. Benton Chairman of the Board, Chief Executive Officer and President	1993	183,750	0	40,929
	1992	175,000	21,000	43,558
	1991	175,000	88,649	18,842
G. L. Clark, Jr. Vice President and Chief Financial Officer	1993	90,000	7,500	22,947
	1992	80,000	24,500	23,852
	1991	80,000	41,333	20,215
Susan L. Christiansen Vice President, General Counsel and Secretary	1993	99,750	7,500	22,451
	1992	95,000	35,000	15,304
	1991	95,000	44,333	16,907

NOTES:

- (1) The following table indicates the amount reimbursed the Company in 1993 and 1992 by Taylor House Enterprises, Limited and in 1991 by Benton Investment Company for services rendered by the named individuals to that company during those years:

Name of Individual	Year	Amount Reimbursed	Net Salary Paid by the Company
William G. Benton	1993	\$27,563	\$156,187
	1992	\$26,250	\$148,750
	1991	\$17,500	\$157,500
G. L. Clark, Jr.	1993	\$18,000	\$72,000
	1992	\$16,000	\$64,000
	1991	\$12,000	\$68,000
Susan L. Christiansen	1993	\$9,975	\$89,775
	1992	\$14,250	\$80,750
	1991	\$9,500	\$85,500

- (2) A portion of the 1991 cash bonus was contributed on behalf of each named executive to a limited partnership as follows: Benton - \$18,649; Clark - \$9,333 and Christiansen - \$11,083.

TABLE 2. OPTION GRANTS IN YEAR ENDED 12/31/93

<TABLE>
<CAPTION>

Name	Individual Grants			Exercise Price (\$/Sh)	Expiration Date	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term		
	Options Granted(1) (#)	Percent of Total Options Granted to Employees in Year Ended 12/31/93				0%	5%	10%
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
William G. Benton	40,929	28%		\$9.19	2003	\$0	\$236,487	\$599,303
G. L. Clark, Jr.	22,947	16%		\$9.19	2003	\$0	\$132,587	\$336,002
Susan L. Christiansen	22,451	15%		\$9.19	2003	\$0	\$129,721	\$328,739

</TABLE>

NOTES:

- (1) The options granted have a vesting schedule as follows: 30% 12/31/94; 30% 12/31/95; 30% 12/31/96; and 10% 12/31/97

TABLE 3. AGGREGATE OPTION EXERCISES IN LAST FISCAL YEAR AND FISCAL YEAR END OPTION VALUES

<TABLE>
<CAPTION>

Name	Shares Acquired on Exercise (#)	Value Realized (\$)	Number of Unexercised Options at Fiscal Year End (#)	Value of Unexercised in-the-Money Options at Fiscal Year End (\$)
			Exercisable/Unexercisable	Exercisable/Unexercisable
<S>	<C>	<C>	<C>	<C>
William G. Benton	0	0	31,910/71,419	\$33,810/\$34,353
G. L. Clark, Jr.	0	0	27,371/39,643	\$30,267/\$18,912
Susan L. Christiansen	0	0	21,499/33,163	\$24,095/\$13,582

</TABLE>

(c) Plans

1. Agreements with Executive Officers. Mr. Benton, Mr. Clark and Ms. Christiansen have employment agreements with the Company. The Employment Agreements provide for a base salary with increases as authorized by the Board of Directors. The Agreements are for terms of five years, with each day worked being deemed to extend the term by an additional day. The Agreements allow for the performance of services for other entities with the Company being entitled to reimbursement from any such entity for the time required to perform such services.

The Agreements provide for the payment to each executive

officer of a lump-sum payment if the Company terminates such executive employment during the term of the Agreements other than for cause, or if the employment is terminated for certain reasons, including a change of control of the Company. The lump-sum payment is equal to three times the amount of such executive's average base salary for the previous five years. In addition, Mr. Benton's Agreement provides an alternative termination payment equal to five times the highest gross

compensation received by Mr. Benton during the immediately preceding five fiscal years, which shall include all cash and noncash compensation received by Mr. Benton, at Mr. Benton's election. Mr. Benton's Agreement also provides that the Company will reimburse Mr. Benton for the amount of excise tax, if any, on his termination payments, as well as any incremental income taxes payable on the reimbursed amount.

In all other respects the Agreements provide that the terms of employment will be subject to policies affecting all employees.

2. Stock Option Plan. The Company's Stock Option Plan provides that an aggregate of 564,927 shares of the Company's \$0.01 par value common stock may be optioned by the Board of Directors as nonqualified options to officers and directors of the Company selected by the Compensation Committee of the Board of Directors (the "Committee"). For a period one year prior to serving on the Committee, and while serving on the Committee, no member may be granted an option to purchase stock of the Company under the plan or any other stock option plan of the Company. The exercise price of options granted under the plan will be the fair market value of the shares on the date of grant. All options granted under the plan will expire not later than ten years after the date of the grant and will be subject to such other terms and conditions as may be determined by the Committee at the date of the grant. All options granted under the plan expire no later than 60 days after termination of the relationship under which the optionee provides services to the Company, except when the termination is by reason of retirement, by reason of age or disability, or by reason of the optionee's death. In the case of retirement by reason of age or disability, options expire three months after termination of the optionee's relationship with the Company. In the case of death, options may be exercised by the personal representative of the deceased within one year after the date of death. Options are not transferable by the holder other than by will or by applicable laws of descent and distribution. The Board of Directors is proposing that the Stock Option Plan be amended to increase the number of shares reserved to 1,500,000 and to include the grant of restricted shares of stock as a form of incentive compensation. See Proposal 2 - Proposal to Amend Stock Option Plan and Report of Compensation Committee below.

