

SECURITIES AND EXCHANGE COMMISSION

FORM S-8

Initial registration statement for securities to be offered to employees pursuant to employee benefit plans

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FILER

MARGO CARIBE INC

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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

MARGO CARIBE, INC.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

COMMONWEALTH OF PUERTO RICO
(STATE OR OTHER JURISDICTION
OF INCORPORATION OR ORGANIZATION)

66-0550881
(I.R.S. EMPLOYER
IDENTIFICATION NO.)

HIGHWAY 690, KILOMETER 5.8
VEGA ALTA, PUERTO RICO 00692
(787) 883-2570
(ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER,
INCLUDING AREA CODE, OF REGISTRANT'S PRINCIPAL EXECUTIVE OFFICES)

1998 STOCK OPTION PLAN
(FULL TITLE OF THE PLAN)

MICHAEL J. SPECTOR
CHIEF EXECUTIVE OFFICER
MARGO CARIBE, INC.
P.O. BOX 706
DORADO, PUERTO RICO 00646
(787) 883-2570
(NAME, ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER,
INCLUDING AREA CODE, OF AGENT FOR SERVICE)

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CALCULATION OF REGISTRATION FEE

<TABLE>
<CAPTION>

TITLE OF SECURITIES TO BE REGISTERED	AMOUNT TO BE REGISTERED	PROPOSED MAXIMUM OFFERING PRICE PER UNIT(1)	PROPOSED MAXIMUM AGGREGATE OFFERING PRICE(1)	AMOUNT OF REGISTRATION FEE
<S> Common Stock, par value (\$0.001 per share)	<C> 200,000 shares	<C> \$2.375	<C> \$475,000	<C> \$140.13

(1)Estimated solely for the purpose of calculating the registration fee on the basis of the last sales price per share of the Common Stock on July 20, 1998, as reported by the National Association of Securities Dealers Automated Quotation National Market System.

PROSPECTUS

200,000 SHARES
COMMON STOCK, PAR VALUE \$0.001 PER SHARE

MARGO CARIBE, INC.
1998 STOCK OPTION PLAN

This Prospectus of Margo Caribe, Inc., a Puerto Rico corporation (the "Company"), pertains to shares of Common Stock, par value \$0.001 per share (the "Common Stock") of the Company issuable pursuant to the exercise of options granted or available for future grant under its 1998 Stock Option Plan (the "1998 Plan").

The 1998 Plan was adopted and approved by the Board of Directors and shareholders of the Company on April 23, 1998 and May 29, 1998, respectively. As of June 30, 1998, no options have been granted under the 1998 Plan, except for options to acquire 10,000 shares of Common Stock automatically granted to non-employee directors of the Company pursuant to the terms of the 1998 Plan. All of the 200,000 shares of Common Stock issuable upon the exercise of options available for future grant are covered by this Prospectus and constitute the maximum number of shares which may be issued under the 1998 Plan (subject to certain adjustments described herein). All of such shares have been registered by the Company pursuant to a Registration Statement on Form S-8 filed with the Securities and Exchange Commission on July 22, 1998.

THIS DOCUMENT CONSTITUTES PART OF A PROSPECTUS COVERING SECURITIES THAT HAVE BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933.

THE DATE OF THIS PROSPECTUS IS JULY 22, 1998

SUMMARY DESCRIPTION OF THE 1998 PLAN

The following description is only a summary of the 1998 Plan and is qualified in its entirety by reference thereto. A copy of the Plan may be obtained from the Company's Human Resources Department.

PURPOSE, ADOPTION AND DESCRIPTION

The purposes of the 1998 Plan are to provide the Company and its subsidiaries with an effective means to attract and retain highly qualified personnel as well as to provide additional incentive to employees and non-employee directors who provide services to the Company and its subsidiaries. The 1998 Plan was adopted and approved by the Board of Directors and by the shareholders of the Company on April 23, 1998 and May 29, 1998, respectively.

The 1998 Plan provides for the grant of stock options intended to qualify as "qualified stock options" ("QSOs") within the meaning of Section 1046 of the Puerto Rico Internal Revenue Code of 1994, as amended (the "Puerto Rico Code"), as "incentive stock options" ("ISOs") under Section 422 of the Internal Revenue Code of 1986, as amended (the "IRC") or "non-statutory stock options" ("NSOs") not intended to meet the requirements of Section 1046 of the Puerto Rico Code or Section 422 of the IRC. The 1998 Plan permits the granting of stock appreciation rights ("SARs") with respect to any shares of Common Stock covered by any option in tandem with the granting of such stock options. An aggregate of 200,000 shares (subject to certain adjustments described herein) of Common Stock have been reserved for issuance under the 1998 Plan.

ADMINISTRATION

The 1998 Plan is administered by a Committee (the "Committee") appointed by the Board of Directors consisting of at least two directors (who shall be "Non-Employee Directors" as defined in Rule 16b-3 promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) who, as Non-Employee Directors of the Company, shall receive an automatic grant of stock options to acquire 2,500 shares of Common Stock each year on the first business day following the Company's annual meeting of shareholders. The Committee has general authority to administer the 1998 Plan, to grant options and SARs thereunder, subject to the ratification of the Board of Directors if such limitation is imposed by the Board of Directors, and to perform such other functions as may be assigned to it by the Board of Directors in connection with the 1998 Plan, including, among other things, determining the form of option contracts to be issued under the 1998 Plan and the terms and conditions to be included in such option contracts and adopting from time to time such rules and regulations as it may deem appropriate for the proper administration of the 1998 Plan. The Committee has the authority to interpret the provisions of the 1998 Plan and to make all determinations deemed necessary or advisable for its administration. All decisions, determinations and interpretations of the Committee, unless disapproved by the Board

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of Directors, shall be final and binding on all persons, including the Company and holders of options granted under the 1998 Plan. The 1998 Plan is currently administered by the Compensation Committee of the Board of Directors of the Company, which is currently comprised of three members, Blas R. Ferraiuoli, Frederick D. Moss and Michael A. Rubin.

ELIGIBILITY

ELIGIBLE PERSONS. Any employee or director of the Company or its subsidiaries is eligible to receive options pursuant to the 1998 Plan. Any person who has been granted an option may, if he is otherwise eligible, be granted an additional option or options. The persons to whom, and the time or times at which, options shall be granted under the 1998 Plan, and the number of shares subject to each such option, shall be determined by the Committee in its sole discretion. Each employee or director, by accepting an option will, if the Committee so requires, agree to remain employed by the Company or a subsidiary for a specified period of time.

FAIR MARKET VALUE LIMITATION WITH RESPECT TO ISOS AND QSOS. To the extent the aggregate fair market value of the shares of Common Stock (determined as of the date of grant) for which ISOs or QSOs are exercisable for the first time by an employee or director during any calendar year exceeds \$100,000, such options are treated as NSOs to the extent of such excess. To the extent an optionee holds two or more ISOs or QSOs which become exercisable for the first time in the same calendar year, the \$100,000 limitation will be applied on the basis of the order in which those options were granted.

SHARES SUBJECT TO THE 1998 PLAN

The maximum number of shares which may be issued under the 1998 Plan is 200,000 shares of the Company's authorized but unissued Common Stock or shares of Common Stock which have been issued and which shall have been reacquired by the Company, subject to adjustment upon certain changes in the Company's capitalization, such as stock splits or the payment of a stock dividend. If an option should expire or become unexercisable for any reason without having been exercised in full, the shares subject to the portion of the option not so exercised will be available for subsequent grants under the 1998 Plan. The number of shares of Common Stock for which options and SARs may be granted under the 1998 Plan shall be reduced by the number of shares subject to an option for which an employee or director has exercised a related SAR in accordance with the provisions of the 1998 Plan.

TERMS AND CONDITIONS OF OPTIONS AND SARs

Subject to the provisions of the 1998 Plan, the Committee shall determine, in its discretion, for each option (which need not be identical) the number of shares for which the option shall be granted, the exercise price of the option, the time or times the option is to become exercisable, the status of the option as either a NSO, an

ISO or a QSO, the maximum term for which the option is to remain outstanding, and all other terms and conditions of the option. The Committee may require the voluntary surrender of all or any portion of any option granted under the 1998 Plan as a condition precedent to a grant of a new option to such optionee. Options granted pursuant to the 1998 Plan shall be evidenced by written option agreements, in such form as the Committee shall approve, containing such provisions as the Committee shall determine.

Each SAR shall be subject to the same terms and conditions as the related option with respect to date of expiration, exercisability, transferability, and eligibility to exercise. SARs entitle the holder to receive, in cash only, upon exercise the difference between the option exercise price and the fair market value of the Common Stock in lieu of exercising the related option.

OPTION GRANTS FOR NON-EMPLOYEE DIRECTORS

The 1998 Plan provides for an automatic grant of stock options to acquire 2,500 shares of Common Stock to non-employee directors of the Company each year on the first business day following the Company's annual meeting of shareholders. The exercise price of such options is equal to the Fair Market Value of the Common Stock on the date of the grant, and such options have a term of ten years.

EXERCISE PRICE

The per share exercise price for shares to be issued pursuant to the exercise of options granted under the 1998 Plan shall be no less than the fair market value per share of the Common Stock on the date of the grant of the option, and except that as to an optionee who at the time the option is granted owns, directly or indirectly, more than 10% of the voting power of all classes of stock of the Company or any subsidiary, the exercise price for any ISO granted to such optionee shall not be less than 110% of the fair market value of the Common Stock on the date the option is granted. The fair market value per share of the Common Stock will generally be the closing price of the Common Stock reported on the National Association of Securities Dealers Automated Quotation System (the "NASDAQ") on the date of grant of the option, or if no price is reported on such day, then on the next preceding day on which such price was reported.

TERM AND EXERCISE PERIOD OF OPTIONS AND SARs

The term of each option granted pursuant to the 1998 Plan shall be determined by the Committee, but shall never exceed ten years; provided, however, in the event of an ISO granted to an optionee owning, directly or indirectly, more than 10% of the outstanding voting power of all classes of stock of the Company or any subsidiary at the time of the option grant, such option shall have a term not to exceed five years. Unless an option agreement provides otherwise, all options granted are 20% exercisable after the first year and an additional 20% is exercisable after each subsequent year. Any part

of an option that has become exercisable shall remain exercisable until it has been exercised in full or it terminates or expires pursuant to the terms of the 1998 Plan or the applicable option contract.

Upon the exercise of a SAR, the related option shall cease to be exercisable as to the shares with respect to which such SAR was exercised. Upon exercise in full of the related option, the SAR granted with respect thereto shall terminate.

PAYMENT OF OPTION EXERCISE PRICE

Payment for shares upon exercise of stock options may be made either in cash or, with the consent of the Committee, by exchanging shares of Common Stock at their fair market value, or a combination of both. No shares shall be issued

on the exercise of an option unless paid for in full at the time of purchase. Neither the Company nor any subsidiary may directly or indirectly lend money to any individual for the purpose of assisting such individual to acquire or to carry shares issued upon the exercise of options granted under the 1998 Plan.

PROCEDURES FOR EXERCISE

An option shall be deemed to be exercised when written notice of such exercise has been provided by the optionee to the Company in accordance with the terms of the option and full payment for the shares with respect to which the option is exercised has been received by the Company. An option may not be exercised for a fraction of a share.

Upon the expiration of an option, an attached SAR shall automatically be deemed to be exercised in full by the employee or director and cash shall be paid to such employee or director for the excess, if any, of the fair market value of one share of Common Stock at the time designated for measurement over the fair market value of such share of the date of grant of the SAR multiplied by the number of shares with respect to which the SAR is exercised.

OPTIONS GENERALLY NON-TRANSFERABLE

OPTIONS NONTRANSFERABLE. Options granted under the 1998 Plan shall by their terms be nontransferable by the employee or director otherwise than by will or the laws of descent and distribution, and, during the lifetime of the employee or director, shall be exercisable only by the employee or director. No transfer of an option by an employee or director by will or by the laws of descent and distribution shall be effective to bind the Company unless the Company shall have been furnished with written notice thereof and a copy of the will and/or such other evidence as the Committee may determine necessary to establish the validity of the transfer.

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TERMINATION OF EMPLOYMENT

TERMINATION OF CONTINUOUS STATUS AS AN EMPLOYEE OR DIRECTOR. If an optionee ceases to be an employee or director of the Company or any subsidiary for any reason (other than by reason of death), any option or SAR held by such optionee under the 1998 Plan, to the extent unexercised and exercisable by the optionee on the date on which the optionee ceased to be an employee or director, may be exercised by the optionee within 90 days after the date on which the optionee ceased to be an employee or director, but in any event no later than the date of expiration of the option term. In the case of a termination of employment by the Company or any of its subsidiaries, with or without cause, the option or SAR shall terminate as of the date of such discharge if prior to such termination the Committee in its discretion shall determine that it is not in the best interests of the Company that the option or SAR continue for said 90-day period.

DEATH. If an employee's employment or a director's service as a director with the Company or a subsidiary terminates by reason of death, his or her stock options and SARs, whether or not then exercisable, may be exercised by the estate, heir or legatee of the optionee within one year after the optionee's death (but not later than the date the options or SARs would otherwise expire and only to the extent that the employee or director was entitled to exercise the option or SAR on the date of his or her death).

RIGHTS AS A STOCKHOLDER OR AS AN EMPLOYEE OR DIRECTOR

An optionee shall have no rights as a stockholder with respect to any shares covered by an option until the optionee becomes the holder of record of the shares for which the option has been exercised. No adjustment shall be made for dividends or distributions or other rights for which the record date is prior to the date on which such optionee shall have become the holder of record thereof, except as discussed in "Adjustments Upon Changes in Capitalization" below. Nothing in the option shall confer upon the optionee any right to continue in the employ of the Company or any of its subsidiaries or interfere in any way with any right of the Company or any of its subsidiaries to terminate the optionee's employment at any time, with or without cause.

CONDITIONS UPON ISSUANCE OF SHARES

Shares of Common Stock shall not be issued pursuant to the exercise of an option granted under the 1998 Plan unless the exercise of such option and the issuance and delivery of such shares pursuant thereto shall comply with all relevant provisions of law, including, without limitation, the Securities Act of 1933, as amended, the Exchange Act, the rules and regulations promulgated thereunder (including those exempting such exercise from the operation of Section 16(b) of the Exchange Act), the requirements of any stock exchange or automated stock quotation upon which the shares may then be listed

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or quoted and laws governing withholding from employees for income tax purposes, and shall be further subject to the advice of counsel for the Company with respect to such compliance. As a condition to the exercise of an option, the Company may, if it shall deem it necessary or desirable for any reason, require the person exercising such option to represent and warrant at the time of any such exercise that the shares of Common Stock are being purchased only for investment and without any intention to sell or distribute such shares.

DISSOLUTION, LIQUIDATION, CHANGE IN CONTROL

In the event of the dissolution or liquidation of the Company, all outstanding options shall terminate immediately prior to the consummation of such transaction, unless otherwise provided by the Committee. If: (1) any person (as defined for purposes of Section 13(d) and 14(d) of the Exchange Act, but excluding the Company, any of its wholly-owned subsidiaries, Michael J. Spector and Margaret D. Spector or any entity controlled by the Spectors) acquires direct or indirect ownership of 50% or more of the combined voting power of the then outstanding securities of the Company as a result of a tender or exchange offer, open market purchases, privately negotiated purchases or otherwise; or (2) the shareholders of the Company approve (A) any consolidation or merger of the Company in which the Company is not the surviving corporation (other than a merger of the Company in which the holders of the Company's Common Stock immediately prior to the merger have the same proportionate ownership of the surviving corporation immediately after the merger), or (B) any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all, or substantially all, of the assets of the Company to an entity which is not a wholly-owned subsidiary of the Company, then the exercisability of each outstanding option under the 1998 Plan shall be automatically accelerated so that each such option shall, immediately prior to the specified effective date of any of the foregoing transactions, become fully exercisable with respect to the total number of shares of Common Stock subject to such option and may be exercisable for all or any portion of such shares. Upon the consummation of any of such transactions all outstanding options under the 1998 Plan shall, to the extent not previously exercised, terminate and cease to be outstanding.

ADJUSTMENTS UPON CHANGES IN CAPITALIZATION

Subject to any required action by shareholders of the Company, the number of shares of Common Stock covered by each outstanding option, the number of shares of Common Stock available for issuance under the 1998 Plan, the price per share of Common Stock covered by each outstanding option, and the maximum number of shares of Common Stock with respect to which options may be granted to any employee or director in any given year, shall be proportionately adjusted for any increase or decrease in the number of issued shares of Common Stock resulting from a stock split or the payment of a stock dividend with respect to the Common Stock, or any other increase or decrease in the number of issued shares of Common Stock effected without receipt

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of consideration by the Company; provided, however, that conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration." Such adjustment shall be made by the Committee, whose determination in that respect shall be final and binding.