3. Employee Stock Purchase Plan. The Company's Employee Stock Purchase Plan, which is intended to qualify under Section 423 of the Internal Revenue Code, authorizes the issuance of up to an aggregate of 100,000 shares of common stock to participating employees. Employees of the Company are eligible to participate in the plan if they are employed by the Company for at least 20 hours per week and more than five months per year. Employees who own 5% or more of the common stock of the Company and directors who are not employees are not eligible to participate. The plan is administered by the Compensation Committee of the Board of Directors. The plan permits eligible employees to purchase common stock through payroll deductions, which may not exceed 10% of an employee's base compensation. The price at which the stock is purchased under the plan is equal to

85% of the fair market value of the common stock on the first day of each six month offering period. The plan became effective during 1992 after approval by the shareholders at the annual meeting held April 30, 1992 and the first offering period under the plan was the six months beginning July 1, 1992. During 1992, employees invested \$21,255 in 2,819 shares of the Company's common stock under the plan, and during 1993 employees invested \$46,733 in 6,238 shares of the Company's common stock under the plan.

Report of Compensation Committee

THE FOLLOWING REPORT OF THE COMPENSATION COMMITTEE IS PROVIDED FOR INFORMATION PURPOSES ONLY AND SHALL NOT BE DEEMED TO BE SOLICITATION MATERIAL OR TO BE FILED WITH THE SECURITIES AND EXCHANGE COMMISSION.

1. The Committee and General Philosophy. The Company's compensation policies are determined by the Compensation Committee of the Board of Directors which makes its compensation recommendations to the full board for approval. The Committee is comprised of three directors of the Company, none of whom is employed by the Company. In addition to making recommendations with respect to compensation, the Committee also administers the Company's Nonqualified Stock Option Plan and Employee Stock Purchase Plan. These plans are described above.

The Company's approach to compensation places primary emphasis on team performance and secondary emphasis on individual performance. As such, compensation is awarded to all employees as a whole with specific allocations based on deemed contribution to the team effort.

The Company's compensation program currently is comprised of two elements: base salary and annual bonus. Base salaries of executive officers are generally in the 25th percentile or below of base salaries in comparable companies, as determined by the Committee's outside consultant. Bonus is based on the Company's annual incentive plan and is comprised of a combination of cash and fair market value stock options, with the amount of cash bonus and the vesting schedule of stock options being tied to specific performance goals.

2. Annual Incentive Bonus Plan. The Company's Annual Incentive Bonus Plan provides for a cash bonus pool and a stock option pool. The cash bonus pool is subject to adjustment from zero to 125% based on Company performance. The vesting schedule of the stock option pool is subject to a range of three years to ten years based on Company performance. Stock options utilized in the Annual Incentive Bonus Plan are granted under the terms of the Company's Stock Option Plan. Goals for Company performance are established annually. Points are awarded based on the achievement of the targeted goals. The aggregate number of points "earned" determines the percentage of the bonus pool available for award and the vesting schedule for stock options in the stock option pool. All employees are eligible for participation in the plan.

Goals for 1993 were: (1) increasing funds from operations; (2) increasing total market capitalization; and (3) increasing the Company's return on equity. In addition, the Company established a special goal for 1993 of reducing the Company's dependence on any one lessee to no more than 30% of base revenues. The base pool for cash bonuses for 1993 was established at \$191,000, which was determined as a percentage of historical

cash flow from operations, as well as a percentage of the projected increase in cash flow from operation for 1993. In the event that management had been successful in achieving the specific goal for 1993, the base pool for cash bonuses would have doubled. The stock option pool is determined by taking 1% of the Company's outstanding shares at year end.

Based on 1993 performance, management was successful in the three general goals set for 1993 and "earned" sufficient points to justify a cash bonus pool of 115% of the base amount, or \$219,650, and a vesting schedule for stock options of four years as follows: 30% 1994, 30% 1995, 30% 1996 and 10% 1997. The special goal for 1993 was not achieved, however, and management recommended that the cash pool be reduced to \$100,000.

Executive officers received 15% of the aggregate annual cash bonus pool awarded for 1993 and 59% of the stock options granted. As reflected in Table 2 above, of the total of 145,812 stock options granted with respect to the 1993 Incentive Bonus Plan, options for 86,327 shares were granted to executive officers.

To provide additional flexibility in the Annual Incentive Bonus Plan, the Board of Directors is proposing that the number of shares reserved under the Company's Stock Option Plan be increased to 1,500,000 shares and the plan be amended to provide for the grant of restricted shares. If approved by the shareholders, it is anticipated that rather than awarding 100% of the bonus pool in cash, that a percentage of the pool would be awarded in restricted shares of stock. In general, the restricted shares would be subject to continued employment during the five year term. During the restricted period the employee receiving the award would be entitled to receive dividends and to vote the stock awarded but could not sell or transfer the stock.