TERMINATION AND AMENDMENT OF THE 1998 PLAN

Unless sooner terminated pursuant to the terms of the 1998 Plan, the 1998 Plan will terminate on April 23, 2008. Awards granted prior to termination of the 1998 Plan shall continue in accordance with their terms following such termination.

The Company's Board of Directors may suspend, amend, modify or terminate the 1998 Plan, without shareholder approval except to the extent required by the Puerto Rico Code or the IRC to permit the granting of QSOs or ISOs under the 1998 Plan or by the rules of any securities exchanges or automated quotation system on which the shares of Common Stock of the Company trade. No amendment, suspension, modification or termination of the 1998 Plan will affect previously granted options or SARs without the optionee's consent.

The 1998 Plan may be modified or amended at any time, both prospectively and retroactively, and in such manner as to affect QSOs or ISOs previously granted, if such amendment or modification is necessary for the 1998 Plan and the QSOs or ISOs granted thereunder to qualify under said provisions of the Puerto Rico Code and the IRC.

ERISA AND INTERNAL REVENUE CODE SECTION 401

The 1998 Plan is not subject to the provisions of the Employee Retirement Income Security Act of 1974 or to Section 401(a) of the IRC.

TAX WITHHOLDING AND TAX OFFSET PAYMENTS

The Committee may require payment, or withhold payments or retain shares of Common Stock otherwise transferable upon exercise of an option, in order to satisfy applicable withholding tax requirements. The Committee may make tax offset payments to assist employees or directors in paying income taxes incurred as a result of their participation in the 1998 Plan. The amount of the tax offset payments shall be determined by multiplying a percentage (established by the Committee) by all or a portion of the taxable income recognized by an employee or director upon: (i) the exercise of an NSO or a SAR; or (ii) the disposition of shares received upon exercise of a QSO or an ISO.

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TAX CONSEQUENCES

THE FOLLOWING SUMMARY IS FOR GENERAL INFORMATION ONLY AND IS NOT A COMPREHENSIVE ANALYSIS OF APPLICABLE FEDERAL AND COMMONWEALTH OF PUERTO RICO ("COMMONWEALTH") INCOME TAX LAWS. THIS DISCUSSION IS BASED ON THE IRC AND THE PUERTO RICO CODE AND OTHER RELEVANT AUTHORITY IN EFFECT AS OF THE DATE OF THIS PROSPECTUS. THIS SUMMARY DOES NOT DISCUSS ALL ASPECTS OF FEDERAL AND COMMONWEALTH INCOME TAXATION THAT MAY BE RELEVANT TO A PARTICULAR PARTICIPANT IN LIGHT OF HIS OR HER OWN CIRCUMSTANCES. FURTHERMORE, NO INFORMATION IS PROVIDED WITH RESPECT TO TAX CONSEQUENCES UNDER FOREIGN, STATE OR LOCAL LAWS (OTHER THAN THOSE OF THE COMMONWEALTH). THIS DISCUSSION IS NOT INTENDED AS A SUBSTITUTE FOR CAREFUL TAX PLANNING. THE FEDERAL AND COMMONWEALTH INCOME TAX LAWS ARE COMPLEX AND INDIVIDUAL CIRCUMSTANCES MAY AFFECT THEIR APPLICATION. PARTICIPANTS ARE URGED TO CONSULT THEIR OWN TAX ADVISORS AS TO THE PARTICULAR TAX CONSEQUENCES TO THEM OF THE RECEIPT AND EXERCISE OF OPTIONS AND SARs GRANTED UNDER THE 1998 PLAN AND THE DISPOSITION OF ANY SHARES OF COMMON STOCK ACQUIRED PURSUANT TO THE EXERCISE OF SUCH OPTIONS.

PUERTO RICO TAX CONSEQUENCES. A recipient of a QSO does not recognize income at the time of the grant of an option. In addition, no income is recognized at the time a QSO is exercised. On a subsequent sale or exchange of the shares acquired pursuant to the exercise of a QSO, the optionee may have taxable long-term or short-term capital gain or loss, depending on whether the shares were held for more than six months, measured by the difference between the amount realized on the disposition of such shares and his or her tax basis in such shares. Tax basis will, in general, be the amount paid for the shares. The Company will not be entitled to a business expense deduction in respect of the grant of the option, the exercise thereof or the disposition of the shares.

With respect to a NSO, a recipient of a NSO does not recognize income at the time of grant of the NSO. The difference between the fair market value of the shares of stock on the date of exercise and the stock option exercise price generally will be treated as compensation income upon exercise, and the Company will be entitled to a deduction in the amount of income so recognized by the

optionee. Upon a subsequent disposition of the shares, the difference between the amount received by the optionee and the fair market value of the shares of stock on the option exercise date will be treated as long or short-term capital gain or loss, depending on whether the shares were held for more than six months.

SARs will not result in taxable income to the recipient or a tax deduction for the Company at time of grant. The exercise of SARs will generally result in compensation in the amount of the cash payment taxable as ordinary income to the employee. The Company may generally claim a tax deduction in the amount of any cash paid.

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FEDERAL TAX CONSEQUENCES. GENERAL. The Company is organized under the laws of the Commonwealth and, at the present time, it is not engaged in any trade or business in the United States. Accordingly, it is subject generally to a flat 30% federal income tax on its fixed or determinable, annual or periodic income, if any, from sources within the United States. The Company would only be entitled to claim deductions in computing its U.S. income tax liability to the extent such deductions were directly related to any income effectively connected with the conduct of a trade or business in the United States. Accordingly, the limitations imposed by Section 162(m) of the IRC for compensation to certain highly paid executives should not limit the tax deductions available to the Company in connection with the 1997 Option Plan. For purposes of the discussion below, some of the QSOs granted under the 1997 Option Plan may also be treated as ISOs for purposes of Sections 421 and 422 of the IRC.

RESIDENTS OF PUERTO RICO. Recipients of stock options or SARs who are residents of Puerto Rico during the entire taxable year and perform services for the Company or its subsidiaries in Puerto Rico, will not have any gross income for federal income tax purposes either in respect of (i) the grant or the exercise of stock options or (ii) the grant of, or the receipt of cash payments upon exercise of, SARs.

NON-RESIDENTS OF PUERTO RICO AND RESIDENTS OF PUERTO RICO WHO PERFORM SERVICES OUTSIDE OF PUERTO RICO. In general, an optionee, who is a non-resident of Puerto Rico or a resident of Puerto Rico who performs services outside Puerto Rico, will not recognize taxable income upon grant or exercise of an ISO and the Company and its subsidiaries will not be entitled to any business expense deduction with respect to the grant or exercise of an ISO. However, upon the exercise of an ISO, the excess of the fair market value on the date of exercise of the shares received over the exercise price of the shares will be treated as an adjustment to alternative minimum taxable income. In order for the exercise of an ISO to qualify for the foregoing tax treatment, the optionee generally must be an employee of the Company or its subsidiaries (within the meaning of Section 422 of the IRC) from the date the ISO is granted through the date three months before the date of exercise.

If the optionee has held the shares acquired upon exercise of an ISO for at least two years after the date of grant and for at least one year after the date of exercise, upon disposition of the shares by the optionee, the difference, if any, between the sales price of the shares and the exercise price of the option will be treated as long-term capital gain or loss. If the optionee does not satisfy these holding period requirements, the optionee will recognize ordinary income at the time of the disposition of the shares, generally in an amount equal to excess of the fair market value of the shares at the time the option was exercised over the exercise price of the option. The balance of the gain realized, if any, will be long-term or short-term capital gain, depending upon whether or not the shares were sold more than one year after the option was exercised. If the optionee sells the shares prior to the satisfaction of the holding

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period requirements but at a price below the fair market value of the shares at the time the option was exercised, the amount of ordinary income will be limited to the amount realized on the sale over the exercise price of the option. Subject to any limitations imposed by Section 162(m) of the IRC for federal income tax purposes, the employee including such compensation in income and

certain reporting requirements, the Company and its subsidiaries will be allowed a business expense deduction to the extent the optionee recognized ordinary income. Upon any subsequent sale of the shares, the optionee will have taxable gain or loss, measured by the difference between the amount realized on the disposition and the tax basis of the shares (generally, the amount paid for the shares plus the amount treated as ordinary income at the time the option was exercised).

In general, an optionee, who is a non-resident of Puerto Rico or a resident of Puerto Rico who performs services outside of Puerto Rico, to whom an NSO is granted will recognize no income at the time of the grant of the option. Upon exercise of an NSO, an optionee will recognize ordinary income in an amount equal to the excess of the fair market value of the shares on the date of exercise over the exercise price of the option (or, if the optionee is subject to restrictions imposed by Section 16 (b) of the Exchange Act, upon the lapse of those restrictions, unless the optionee makes a special election within 30 days after exercise to have income determined without regard to the restrictions). Subject to any limitations imposed Section 162(m) of the IRC for federal income tax purposes, the employee including such compensation in income and certain reporting requirements, the Company will be entitled to a tax deduction in the same amount. Upon a subsequent sale of the shares, the optionee will have taxable gain or loss, measured by the difference between the amount realized on the disposition and the tax basis of the shares (generally, the amount paid for the shares plus the amount treated as ordinary income at the time the option was exercised).

Upon exercise of a SAR, an optionee who is a non-resident of Puerto Rico will recognize ordinary income in an amount equal to the cash received on the exercise date. If it complies with applicable withholding requirements, the Company and its subsidiaries will be entitled to a business expense deduction in the same amount and at the same time as the optionee recognizes ordinary income.

Under the 1998 Plan, upon the occurrence of certain "change in control" transactions involving the Company, all options then outstanding under the 1998 Plan become immediately exercisable. Under certain circumstances, compensation payments attributable to such options may be treated as "parachute payments" under the IRC, in which case a portion of such payments may be nondeductible to the Company for federal income tax purposes and the recipient may be subject to a 20% excise tax under the IRC.

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DESCRIPTION OF COMMON STOCK

The Company is authorized to issue 10,000,000 shares of Common Stock, \$0.001 par value, and 250,000 shares of Preferred Stock, \$0.01 par value (the "Preferred Stock"). The following summary of certain rights and privileges of the Common Stock and Preferred Stock of the Company does not purport to be complete. Statements in this summary are qualified in their entirety by reference to the Company's Restated Certificate of Incorporation and the amendments thereto and to the General Corporation Law of Puerto Rico.

As of June 30, 1998, there were 1,875,322 shares of Common Stock issued and outstanding. The Common Stock is traded in the over-the-counter market on Nasdaq Stock Market's National Market System. The holders of the Common Stock are entitled to one vote for each share held of record on all matters submitted to a vote of stockholders. Each share of Common Stock has the same relative rights as, and is identical in all respects with, each other share of Common Stock. There are no cumulative voting rights for the election of directors.

Subject to the rights of holders of any outstanding shares of Preferred Stock, in the event of liquidation, dissolution or distribution of assets of the Company, the holders of Common Stock are entitled to share ratably in the assets of the Company legally available for distribution to stockholders. The Common Stock has no redemption, conversion or sinking fund privileges.

Subject to any dividend preferences which may be established with respect to any series of Preferred Stock, the holders of Common Stock are entitled to receive, pro rata, dividends when and as declared by the Board of Directors out of funds legally available therefor.

Holders of Common Stock do not have preemptive rights to subscribe for

or purchase additional securities of the Company.

ChaseMellon Shareholder Services, L.L.C., New York, New York, is the transfer agent and registrar for the Common Stock.

The Company's Certificate of Incorporation authorizes the Board of Directors to fix the designation, voting powers, preferences, limitations and relative rights of any series of the Company's Preferred Stock at the time of issuance. The holders of Common Stock may be adversely affected since preferred stock issued in the future may be designated with special rights or preferences by the Board of Directors over the holders of the Common Stock as to dividends, liquidation rights, voting rights (e.g. separate class right to approve a merger or sale of substantially all the assets of the Company) and other matters. The issuance of Preferred Stock under certain circumstances may have the effect of delaying, deferring or preventing a change in control of the Company.

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FEDERAL SECURITIES LAW ASPECTS

The shares of Common Stock of the Company issuable to persons purchasing shares under the Plan have been registered under the Securities Act of 1933, as amended (the "Act"), on a Registration Statement on Form S-8 (the "Registration Statement"), thereby allowing the Common Stock so issued to be freely resold or otherwise disposed of (without further registration) by anyone purchasing stock under the Plan except for any such person who may be deemed an "affiliate" of the Company. An "affiliate" of the Company is a person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, the Company. Persons deemed to be affiliates may resell shares pursuant to Rule 144 promulgated by the Securities and Exchange Commission or pursuant to a separate prospectus filed as a part of the Registration Statement or pursuant to a separate registration statement. Compliance with Rule 144 is subject to certain limitations and requirements including limitations on the number of shares of Common Stock which may be sold in any three-month period. In the event that a participating employee becomes an officer or director of the Company or owner of 10% or more of the Company's stock, the short-swing profit recovery provisions of Section 16(b) under the Securities Exchange Act of 1934 also would need to be considered.

INFORMATION INCORPORATED BY REFERENCE

The following documents filed by the Company with the Securities and Exchange Commission (the "SEC") are incorporated herein by this reference:

- A. The Annual Report of the Company on Form 10-K for its fiscal year ended December 31, 1998.
- B. The Quarterly Report of the Company on Form 10-Q for the quarter ended March 31, 1998.
- C. The Current Report of the Company on Form 8-K dated June 1, 1998.

All documents filed by the Company pursuant to Sections 13(a), 13(c), 14 and 15(d) of the Exchange Act, subsequent to the date of this Prospectus and prior to the filing of a post-effective amendment to the Registration Statement on Form S-8 which indicates that all securities offered have been sold or which deregisters all securities then remaining unsold, shall be deemed to be incorporated by reference into this Prospectus and to be a part hereof from the date of filing of such documents.

The Company will provide, without charge, to each person to whom this Prospectus is delivered, a copy of any or all of the documents referred to above which have been incorporated by reference in this Prospectus, other than exhibits to such documents unless such exhibits

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are specifically incorporated by reference herein, and a copy of the Company's

latest Annual Report to Shareholders and other reports, proxy statements and communications distributed to the Company's shareholders generally, upon written or oral request of such person, to the Chief Financial Officer of Margo Caribe, Inc., Margaret D. Spector at the address set forth below.

Questions and additional information regarding the 1998 Plan and its administrators may be directed to the Secretary of Margo Caribe, Inc., Margaret D. Spector at Highway 690, Km. 5.8, Vega Alta, Puerto Rico 00762, Telephone Number: (787) 883-2570.

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PART II

INFORMATION REQUIRED IN THE REGISTRATION STATEMENT

ITEM 3. INCORPORATION OF DOCUMENTS BY REFERENCE.

The following documents filed by the Company with the Commission are incorporated herein by reference:

1. The Annual Report of the Company on Form 10-K for its fiscal year ended December 31, 1997.
2. The Quarterly Report of the Company on Form 10-Q for the quarter ended March 31, 1998.
3. The Current Report of the Company on Form 8-K dated June 1, 1998.
4. All documents subsequently filed by the Company with the Commission pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 and prior to the termination of this offering shall be deemed to be incorporated by reference in this registration statement. Any statement contained in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this registration statement to the extent that a statement contained herein, modified or superseded such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this registration statement.

ITEM 4. DESCRIPTION OF SECURITIES.

The Certificate of Incorporation of the Company authorizes a single class of 10,000,000 shares of Common Stock, par value \$0.001 per share (the "Common Stock") and 250,000 shares of Preferred Stock, \$0.01 par value (the "Preferred Stock"). As of June 30, 1998, there were 1,875,322 shares of Common Stock issued and outstanding and there were no shares of Preferred Stock outstanding. As of June 30, 1998, there were outstanding options to purchase 94,250 shares of Common Stock.

The Common Stock is traded in the over-the-counter market on the National Association of Securities Dealers Small Capital market. The holders of the Common Stock are entitled to one vote for each share held of record on all matters submitted to a vote of stockholders. Each share of Common Stock has the same relative right as, and is identical in all respects with, each other share of Common Stock. There are no cumulative voting rights for the election of directors.

Subject to the rights of holders of any outstanding shares of Preferred Stock, in the event of liquidation, dissolution or distribution of assets of the Company, the holders of Common Stock are entitled to share ratably in the assets of the Company legally available for distribution to stockholders. The Common Stock has no redemption, conversion or sinking fund privileges.

Subject to any dividend preferences which may be established with respect to Preferred Stock, the holders of Common Stock are entitled to receive, pro rata, dividends when and as declared by the Board of Directors out of funds legally available therefor.

Holders of Common Stock do not have preemptive rights to subscribe for

or purchase additional securities of the Company.

Chase Mellon Shareholder Services, L.L.C., New York, New York, is the transfer agent and registrar for the Common Stock.