3. Compensation to Chief Executive Officer. Mr. Benton's base salary of \$183,750 was set in 1993. Mr. Benton's prior salary of \$175,000 was reviewed by the Compensation Committee's outside advisor during 1992 and was determined to be in the 25th percentile for comparable companies. The Board has approved a budgeted increase of up to 5% for Mr. Benton during 1994, but the Committee has not yet implemented an increase. Mr. Benton's participation in the annual incentive bonus is based on his relative performance as compared to the performance of all team members. Mr. Benton's allocation for 1993 was 0% of the total cash bonus pool and 28% of the total stock option pool. Company performance as measured by the annual incentive bonus plan can account for up to 50% of Mr. Benton's total compensation.

Mr. Benton's bonus decreased substantially for 1993 and 1992 as compared to 1991. Although the Company's stock traded above 1992 levels during 1993, the Company's dividend continues to pay the highest percentage yield among the health care REITs. Management believes that as a result the Company's stock is undervalued. Although the Company's stock price has improved as a result of the Company's stronger balance sheet, Mr. Benton believes that the Company must reduce its dependence on lessees providing more than 30% of the Company's base revenues to increase the market's confidence in the Company and thereby effect an increase in the market price of the Company's common stock. As a result, Mr. Benton recommended to the Committee that bonuses to executive officers be reduced in 1993, his own bonus being reduced to zero, until this overriding objective is achieved.

Performance Graph

THE FOLLOWING IS PROVIDED FOR INFORMATIONAL PURPOSES ONLY AND SHALL NOT BE DEEMED TO BE SOLICITATION MATERIAL OR TO BE FILED WITH THE SECURITIES AND EXCHANGE COMMISSION

5 YEAR CUMULATIVE TOTAL RETURNS(1)
HEALTH EQUITY PROPERTIES, S & P 500, ALL REIT

ALL REIT RETURN (2)	EQUITY REIT RETURN	S & P 500 RETURN	REGISTRANT YR-ENDS	S & P YR-ENDS	ALL REIT YR-ENDS	FOR THE YEARS
--	--	--	100.00	100.00	100.00	1988
--	--	--	101.12	131.49	98.19	1989
--	--	--	97.52	127.32	81.16	1990
--	--	--	154.43	166.21	110.11	1991
--	--	--	150.95	178.96	123.52	1992
--	--	--	168.74	196.84	146.43	1993

Assumes \$100 invested December 31, 1988.

NOTES:

- (1) Assumes dividends reinvested and fiscal years ending December 31 for each of the years 1989 through 1993
- (2) Based on information published by the National Association of Real Estate Investment Trusts

Certain Transactions

1. Alden. The Company leases five properties to Alden Management Services, Inc. ("Alden"), which is wholly owned by Mr. Floyd A. Schlossberg, a director of the Company. For the year ended December 31, 1993, the Company received \$4,657,000 in rental income from Alden representing 24% of the Company's total rental income for the year. The leases with Alden were entered into in 1986. Since the leases were entered into and negotiated prior to Mr. Schlossberg's appointment to the Board of Directors of the Company, the Company considers such leases to have been negotiated at arm's length and to have terms comparable to those obtainable from other unaffiliated third parties. The leases provide for an initial term of ten years with three renewal options of five years each. The lessee is required to pay a minimum rental amount with provisions for additional rent based on increases in revenue. The leases are triple net and pass the obligation of taxes, insurance, operating expenses and maintenance on to the lessee. The facilities must be operated as nursing homes and cannot be subleased without the Company's approval. The leases provide Alden with a right of first refusal to purchase the nursing home facilities on the same terms and conditions as offered by bonafide third party offeror in the event the Company proposes to accept such bonafide offer.

In December 1987, the Company entered into a loan agreement with Alden providing for a loan in the amount of \$500,000 for the

purpose of making certain capital improvements to the Company's properties leased by Alden. Pursuant to the terms of the loan agreement, the Company has advanced \$500,000 to Alden. The \$500,000 loan is represented by a promissory note which bears interest at an annual rate of 12.18% and is payable in equal monthly installments of principal and interest based on a 25-year amortization of the principal balance. Upon the termination of the leases with Alden, the Company may declare the entire outstanding balance due and payable. The highest outstanding balance of the note during 1993 was \$484,575 and the outstanding balance on December 31, 1993 was \$479,316.

2. Equipment Lease. The Company paid Taylor House Enterprises Limited, a company controlled by Mr. William G. Benton, a director, Chairman of the Board and Chief Executive Officer of the Company, \$100,000 for the year ended December 31, 1992 pursuant to an equipment lease. The equipment lease was entered into in September 1990 and was approved by the independent members of the Board of Directors, who deemed the terms to be at least as favorable to the Company as those that would have been obtained from an unaffiliated party.

3. Shared Expenses. The Company shares office space and certain overhead expenses with other companies affiliated with Mr. William G. Benton, director, Chairman of the Board and Chief Executive Officer of the Company. For the year ended December 31, 1993, the Company's share of these expenses (excluding payroll) was \$135,521 compared to an aggregate of \$47,615 contributed by Mr. Benton's affiliates. With respect to the allocation of expenses, items directly attributable to the Company are allocated 100% to the Company. These items include postage, audit expense, employee education and training, insurance and similar items. Direct items account for approximately 92% of the Company's administrative expenses. Items shared by all entities are allocated based on relative payroll expense. These items include rent, office supplies, utilities and similar items. These items account for approximately 8% of the Company's administration expenses.