The Certificate of Incorporation authorizes the Board of Directors to fix the designation, voting powers, preferences, limitations and relative rights of any series of the Company's Preferred Stock at the time of issuance. The holders of Common Stock may be adversely affected since preferred stock issued in the future may be designated with special rights or preferences by the Board of Directors over the holders of the Common Stock as to dividends, liquidation rights, voting rights (e.g. separate class right to approve a merger or sale of substantially all the assets of the Company) and other matters. The issuance of Preferred Stock under certain circumstances may have the effect of delaying, deferring or preventing a change in control of the Company.

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ITEM 5. INTERESTS OF NAMED EXPERTS AND COUNSEL.

Not applicable.

ITEM 6. INDEMNIFICATION OF DIRECTORS AND OFFICERS.

A. Article 1.02 (B) (6) of the Puerto Rico General Corporation Act (the "PR GCA") provides that a corporation may include in its certificate of incorporation a provision eliminating or limiting the personal liability of members of its board of directors or governing body for breach of a director's fiduciary duty of care. However, no such provision may eliminate or limit the liability of a director for breaching his duty of loyalty, failing to act in good faith, engaging in intentional misconduct or knowingly violating a law, paying a dividend or approving a stock repurchase which was illegal, or obtaining an improper personal benefit. A provision of this type has no effect on the availability of equitable remedies, such as injunction or rescission, for breach of fiduciary duty. Article Ninth of the Company's Certificate of Incorporation contains such a provision.

B. Article 4.08 of the PR GCA authorizes Puerto Rico corporations to indemnify their officers and directors against liabilities arising out of pending or threatened actions, suits or proceedings to which they are or may be made parties by reason of being directors or officers. Such rights of indemnification are not exclusive of any other rights to which such officers or directors may be entitled under any by-law, agreement, vote of stockholders or otherwise. The Certificate of Incorporation of the Company provides that the Company shall indemnify its directors, officers and employees to the fullest extent permitted by law. The Company also maintains directors' and officers' liability insurance on behalf of its directors and officers.

ITEM 7. EXEMPTIONS FROM REGISTRATION CLAIMED.

Not applicable.

ITEM 8. EXHIBITS.

- *3.1 Certificate of Incorporation of the Company, as amended to date (incorporated herein by reference to Exhibit 3.1 of the Company's Annual Report on Form 10-K for the year ended December 31, 1997 (File No. 0-17224)).
- *3.2 Bylaws of the Company, as amended to date (incorporated herein by reference to Exhibit 3.2 of the Company's Annual Report on Form 10-K for the year ended December 31, 1997 (File No. 0-17224)).
- 4.1 Common Stock Certificate.
- 4.2 1998 Stock Option Plan.
- 4.3 Form of Stock Option Agreement
- 5 Opinion regarding legality and consent of Pietrantonio Mendez & Alvarez.

- 23.1 Consent of Pietrantonio Mendez & Alvarez (included in the opinion of counsel filed as Exhibit 5).
- 23.2 Consent of Deloitte & Touche LLP.
- 23.3 Consent of Kaufman Rossin & Co.
- 24.1 Power of Attorney included on page II-4.

ITEM 9. UNDERTAKINGS.

The undersigned registrant hereby undertakes:

*Previously filed

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1. To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

- (i) To include any prospectus required by section 10(a)(3) of the Securities Act of 1933;
- (ii) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement;
- (iii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement;

PROVIDED HOWEVER, that paragraphs (i) and (ii) above do not apply if the information required to be included in a post-effective amendment by those paragraphs is contained in periodic reports filed by the registrant pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934 that are incorporated by reference in the registration statement.

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

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

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

Insofar as indemnification for liabilities under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter

has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

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SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-8 and has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the Municipality of San Juan, Commonwealth of Puerto Rico, on the 22nd day of July, 1998.

MARGO CARIBE, INC.

By: /S/ MICHAEL J. SPECTOR

Michael J. Spector
Chairman of the Board, President
and Chief Executive Officer

POWER OF ATTORNEY

Each person whose signature appears below hereby constitutes and appoints Michael J. Spector and Margaret D. Spector and each of them, each with full power to act without the other, his true and lawful attorneys-in-fact and agents, each with full power of substitution and resubstitution, for him and in his name, place and stead in any and all capacities, to sign any and all amendments (including post-effective amendments) to this Registration Statement, and any registration statement relating to the same offering as this Registration Statement that is to be effective upon filing pursuant to Rule 462(b) under the Securities Act of 1933, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto each of said attorneys-in-fact and agents full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that each of said attorneys-in-fact and agents, or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

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

<TABLE>

<CAPTION>

SIGNATURE -----	TITLE -----	DATE ----
<S> /s/ Michael J. Spector ----- Michael J. Spector	<C> Chairman of the Board, President, Chief Executive Officer and Director	<C> July 22, 1998
/s/ Margaret D. Spector ----- Margaret D. Spector	Secretary and Director	July 22, 1998
/s/ Blas R. Ferraiuoli ----- Blas R. Ferraiuoli	Director	July 22, 1998
/s/ Frederick D. Moss -----	Director	July 22, 1998

/s/ Michael A. Rubin

Director

July 22, 1998

Michael A. Rubin

/s/ Alfonso A. Ortega

Vice President, Treasurer and Principal
Financial Officer and Accounting Officer

July 22, 1998

Alfonso A. Ortega

</TABLE>

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INDEX TO EXHIBITS

<TABLE>
<CAPTION>

EXHIBIT NUMBER -----	DESCRIPTION -----	SEQUENTIALLY NUMBERED PAGE -----
<S>	<C>	
3.1	-- Certificate of Incorporation of Margo Caribe, Inc., as currently in effect (incorporated herein by reference to Exhibit 3.1 of the Company's Annual Report on Form 10-K for the year ended December 31, 1997 (File No. 0-17224)).	
3.2	-- By-laws of Margo Caribe, Inc., as amended (incorporated herein by reference to Exhibit 3.2 of the Company's Annual Report on Form 10-K for the year ended December 31, 1997 (File No. 0-17224)).	
4.1	-- Common Stock Certificate.	
4.2	-- 1998 Stock Option Plan.	
4.3	-- Form of Stock Option Agreement.	
5	-- Opinion regarding legality and consent of Pietrantonio Mendez & Alvarez.	
23.1	-- Consent of Pietrantonio Mendez & Alvarez (included in the opinion of counsel filed as Exhibit 5 thereto).	
23.2	-- Consent of Deloitte & Touche LLP.	
23.3	-- Consent of Kaufman Rossin & Co.	
24.1	-- Power of Attorney (included on Page II-4).	

</TABLE>

COMMON STOCK

COMMON STOCK

NUMBER

SHARES

MN 4000

INCORPORATED UNDER THE LAWS OF
THE STATE OF FLORIDA

SEE REVERSE FOR
CERTAIN DEFINITIONS

THIS IS TO CERTIFY THAT

CUSIP 566605 10 1

is the owner of

FULLY PAID AND NON-ASSESSABLE SHARES OF THE PAR VALUE OF \$.001
EACH OF THE COMMON STOCK OF

===== MARGO NURSERY FARMS, INC. =====

transferable on the books of the Corporation by the holder hereof in person or by duly authorized attorney upon surrender of this certificate properly endorsed. This certificate and the shares represented hereby are issued and shall be held subject to all of the provisions of the Certificate of Incorporation of the Corporation and all amendments thereof to all of which the holder by the acceptance hereof assents. This certificate is not valid unless countersigned by the Transfer Agent and registered by the Registrar.

WITNESS the facsimile seal of the Corporation and the facsimile signatures of its duly authorized officers.

Dated

/S/ MARGARET D. SPECTOR
SECRETARY

/S/ MICHAEL J. SPECTOR
PRESIDENT

[SEAL]

[NAME CHANGED TO MARGO CARIBE, INC.]

[STATE OF INCORPORATION CHANGED TO
COMMONWEALTH OF PUERTO RICO]

MARGO NURSERY FARMS INC.

The following abbreviations, when used in the inscriptions on the face of

this certificate, shall be construed as though they were written out in full according to applicable laws or regulations.

<TABLE>

<S>

<C>

TEN COM	- as tenants in common	UNIF GIFT MIN ACT-.....Custodian.....
TEN ENT	- as tenants by the entirety	(Cust) (Minor)
JT TEN	- as joint tenants with right of survivorship and not as tenants in common	under Uniform Gifts to Minors Act..... (State)

</TABLE>

Additional abbreviations may also be used though not in the above list.

FOR VALUE RECEIVED, _____ HEREBY SELL, ASSIGN AND TRANSFER UNTO

PLEASE INSERT SOCIAL SECURITY OR OTHER IDENTIFYING NUMBER OF ASSIGNEE

(PLEASE PRINT OR TYPEWRITE NAME AND ADDRESS, INCLUDING ZIP CODE, OF ASSIGNEE)

-----SHARES
OF THE CAPITAL STOCK REPRESENTED BY THE WITHIN CERTIFICATE, AND DO HEREBY IRREVOCABLE CONSTITUTE AND APPOINT

-----ATTORNEY
TO TRANSFER SAID STOCK ON THE BOOKS OF THE WITHIN NAMED CORPORATION WITH FULL POWER OF SUBSTITUTION IN THE PREMISES.

DATED _____

X _____

THE SIGNATURE TO THIS ASSIGNMENT MUST CORRESPOND WITH THE NAME AS WRITTEN UPON THE FACE OF THE CERTIFICATE IN EVERY PARTICULAR, WITHOUT ALTERATION OR ENLARGEMENT OR ANY CHANGE
NOTICE: WHATEVER.

IMPORTANT: SIGNATURE(S) MUST BE GUARANTEED BY A FIRM WHICH IS A MEMBER OF A

REGISTERED NATIONAL STOCK EXCHANGE, OR BY A COMMERCIAL BANK OR A TRUST COMPANY.

MARGO CARIBE, INC.
1998 STOCK OPTION PLAN

EFFECTIVE APRIL 23, 1998

SECTION 1. INTRODUCTION

1.1 PURPOSE

The purposes of the Margo Caribe, Inc. 1998 Stock Option Plan (the "Plan") is to provide Margo Caribe, Inc. (the "Corporation") and its subsidiaries with an effective means to attract and retain highly qualified personnel as well as to provide additional incentive to employees and directors who provide services to the Corporation and its subsidiaries. The Plan is expected to contribute to the attainment of these objectives by offering selected employees and directors the opportunity to acquire stock ownership interests in the Corporation.

1.2 CONSIDERATION TO CORPORATION FOR ISSUANCE OF OPTIONS AND STOCK APPRECIATION RIGHTS: AGREEMENTS BY EMPLOYEES.

Each Employee by signing and accepting an Option Contract will, if the Committee so requires, agree to remain employed by the Corporation or a Subsidiary for a specified period of time, and the consideration to the Corporation for the issuance of Options or Stock Appreciation Rights will be any such employment agreements as well as the benefits to the Corporation from the added incentive to the Employee of increased proprietorship in the Corporation. Nothing in the Plan or in any Option Contract shall confer on any individual any right to continue employed by the Corporation or any of its Subsidiaries or limit the right of the Corporation or any of its Subsidiaries to terminate Employment of an Employee at any time, with or without cause.

1.3 PLAN SUBJECT TO RATIFICATION BY SHAREHOLDERS.

The Plan shall become effective upon adoption by the Board of Directors, provided that the Plan is approved, within one year following its adoption by the Board of Directors, by a vote of the holders of a majority of the shares of Common Stock entitled to vote and present in person or by proxy at a duly held shareholders' meeting. No Option or Stock Appreciation Right under the Plan may be granted more than 10 years after the earlier of the date the Plan is adopted or the date the Plan is approved by the shareholders of the Corporation, without further approval by the shareholders of the Corporation.

1.4 LIMITATIONS ON NUMBER OF SHARES ISSUABLE UNDER THE PLAN.

Subject to the following provisions of this Section 1.4, the aggregate number of shares of Common Stock which may be issued under the Plan shall be limited to 200,000. The shares of Common Stock for which Options and Stock Appreciation Rights may be granted may consist of either authorized but unissued shares of Common Stock or shares of Common Stock which have been issued and which shall have been heretofore or hereafter reacquired by the Corporation. The total number of shares subject to Options and Stock Appreciation Rights authorized under the Plan shall be subject to increase or decrease in order to give effect to the adjustment provisions of Section 3.2 hereof or any amendment adopted as provided in Section 4.2 hereof. If any Option or Stock Appreciation Right granted under the Plan shall expire, terminate or be cancelled for any reason without having been exercised in full, the corresponding number of unpurchased shares shall again be available for purposes of the Plan. The number of shares of Common Stock for which Options and Stock Appreciation Rights may be granted under this Plan shall be reduced by the number of shares subject to an Option for which an Employee has exercised a related Stock Appreciation Right in accordance with Section 2.4, Subsection (d), hereof.

1.5 DEFINITIONS.

The following terms shall have the meanings set forth below:

(a) APPRECIATION DATE. The date designated by a grantee of a Stock Appreciation Right for measurement of the appreciation in the value of the Common Stock subject to the Stock Appreciation Right, which date shall not be earlier than the date notice of such designation is received by the Secretary of the Corporation.

(b) BOARD OR BOARD OF DIRECTORS. The Board of Directors of the Corporation.

(c) COMMITTEE. The compensation committee or such other committee or committees as shall be appointed by the Board of Directors to administer the Plan pursuant to the provisions of Section 4.1 hereof.

(d) COMMON STOCK. The Corporation's presently authorized common stock, par value \$0.001 per share, except as this definition may be modified pursuant to the provisions of Section 3.2 hereof.

(e) DISABILITY. Complete and permanent inability by reason of illness or accident to perform the duties of the occupation in which an Employee was employed when such disability commenced.

(f) EMPLOYEE. Any salaried officer, common law employee or member of the Board of Directors of the Corporation or any Subsidiary, or both.

(g) EMPLOYMENT. The rendering of services by an Employee for the Corporation, or for any Subsidiary, or both. Whether military, government or public service shall constitute termination of employment for purposes of this Plan or any Option or Stock Appreciation Right granted hereunder shall be determined in each case by the Committee in its sole discretion.

(h) FAIR MARKET VALUE. The closing price of the Common Stock reported on the NASDAQ National Market System on the date as of which such value is being determined or, if no price is reported on such day, then on the next preceding day on which such price was reported, or, if at any time the Common Stock shall not be reported on the NASDAQ National Market System, the Committee shall determine the fair market value on the basis of available prices for such Common Stock or in such manner as may be authorized by applicable regulations under the PRC and the IRC.

(i) INCENTIVE STOCK OPTION. An option to purchase Common Stock granted by the Corporation to an Employee under the Plan which satisfies the requirements of Section 422 of the IRC.

(j) IRC. The Internal Revenue Code of 1986, as amended.

(k) QUALIFIED STOCK OPTION. An option to purchase Common Stock granted by the Corporation to an Employee under the Plan which satisfies the requirements of Section 1046 of the PRC.

(l) NONSTATUTORY STOCK OPTION. An option to purchase Common Stock granted by the Corporation to an Employee under the Plan which does not satisfy the requirements of Section 1046 of the PRC or Section 422 of the IRC.

(m) OPTION. A Qualified Stock Option, an Incentive Stock Option or a Nonstatutory Stock Option.

(n) OPTION EXPIRATION DATE. The date on which an Option becomes unexercisable by reason of the lapse of time or when a Nonstatutory Stock Option otherwise becomes unexercisable.

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(o) PRC. The Puerto Rico Internal Revenue Code of 1994, as amended.

(p) STOCK APPRECIATION RIGHT. An Employee's right to earn additional compensation for the performance of future services, based on

appreciation in the Fair Market Value of the Common Stock pursuant to the formula set forth in Section 2.4, Subsection (c), hereof.

(q) STOCK APPRECIATION RIGHT EXPIRATION DATE. The date on which a Stock Appreciation Right becomes unexercisable by reason of the lapse of time or, except in the case of a Stock Appreciation Right attached to a Qualified Stock Option, or Incentive Stock Option, otherwise becomes unexercisable.

(r) SUBSIDIARY. Any corporation in an unbroken chain of corporations beginning with the Corporation if, at the time an Option is granted, each of the corporations other than the Corporation owns stock possessing 50% or more of the total combined voting power of all classes of stock of one of the other corporations in such chain.

(s) The use of the singular shall also include within its meaning the plural or vice versa.

SECTION 2. STOCK OPTIONS

2.1 GRANT AND EXERCISE OF OPTIONS.

(a) GRANT. The Committee on behalf of the Corporation may grant Options to purchase Common Stock to Employees selected by it in its discretion.

(b) OPTION CONTRACTS. Options and any Stock Appreciation Rights attached thereto shall be evidenced by agreements ("Option Contracts") in such form as the Committee shall approve containing such terms and conditions, including the period of their exercise, whether in installments or otherwise, as shall be contained therein, which need not be the same for all Options.

(c) OPTION PRICE. The purchase price per share of Common Stock under each Option shall be not less than 100 percent of the Fair Market Value per share of such Common Stock on the date the Option is granted, as determined by the Committee. The purchase price may be subject to adjustment in accordance with the provisions of Section 3.2 hereof.