2. AMENDMENT TO STOCK OPTION PLAN - The Board of Directors has approved certain amendments to the Company's Stock Option Plan to increase the number of shares reserved for the Plan from 564,927 to 1,500,000 shares and to provide for the grant of restricted shares of stock under the Plan. The Stock Option Plan plays an important role in the Company's overall compensation and provides the key long-term incentive component of the Plan. The increase in the number of shares reserved, as well as the establishment of restricted share grants under the Plan, will provide the Compensation Committee with increased flexibility in rewarding the Company's employees based on performance. A basic description of the Stock Option Plan appears under Proposal 1 - Election of Directors, under the heading "Compensation of Directors and Officers - Plans." In addition, the contribution of stock options to the Company's annual compensation is discussed in the Report of Compensation Committee which appears under that heading in Proposal 1 - Election of Directors.

In general, the Plan provides for the granting of stock options to all employees. The Participants are selected by the Compensation Committee, which is composed of three persons appointed by the Board of Directors. No member of the

Compensation Committee is eligible during his appointment, nor during the year preceding appointment, to participate in the Plan. The Compensation Committee is currently comprised of three of the Company's independent directors.

Stock Options - All other existing terms of the Plan which relate to stock options will remain unchanged. The exercise price of options granted under the Stock Option Plan is the fair market value of the shares on the date of grant, or any such other price as the Compensation Committee may establish, but in no event shall such price be less than the fair market value of the shares on the date of grant. All options granted under the Plan expire no later than ten years after the date of the grant and are subject to such other terms and conditions as may be determined by the Compensation Committee at the date of the grant. The last reported sale price of the Company's stock on the New York Stock Exchange on March 11, 1994 was \$_____ per share. An option granted under the plan is exercisable only after one year of continuous service to the Company immediately following the date the option is granted. All options granted under the Plan expire no later than 60 days after the termination of service to the Company, except when the termination is by reason of retirement due to age or disability, or by reason of the optionee's death. In the case of retirement due to age or disability, options expire three months after termination of the optionee's relationship with the Company. In the case of death, options may be exercised by the personal representative of the deceased within one year after the date of death. Options are not transferable by the holder other than by way of applicable laws of descent and distribution.

Restricted Shares - The amendments to the Plan provide for the issuance of shares of Common Stock to participants without the payment of consideration. The shares of stock are subject to restriction that the participant continue employment with the Company for a period of five years after grant. The restriction applies to the participant's right to transfer or sell the shares, but does not affect the ability of the participant to participate in the dividend and voting rights relating to the shares. In the event employment is terminated while the shares are restricted, the shares are forfeited unless the termination is due to certain fundamental changes relating to the Company, retirement, disability or death. Under these circumstances the restriction lapses and the shares are no longer restricted.

The increase in the number of shares reserved for the Plan as well as the authorization of grants of restricted shares under the proposed amendments would increase the dilutive potential to shareholders upon the exercise of stock options and the issuance of restricted shares. Because many of the persons eligible to participate in the Plan are deemed to be affiliates of the Company, such persons may only resell any shares acquired pursuant to exercise of the options in compliance with the provisions of Rule 144. Conditions of Rule 144 that apply to the affiliates include restrictions on the manner of the offering, restriction on the number of shares which may be sold during any calendar quarter, requirement that current public information be available on the Company and a requirement that a notice of the proposed Rule 144 transaction be filed with the Securities and Exchange Commission.

The timing of the federal income tax consequences of nonqualified stock options and restricted shares is governed by Section 83 of the Internal Revenue Code of 1986, as amended (the "Code"). Generally, the grant of options and restricted shares to participants in the Plan is not a taxable event to the participant. With respect to nonqualified stock options, in the year of exercise the participant will have compensation income in the amount that the fair market value of the shares on the date of exercise exceeds the exercise price. With respect to grants of restricted stock, generally, the participant will have compensation income in the amount of the fair market value of the

shares on the date the restriction lapses. The Company is entitled to a deduction in the amount of the aggregate exercise price with respect to stock options and the fair market value of restricted shares in the year the participant incurs the compensation income.

The Board of Directors recommends that shareholders vote "FOR" the proposal amending the Stock Option Plan. The proposal will be approved if a majority of the Company's shares represented in person or by proxy at the Annual Meeting vote in favor of the amendments, assuming the presence of a quorum.

3. AUTHORIZATION TO PURCHASE SHARES OF COMMON STOCK OF THE COMPANY UP TO AN AGGREGATE PURCHASE PRICE OF \$7,000,000 - The Board of Directors is submitting to the Company's shareholders for their approval a proposal that the Board of Directors, on behalf of the Company, be authorized, subject to the limitations of applicable laws or regulations to purchase or cause to be purchased within one year after the date of the Annual Meeting, shares of the common stock up to an aggregate purchase price of \$7,000,000. Notwithstanding the foregoing, at no time shall the aggregate shares purchased pursuant to this authorization exceed 5% of the shares outstanding at the time of purchase less one (1) share. Purchases would only be made if in the determination of the Board of Directors such purchase would not have an adverse effect on the liquidity or capital resources of the Company.

The purchases for which authorization is sought in this Proxy Statement will be made for cash and at such prevailing purchase prices as are available and as the Board of Directors, in its discretion, shall deem advisable and in the best interest of the Company. The Company could purchase shares only upon authorization of the Board of Directors, but without further notice to shareholders, from any public (open market) transaction and in accordance with any applicable rules of the Securities and Exchange Commission. Any purchases would be made with the use of general corporate funds and revenues that may be generated from the Company's rental activities. Management of the Company presently is not aware of any affiliates of the Company who contemplate offering or selling any securities to the Company. As of March 11, 1994 there were 14,581,237 shares of the Company's common stock outstanding.