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(d) TERM OF OPTION. The term during which each Option granted under the Plan may be exercised shall not exceed a period of ten years from the date of its grant.

(e) EXERCISE OF OPTIONS. Unless an Option Contract provides otherwise, each Option granted to an Employee shall become exercisable, on a cumulative basis, with respect to 20% of the shares of Common Stock covered

thereby on the first anniversary of the date of its grant and with respect to 100% of the shares of Common Stock covered thereby on the fifth anniversary of the date of its grant. Any part of an Option that has become exercisable shall remain exercisable until it has been exercised in full or it terminates or expires pursuant to the terms of the Plan or the applicable Option Contract.

(f) OPTIONS NONTRANSFERABLE. Options granted under the Plan shall by their terms be nontransferable by the Employee otherwise than by will or the laws of descent and distribution, and, during the lifetime of the Employee, shall be exercisable only by the Employee. No transfer of an Option by an Employee by will or by the laws of descent and distribution shall be effective to bind the Corporation unless the Corporation shall have been furnished with written notice thereof and a copy of the will and/or such other evidence as the Committee may determine necessary to establish the validity of the transfer.

(g) PAYMENT. Each Option shall be exercised by delivery of a written notice to the Corporation stating the number of whole shares of Common Stock as to which the Option is being exercised and accompanied by payment therefor. No shares shall be issued on the exercise of an Option unless paid for in full at the time of purchase. Payment for shares purchased upon the exercise of an Option shall be made in cash or, with the approval of the Committee, in Common Stock valued at the then Fair Market Value thereof as determined by the Committee, or by a combination of cash and Common Stock. Neither the Corporation nor any Subsidiary may directly or indirectly lend money to any individual for the purpose of assisting such individual to acquire or to carry shares issued upon the exercise of Options granted under the Plan. No Employee shall have any rights as a shareholder with respect to any share of Common Stock covered by an Option unless and until such individual shall have become the holder of record of such share, and except as otherwise permitted by Section 3.2 hereof, no adjustment shall be made for dividends (ordinary or extraordinary, whether in cash, securities or other property or distributions or other rights) in respect of such share for which the record date is prior to the date on which such individual shall have become the holder of record thereof.

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(h) INVESTMENT PURPOSE. At the time of any exercise of any Option, the Corporation may, if it shall deem it necessary or desirable for any reason, require the holder of the Option to represent in writing to the Corporation that it is the intention of such holder to acquire the shares of Common Stock being acquired for investment only and not with a view to the distribution thereof. In such event no shares of Common Stock shall be issued to such holder unless and until the Corporation is satisfied with the correctness of such representation.

2.2 QUALIFIED STOCK OPTIONS AND INCENTIVE STOCK OPTIONS.

In addition to meeting the requirements of Section 2.1, each Qualified Stock Option shall be subject to the requirements of (a) and each Incentive Stock Option shall be subject to the requirements of (a), (b) and (c) of this Section 2.2.

(a) ANNUAL LIMITATION OF OPTIONS WHICH MAY BE CONSIDERED QUALIFIED STOCK OPTIONS AND/OR INCENTIVE STOCK OPTIONS. Anything else in the Plan notwithstanding, if and to the extent that the provisions of Section 1046 of the PRC and/or Section 422 of the IRC shall so require, the aggregate Fair Market Value (determined as of the time the Option is granted) of the shares with respect to which Qualified Stock Options and/or Incentive Stock Options are exercisable for the first time by any Employee during any calendar year (under the Plan and any other plans of the Corporation and its Subsidiaries) shall not exceed \$100,000.

(b) INCENTIVE STOCK OPTIONS GRANTED TO TEN PERCENT SHAREHOLDERS. Notwithstanding anything to the contrary contained in this Plan, an Incentive Stock Option may not be granted to an Employee who owns, directly or indirectly, stock possessing more than 10 percent of the total combined voting power of all classes of stock of the Corporation or any Subsidiary unless, at the time such Incentive Stock Option is granted, the exercise price of such Incentive Stock Option is at least 110 percent of the Fair Market Value of the Common Stock subject to the Incentive Stock Option, and such Incentive Stock Option, by its terms, is not exercisable after the expiration of five (5) years from the date of grant of such Incentive Stock Option.

(c) NOTICE. An Employee shall give prompt notice to the Corporation of any disposition of shares acquired upon exercise of an Incentive Stock Option if such disposition occurs within either two years after grant or one year after the receipt of such shares by the Employee.

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2.3 VOLUNTARY SURRENDER AND CANCELLATION OF NONSTATUTORY STOCK OPTIONS.

The Committee may grant to one or more holders of Nonstatutory Stock Options, in exchange for the voluntary surrender and cancellation of such Nonstatutory Stock Options and any corresponding Stock Appreciation Rights, new Options having different Option prices than the Nonstatutory Stock Option prices provided in the Nonstatutory Stock Options so surrendered and cancelled and containing such other terms and conditions as the Committee may deem appropriate.

2.4 STOCK APPRECIATION RIGHTS ATTACHED TO OPTIONS.

(a) GRANT. The Committee may grant a Stock Appreciation Right with respect to any shares of Common Stock covered by any Option granted under the Plan and such Stock Appreciation Right shall be granted only at the time of grant of the related Option.

(b) TERMS AND CONDITIONS. Each Stock Appreciation Right shall be subject to the same terms and conditions as the related Option with respect to date of expiration, exercisability, transferability, and eligibility to exercise. When a Stock Appreciation Right is granted with respect to shares of Common Stock covered by a Qualified Stock Option, such Stock Appreciation Right may be exercised only when the Fair Market Value of the shares of Common Stock subject to the Option exceeds the exercise price of such Option. Any amount payable upon the exercise of a Stock Appreciation Right shall be payable in the form of cash only.

(c) AMOUNT OF COMPENSATION. The amount of compensation which shall be payable to an Employee pursuant to the exercise of a Stock Appreciation Right accompanying an Option is equal to the excess of the Fair Market Value of one share of Common Stock on the Appreciation Date over the Fair Market Value of such share on the date the Stock Appreciation Right was granted multiplied by the number of Option shares with respect to which the Stock Appreciation Right is exercised (the "spread"). The amount of compensation which shall be payable pursuant to the exercise of a Stock Appreciation Right shall not exceed 100 percent of the spread. The cash paid upon exercise of Stock Appreciation Right shall be reduced by such amount as the Corporation is required to withhold for tax purposes.

(d) TERMINATION OF OPTIONS. Upon the exercise of a Stock Appreciation Right, the related Option shall cease to be exercisable as to the shares with respect to which such Stock

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Appreciation Right was exercised, and the related Option shall be considered to have been exercised to that extent. Upon the exercise in full of the related Option, the Stock Appreciation Right granted with respect thereto shall terminate.

(e) AUTOMATIC EXERCISE UPON EXPIRATION. Upon the Option Expiration Date of an Option, an attached Stock Appreciation Right shall automatically be deemed to be exercised in full by the Employee and cash shall be paid to such Employee for 100% of the spread. There shall be no automatic exercise of an attached Stock Appreciation Right if the exercise price exceeds the Fair Market Value of the Corporation's Common Stock on the Option Expiration Date.

SECTION 3. PROVISIONS RELATING TO PLAN PARTICIPATION

3.1 TERMINATION OF EMPLOYMENT AND DEATH.

(a) OPTIONS AND STOCK APPRECIATION RIGHTS EXERCISABLE WITHIN THREE MONTHS FOLLOWING TERMINATION OF EMPLOYMENT, DISCHARGE OR RETIREMENT. Unless earlier terminated in accordance with its terms, an Option or Stock Appreciation Right shall terminate ninety days after any of the following:

(i) voluntary termination of Employment by the Employee, with or without the consent of the Corporation, or

(ii) termination of Employment by the Corporation or any of its Subsidiaries, with or without cause, or

(iii) termination of Employment because of Disability, retirement, or because the employing subsidiary ceased to be a Subsidiary of the Corporation and the Employee does not, prior thereto or contemporaneously therewith, become an Employee of the Corporation or of another Subsidiary;

provided, that with regard to terminations of Employment pursuant to clause (ii), the Option or Stock Appreciation Right shall terminate as of the date of such discharge if prior to such termination the Committee in its discretion shall determine that it is not in the best interests of the Corporation that the Option or Stock Appreciation Right should continue for said ninety-day period.