Any shares acquired by the Company would be deemed part of the Company's shares but would not be deemed outstanding. The sole purpose for reacquiring shares would be in the event that the effective annual dividend rate on the shares was sufficiently high to make a repurchase of shares a better use of Company funds than other investments or the repayment of debt with lower annual interest rates. The Company would not effect any repurchase of shares at any time in which the Company was otherwise making a distribution of its securities.

One effect of a purchase by the Company of its shares would be to decrease the number of outstanding shares, thus increasing the percentage ownership of, and commensurate ability to control the Company by, those shareholders who do not sell their shares, including present management and affiliates of the Company. The bylaws of the Company provide that no shareholder may acquire more than 9.8% of the Company's stock. Based on the closing price of \$9.____ per share on March 11, 1994, if the Company were to purchase all shares authorized by this proposal, the Company would purchase 729,060 shares, constituting approximately 4.99% of the total shares of the Company which were outstanding as of March 11, 1994. Purchase of the Company's shares over the next

year may have a dilutive effect on shareholder's equity with the amount thereof dependent upon the purchase price for the shares, the number of shares purchased, the book value of the shares and other factors.

The Board of Directors recommends that shareholders vote "FOR" the proposal authorizing such purchases. The proposal will be adopted if approved by a majority of the Company's shares represented in person or proxy at the Annual Meeting, assuming the presence of a quorum. If the proposal is adopted, the purchase of shares will depend upon the availability of funds of the Company, market conditions and other considerations. The Board of Directors, in its discretion, may purchase some, all or none of the shares authorized for purchase and may terminate the purchase program at any time. To vote for the proposal shareholders voting by proxy must mark their proxies "FOR" this proposal. A properly executed but unmarked proxy cannot be counted as a vote in favor of this proposal.

4. SELECTION OF AUDITORS - Coopers & Lybrand, independent certified public accountants, has been selected by the Board of Directors as auditors of the Company for fiscal year ending December 31, 1994. Representatives of Coopers & Lybrand are expected to be present at the shareholders' meeting with the opportunity to make a statement, if they desire to do so, and will be available to respond to appropriate questions.

5. OTHER MATTERS - Management knows of no other matters that may properly be, or which are likely to be, brought before the meeting. However, if any other matters are properly brought

before the meeting, the persons named in the enclosed proxy or their substitutes will vote in accordance with their best judgment on such matters.

6. ANNUAL REPORT ON FORM 10-K TO THE SECURITIES AND EXCHANGE COMMISSION - The Form 10-K was filed on February 1, 1994.

7. DATE FOR THE RECEIPT OF PROPOSALS - In order for shareholder proposals to be included in the proxy materials for the 1995 Annual Meeting, any such proposal must be received by the Company at its executive offices not later than November 15, 1994, and meet all other applicable requirements for inclusion therein.

By Order of the Board of Directors

WILLIAM G. BENTON, Chairman

March 15, 1994

Front
HEALTH EQUITY PROPERTIES INCORPORATED
SHAREHOLDER'S PROXY

The undersigned, revoking previous proxies of such shares of common stock, hereby appoints WILLIAM G. BENTON and SUSAN L. CHRISTIANSEN, or either of

them, proxies for the undersigned with several power of substitution or resubstitution, to vote all of the shares of common stock of Health Equity Properties Incorporated held of record by the undersigned on March 11, 1994 at the Annual Meeting of Shareholders to be held on April 28, 1994, or any adjournment thereof, as follows:

1. The election as Directors of all nominees listed (except as marked to the contrary below).

() FOR () VOTE WITHHELD

William G. Benton, Susan L. Christiansen and David Weil

INSTRUCTION: To withhold your vote for any individual nominee, write that nominee's name on the space provided.

-
2. To approve certain amendments to the Company's Stock Option Plan.

() FOR () AGAINST () ABSTAIN

3. To authorize the Board of Directors to purchase, or cause to be purchased on behalf of the Company, shares of the Company's common Stock with an aggregate maximum purchase price of \$7,000,000.

() FOR () AGAINST () ABSTAIN

In their discretion, the Proxies are authorized to vote upon such matters as may properly come before the meeting. The Board of Directors recommends a vote "FOR" each of the listed proposals.

THIS PROXY IS REVOCABLE AND WILL BE VOTED AS DIRECTED. IF NO INSTRUCTIONS ARE SPECIFIED, THIS PROXY WILL BE VOTED FOR THE ELECTION OF DIRECTORS. SPECIFIED VOTE IS REQUIRED FOR PROPOSAL 3. IF ANY OTHER BUSINESS IS PRESENTED AT SUCH MEETING, THIS PROXY WILL BE VOTED BY THOSE NAMED IN THIS PROXY IN THEIR BEST JUDGMENT. AT THE PRESENT TIME THE BOARD OF DIRECTORS KNOWS OF NO OTHER BUSINESS TO BE PRESENTED AT THE MEETING.

Back

THIS PROXY IS SOLICITED BY THE BOARD OF DIRECTORS

The undersigned acknowledges receipt from Health Equity Properties Incorporated prior to the execution of this proxy of a Notice of Meeting and of a proxy statement dated March 15, 1994.

PLEASE COMPLETE, DATE, SIGN AND MAIL THIS PROXY PROMPTLY IN THE ENCLOSED POSTAGE-PREPAID ENVELOPE. RETURNING YOUR PROXY DOES NOT DEPRIVE YOU OF YOUR RIGHT TO ATTEND AND VOTE AT THE MEETING AND IT WILL HELP TO AVOID THE EXPENSE OF ADDITIONAL SOLICITATION IF REQUIRED TO ENSURE A QUORUM.

Dated: _____, 1994

PRINT NAME OF SHAREHOLDER

SIGNATURE OF SHAREHOLDER

PRINT NAME OF SHAREHOLDER

SIGNATURE OF SHAREHOLDER

Please sign exactly as your name appears on this card. When signing as attorney, executor, administrator, trustee or guardian, please give your full title. If shares are held

jointly, each holder
should sign.

HEALTH EQUITY PROPERTIES INCORPORATED

THIRD AMENDED AND RESTATED
1989 NONQUALIFIED STOCK OPTION PLAN

1. Purpose of the Plan

This Stock Option Plan (the "Plan") for Health Equity Properties Incorporated (the "Company") is intended to advance the interests of the Company by providing Officers, Directors and Employees of the Company (the "Eligible Participants") with additional incentive to promote the success of the business, to acquire and increase their proprietary interest in the success of the Company, and to encourage them to continue providing services to the Company. The above aims will be effected through the granting of certain stock options ("Options") and certain restricted shares ("Shares"). It is understood that options issued under the Plan will not qualify as Incentive Stock Options ("ISO's") under Section 422A of the Internal Revenue Code and the terms of the Plan shall be interpreted in accordance with this intention.

2. Administration of the Plan

The Compensation Committee of the Board of Directors (hereinafter called the "Committee") shall consist of not less than three (3) members, all of whom shall be "disinterested persons" within the meaning of Rule 16b-3 of the Securities and Exchange Commission, as amended from time to time. Any or all of the members of the Committee may be members of the Board of Directors; however, such Directors must be "disinterested persons" as to the Plan within the meaning of Rule 16b-3.

Subject to the provisions of the Plan, the Committee shall have plenary authority, in its discretion: (1) to determine the

Eligible Participants to whom Option/Shares shall be granted; (b) to determine the time or times at which Options/Shares shall be granted; (c) to determine the option price of the shares subject to each Option, which price shall not be less than the minimum specified in Section 6; (d) to determine (subject to Section 8) the time or times when each Option shall become exercisable and the duration of the exercise period; and (e) to interpret the Plan and to prescribe, amend and rescind rules and regulations relating to it.

The Board may from time to time appoint members of the Committee in substitution for members previously appointed and may fill vacancies, however caused, in the Committee; provided, however, that at all times at least one member shall be a Director of the Company. The Committee shall select one of its members as its Chairman and shall hold its meetings at such times and places as it shall deem advisable. All action of the Committee shall be taken by majority vote of its members. Any action may be taken by a written instrument signed by all of the members of the Committee, and any action so taken shall be fully effective as if it has been taken by a majority vote of the members at a meeting duly called and held. The Committee may appoint a secretary to keep minutes of its meetings and shall make such rules and regulations for the conduct of its business as it shall deem advisable.

Subject to the provisions of the Plan, the determination or the interpretation and construction of any provision of the Plan by the Committee shall be final and conclusive upon all persons affected thereby.

3. Eligibility

Options/Shares shall be granted only to individuals who meet the following eligibility requirements:

- (a) Such individual must be an Officer, Director or

Employee of the Company (an "Eligible Participant").

(b) Such individual, being otherwise eligible under this Section 3, shall have been selected by the Committee as a person to whom Options/Shares shall be granted under the Plan.

(c) In determining the Eligible Participants to whom Options/Shares shall be granted and the number of shares to be covered by each grant by Option or by Share grant, the Committee shall take into account the nature of the services rendered by the respective Eligible Participants, their present and potential contributions to the success of the Company and such other factors as the Committee shall deem relevant. An Eligible Participant who has been granted Options/Shares under the Plan may be granted additional Options/Shares under the Plan if the Committee shall so determine.

4. Limitations on Options Granted Under the Plan

Any option granted hereunto shall be exercisable while there is outstanding any other stock option (from this or any other plan) to purchase stock in the Company or in a parent or subsidiary of the Company that was granted to the optionee before the granting of the option in question.

5. Shares of Stock Subject to the Plan

There will be reserved for use upon the grant of Shares and the exercise of Options granted from time to time under the Plan an aggregate of One Million, Five Hundred Thousand (1,500,000) shares of the Common Stock of the Company, having a par value of \$0.01 per share (hereinafter called the "Common Stock"). Such number of shares is subject to any capital adjustments as provided in Section 7. Any shares subject to an Option under the Plan, which Option for any reason expires or is terminated unexercised as to such shares, may again be subjected to an Option under the Plan. However, if the expiration or termination date of an Option is beyond the term of existence of the Plan as described in Section 12, then any shares covered by unexercised

or terminated options shall not reactivate the existence of this Plan and, therefore, may not be available for additional grants under the Plan.

6. Price

(a) Options

The option price of each Option granted under the Plan shall be not less than one hundred percent (100%) of the fair market value of the Company's Common Stock on the date of grant of the Option. The option price is subject to any capital adjustment as provided in Section 7.

If the Common Stock is traded in the over-the-counter market, such fair market value shall be deemed to be the mean

between the asked and the bid prices on the date the Option is granted as reported by NASDAQ. If the Common Stock is traded on an exchange, such fair market value shall be deemed to be the mean of the high and low prices at which it is quoted or traded on the date the Option is granted on the exchange on which it generally has the greatest trading volume. If the Common Stock is neither traded in the over-the-counter market or on an exchange, then fair market value on the date the Option is granted shall be determined by the Committee taking into account such factors as the Committee deems prudent.

The option price shall be payable to the Company either (i) in cash or by check, bank draft or money order payable to the order to of the Company, or (ii) at the discretion of the Committee, through the deliver of shares of the Common Stock of the Company owned by the optionee with a value equal to the option price, or (iii) at the discretion of the Committee by a combination of (i) and (ii) above. No shares shall be delivered until full payment has been made. The Committee may not approve a reduction of such purchase price in any such option at a time when the market value of the shares is lower than it was when

such Option was granted.

(b) Shares

Shares granted to participants pursuant to this Plan shall be as compensation and no consideration shall be paid by any participant with respect to such grant.

7. Capital Adjustments Affecting Common Stock

(a) If, after the date of grant of any Option granted pursuant to this Plan, the outstanding shares of Common Stock are increased, decreased, changed into or exchanged for a different number or kind of shares or securities of the Company or shares of a different par value or without par value through reorganization, recapitalization, reclassification, stock dividend, stock split, amendment to the Company's Articles of Incorporation or reverse stock split, an appropriate adjustment shall be made in the number and/or kind of securities allocated to the Options previously and subsequently granted under the Plan, without change in the aggregate purchase price applicable to the unexercised portion of the outstanding Options but with a corresponding adjustment in the price for each share or other unit of any security covered by the Options. In the event of any of the foregoing detailed adjustments to the outstanding shares of Common Stock, any Shares still subject to restrictions shall be deemed to be outstanding for such purposes and shall be adjusted in the same manner as other outstanding shares of Common Stock.

(b) Upon the effective date of the dissolution or liquidation of the Company, or of a reorganization, merger or consolidation of the Company with one or more corporations in which the Company is not the surviving corporation, or of a transfer of substantially all the property or more than eighty percent (80%), in the aggregate, of the then outstanding shares of capital stock of the Company to another corporation, any

Shares subject to restrictions under the terms of this Plan shall be deemed to no longer be subject to such restrictions, and the Plan and any Option previously granted hereunder shall terminate unless provision is made in writing in connection with such transaction for the continuance of the Plan and for the assumption of Options theretofore granted, or the substitution for such Options of new options covering the shares of a successor corporation or of a parent or subsidiary thereof, with appropriate adjustments as to number and kind of shares and prices in which event the Plan and the Options theretofore granted or the new options substituted therefor, shall continue in the manner and under the terms so provided. In the event of such dissolution, liquidations, reorganization, merger, consolidation, transfer of assets or transfer of shares, and if provision is not made in such transaction for the continuance of the Plan and for the assumption of Options theretofore granted or for the substitution of such Options or new options covering the shares of a successor corporation or a parent or subsidiary thereof, then such optionee under the plan shall be entitled, prior to the effective date of any such transaction, to purchase the full number of shares under his Option which he would otherwise have been entitled to purchase during the remaining term of such Option, whether or not such Option is currently exercisable.

(c) To the extent that the foregoing adjustments relate to particular stock or securities of the Company subject to Option under this Plan, such adjustments shall be made by the Committee,

whose determination in that respect shall be final and conclusive.

(d) The grant of an Option or Shares pursuant to this Plan

shall not affect in any way the right or power of the Company to make adjustments, reclassifications, reorganizations or changes of its capital or business structure or to merge or to consolidate or to dissolve, liquidate or sell, or transfer all or any part of its business or assets.

(e) No fractional shares of stock shall be issued under the Plan for any adjustment.

8. Period of Option and Certain Limitations on Right to Exercise

(a) All Options issued under the Plan shall be for such period as the Committee shall determine, but for not more than ten (10) years from the date of grant thereof.

(b) The period of the Option, once it is granted, may be reduced only as provided for in Section 9 in connection with the termination of the optionee's relationship with the Company or death of the optionee.

(c) Each Option granted under this Plan shall become exercisable only after one (1) year or continuous service to the Company by the optionee in the capacity which qualified such optionee as an Eligible Participant immediately following the date the Option is granted. Notwithstanding the foregoing, the Committee may, in its sole discretion, (i) prescribe longer time periods and additional requirements with respect to the exercise of an Option and (ii) terminate in whole or in part such portion

of any Option as has not yet become exercisable at the time of termination if it determines that an attempt is made to cause the Option under the Plan or any of the rights and privileges thereby conferred to be transferred, assigned, pledged or hypothecated in any way (whether by operation of law or otherwise), and no such Option, right or privilege shall be subject to execution, attachment, or similar process. Upon any attempt so to transfer, assign, pledge, hypothecate or otherwise dispose of the Option or

of any right or privilege conferred thereby, contrary to the provisions hereof, or upon the levy of any attachment or similar process upon such Option, right or privilege, the Option and such rights and privileges shall immediately become null and void. Each Option granted hereunder shall be exercisable during the optionee's lifetime only by such optionee and is not transferable by such optionee otherwise than by will or the laws of descent and distribution.

(d) The Committee may grant only nonqualified stock options under this Plan to an Eligible Participant.

(e) The grant of Options shall be evidenced by a written instrument containing terms and conditions established by the Committee consistent with the provisions of this Plan.

(f) Not less than one hundred (100) shares may be purchased at any one time unless the number purchased is the total number at that time purchasable under the Plan.

(g) The Committee may grant an Option or Options to an Eligible Participant and stipulate that a portion of such Option expires or becomes exercisable at a stated interval or that

portions of such Option expire or become exercisable at several stated intervals or that all of such Option becomes exercisable at a single time.

(h) An Eligible Participant to whom an Option has been granted shall have no rights as a shareholder with respect to any shares covered by his Option until payment in full by him for the shares being purchased. No adjustment shall be made for dividends (ordinary or extraordinary, whether in cash, securities or other property) or distributions or other rights for which the record date is prior to the date such stock is fully paid for, except as provided in Section 7 hereof.

9. Termination of Relationship with Company

(a) Termination of Relationship with Company - Except by

Death or Retirement. If any optionee ceases to continue his relationship with the Company for any reason other than his death or retirement by reason of age or disability, he may, at any time within sixty (60) days thereafter, but no later than the date of expiration of the Option, exercise any nonqualified Option granted hereunder to the extent he was entitled to do so at the date of such cessation, and at the end of such period any unexercised Options shall immediately terminate.

(b) Termination of Relationship with Company - Death. If an optionee dies while associated with the Company, the person or persons to whom the Option is transferred by will or by the laws of descent and distribution may exercise the Option to the same extent and upon the same terms and conditions the optionee would have been entitled to do so had he lived until the term of the

Option had expired, but in no event later than one (1) year from the date of death of such optionee. Any Options or portions of Options of a deceased optionee not so exercised shall terminate.

(c) Termination of Relationship with Company - Retirement. If an optionee retires by reason of age or disability and thereby terminates his association with the Company, he may, at any time within three (3) months thereafter, but no later than the date of expiration of the Option, exercise any nonqualified Option granted hereunder to the extent he was entitled to do so at the date of such cessation, and at the end of such period any unexercised option shall immediately terminate.

10. Limitations and Rights of Restricted Shares

(a) Subject to the provisions of Section 7(b) of this Plan, Shares granted pursuant to the Plan shall be restricted for a term of five (5) years after the date of grant.

(b) In the event that the employment of a participant receiving Shares terminates during the period in which Shares are

restricted for any reason other than death, disability or retirement, such Shares shall be forfeited. Any Shares so forfeited shall immediately become available for future grants under the Plan. Upon the termination of employment due to death, disability or retirement, any Shares subject to restriction shall no longer be deemed subject to such restriction.

(c) During the period that Shares are subject to a restriction pursuant to the Plan, the participant granted such Shares shall have no right to sell or transfer such Shares.

(d) During the period that Shares are subject to restriction pursuant to the Plan, the Participant granted such Shares shall be entitled to any dividends declared and paid with respect to such Shares and shall be entitled to vote such Shares.

(e) The grant of Shares shall be evidenced by written instrument specifying the term of the restriction and any lapse thereof consistent with the provisions of this Plan.

(f) Upon the expiration of the term of restriction pursuant to this Plan, the Shares with respect to which such restriction has ended shall no longer be subject to the terms of the Plan.

11. Listing and Registration of Shares

Each Option shall be subject to the requirement that, if at any time the Committee shall determine in its discretion the listing, registration, or qualification of the shares covered thereby upon any securities exchange or under any state or federal law or the consent or approval of any governmental regulatory body is necessary or desirable as a condition of, or in connection with, the granting of such Option or the issue or purchase of shares thereunder, such Option may not be exercised in whole or in part unless and until such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Committee.

12. Expiration and Termination of the Plan

Options/Shares may be granted under the Plan at any time or from time to time as long as the total number of shares optioned or granted under this Plan does not exceed One Million, Five Hundred Thousand (1,500,000) shares of Common Stock, subject to

adjustment as provided in Section 7. The Plan may be abandoned or terminated at any time by the Board of Directors of the Company except with respect to any Options/Shares then outstanding under the Plan. No Options/Shares shall be granted pursuant to the plan after ten (10) years from the effective date of the Plan.

13. Amendment of Plan

The Board of Directions may at any time and from time to time modify and amend the Plan (including any form of option agreement in any respect; provided, however, that no such amendment shall: (a) increase (except in accordance with Section 7) the maximum number of shares reserved for Options or grants under the Plan either in the aggregate or to any individual participant; or (b) reduce (except in accordance with Section 7) the minimum option prices which may be established under the Plan; or (c) extend the period of periods during which Options may be granted or exercised; or (d) change the provisions relating to the determination of Directors to whom Options/Shares shall be granted and the number of shares to be covered by such Options; or (e) change the provisions relating to adjustments to be made upon changes in capitalization; or (f) change the method for the selection of the Committee as provided by Section 2 hereof. The termination or any modification or amendment of the Pan shall not, without the consent of an optionee, affect his rights under an Option theretofore granted to him. Notwithstanding the foregoing, the Board of Directors may amend the Plan to the extent necessary to cause Options issued or

issuable thereunder which were or are designated on the date of grant by the Committee as nonqualified stock options to be accorded the tax and accounting treatment applicable to options of that type.

14. Effective Date of Plan

This Plan shall be effective upon adoption by the Shareholder of the Company.