(b) OPTIONS AND STOCK APPRECIATIONS RIGHTS EXERCISABLE WITHIN ONE YEAR AFTER DEATH OR DISABILITY. If the holder of an Option or Stock Appreciation Right shall die or terminate his employment due to Disability during the term of an Option or Stock

Appreciation Right, the holder or the legal representatives shall be entitled to exercise the Option or Stock Appreciation in whole or in part, to the extent then unexercised, at any time within one year following the death of the Employee, but in no event after the Option Expiration Date or the Stock Appreciation Right Expiration Date, and only to the extent that the Employee was entitled to exercise the Option or Stock Appreciation Right on the date of his death.

3.2 ADJUSTMENTS UPON CHANGES IN CAPITALIZATION; CHANGE OF CONTROL; DISSOLUTION.

(a) Subject to any required action by the shareholders of the Corporation, each of (i) the number of shares of Common Stock covered by each outstanding Option, (ii) the number of shares Common Stock which have been

authorized for issuance under the Plan but as to which no Options have yet been granted or which have been returned to the Plan upon cancellation or expiration of an Option, (iii) the price per share of Common Stock covered by each such outstanding Option, and (iv) the maximum number of shares with respect to which Options may be granted to any Employee, shall be proportionately adjusted for any increase or decrease in the number of issued shares of Common Stock resulting from a stock split or the payment of a stock dividend with respect to the Common Stock or any other increase or decrease in the number of shares of Common Stock effected without receipt of consideration by the Corporation; provided, however, that (a) each such adjustment with respect to an Incentive Stock Option or Qualified Stock Option shall comply with the rules of Section 424(a) of the IRC (or any successor provision) and an applicable provision of the PRC and (b) in no event shall any adjustment be made which would render any Qualified Stock Option granted hereunder other than a "qualified option" under Section 1046 of the PRC or any Incentive Stock Options other than an "incentive stock option" as defined in Section 422 of the IRC; and provided further, however, that conversion of any convertible securities of the Corporation shall not be deemed to have been "effected without receipt of consideration." Such adjustment shall be made by the Committee, whose determination in that respect shall be final, binding and conclusive. Except as expressly provided herein, no issuance by the Corporation of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of shares of Common Stock subject to an Option.

(b) If: (1) Any person (as defined for purposes of Section 13(d) and 14(d) of the Exchange Act, but excluding the Corporation and any of its wholly-owned subsidiaries and Michael J. Spector or Margaret D. Spector or any entity controlled by the Sectors) acquires direct or

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indirect ownership of 50% or more of the combined voting power of the then outstanding securities of the Corporation as a result of a tender or exchange offer, open market purchases, privately negotiated purchases or otherwise; or (2) the shareholders of the Corporation approve (A) any consolidation or merger of the Corporation in which the Corporation is not the surviving corporation (other than a merger of the Corporation in which the holders of Common Stock immediately prior to the merger have the same or substantially the same proportionate ownership of the surviving corporation immediately after the merger), or (B) any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all, or substantially all, of the assets of the Corporation to an entity which is not a wholly-owned subsidiary of the Corporation, then the exercisability of each Option outstanding under the Plan shall be automatically accelerated so that each Option shall, immediately prior to the specified effective date of any of the foregoing transactions, become fully exercisable with respect to the total number of shares subject to such

Option and may be exercisable for all or any portion of such Shares. Upon the consummation of any of such transactions, all outstanding Options under the Plan shall, to the extent not previously exercised, terminate and cease to be outstanding.

(c) In the event of the proposed dissolution or liquidation of the Corporation, all outstanding Options will terminate immediately prior to the consummation of such proposed action, unless otherwise provided by the Committee.

SECTION 4. ADMINISTRATION

4.1 INDEPENDENT COMMITTEE TO ADMINISTER THE PLAN.

(a) COMPOSITION AND FUNCTIONS OF COMMITTEE. A Committee consisting of at least two directors (who shall be "Non-Employee Directors" as defined in Rule 16b-3 of the Securities and Exchange Commission) shall be appointed by the Board of Directors and will have, subject to the express provisions of the Plan, general authority to administer the Plan, to grant Options and Stock Appreciation Rights thereunder, subject to the ratification of the Board of Directors if such limitation is imposed by the Board of Directors, and to perform such other functions as may be assigned to it by the Board of Directors in connection with the Plan, including, among other things, determining the form of Option Contracts to be issued under the Plan and the terms and conditions to be included in such Option Contracts and adopting from time to time such rules and regulations as it may deem appropriate for the proper administration of the Plan. The Committee may also make

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such determinations under, and such interpretations of, and take such steps in connection with, the Plan, the rules and regulations or Options and Stock Appreciation Rights granted thereunder as it may deem necessary or advisable. The Committee may, in its discretion or in accordance with a direction from the Board of Directors, waive any provisions of any Option Contract, provided such waiver is not inconsistent with the terms of the Plan as then in effect.

(b) AUTHORIZATION OF ACTIONS TAKEN BY THE COMMITTEE AND BOARD OF DIRECTORS. Vacancies in the Committee shall be filled by the Board of Directors. The Committee may act by a majority of its members either at a meeting or in writing without a meeting. All questions arising under the Plan or under the rules and regulations or under the Option Contracts, whether such questions involve interpretation thereof or otherwise, shall be determined by the Committee and its determination, unless disapproved by the Board of Directors, shall be conclusive and binding in all cases. To the extent that any such action would not adversely affect the status of Qualified Stock Options and Incentive Stock Options under the PRC and IRC, respectively, all matters

provided in the Plan, in the Option Contracts, or in such rules and regulations to be determined or performed by the Committee may be determined or performed by the entire Board of Directors. No member of the Board of Directors or of the Committee shall be liable for any action taken or any determination made in good faith with respect to the Plan or any Option Contract.

(c) FINDINGS OF THE BOARD OF DIRECTORS AND COMMITTEE ARE CONCLUSIVE. Each determination, interpretation, or other action made or taken pursuant to the provisions of this Plan by the Board of Directors or the Committee shall be final and shall be binding and conclusive for all purposes and upon all persons, including, without limitation thereto, the Corporation, the shareholders, the Committee and each of the members thereof, and the Employee of the Corporation, and their respective successors in interest.

4.2 AMENDMENT AND DISCONTINUANCE OF THE PLAN.

The Board of Directors may at any time amend, modify, suspend or terminate the Plan, without shareholder approval, except to the extent required by the PRC or the IRC to permit the granting of Qualified Stock Options or Incentive Stock Options, or by the rules of any securities exchange or automated quotation system on which the shares of Common Stock of the Corporation trade at such time, provided, that no change shall be made which will have a material adverse effect upon any Option or Stock Appreciation Right previously granted unless the consent of the affected Employee is obtained.

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4.3 COMPLIANCE WITH LAW AND OTHER CONDITIONS.

(a) OPTIONS AND STOCK APPRECIATION RIGHTS. Any exercise by an Employee of an Option or Stock Appreciation Right shall be made only in compliance with any applicable rule or regulation of the Securities and Exchange Commission exempting such exercise from the operation of Section 16(b) of the Securities Exchange Act of 1934 and any other applicable law, rule, regulation or other provision that may hereafter relate to the exercise and cash settlement rights of Stock Appreciation Rights under the Federal securities laws.

(b) GENERALLY. No shares of Common Stock shall be issued pursuant to the exercise of any Option or Stock Appreciation Right granted under the Plan prior to the compliance by the Corporation to the satisfaction of its counsel with any applicable laws and with any applicable regulations of any securities exchange on which such shares are listed.

4.4 WITHHOLDING TAXES.

Whenever shares of Common Stock are to be issued pursuant to the Plan, the Corporation shall have the right to require that there be remitted

to the Corporation an amount sufficient to satisfy all applicable federal, state, commonwealth and local withholding tax requirements prior to the delivery of any certificate or certificates for such shares. The Corporation reserves the right to satisfy the applicable federal, state, commonwealth and local withholding tax requirements through the retention of shares of Common Stock otherwise transferable upon exercise of an Option. Such withheld amounts shall meet the Federal securities laws requirements set forth in Section 4.3, Subsection (a), hereof. Whenever payments are to be made in cash, such payments shall be net of an amount sufficient to satisfy federal, state and local withholding tax requirements and authorized deductions.

4.5 TAX OFFSET PAYMENTS.

The Committee shall have the authority at the time of any award under this Plan or anytime thereafter to make Tax Offset Payments to assist Employees in paying income taxes incurred as a result of their participation in this Plan. The Tax Offset Payments shall be determined by multiplying a percentage established by the Committee by all or a portion (as the Committee shall determine) of the taxable income recognized by an Employee upon (i) the exercise of a Nonstatutory Stock Option or a Stock

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Appreciation Right, or (ii) the disposition of shares received upon exercise of a Qualified Stock Option or Incentive Stock Option. The percentage shall be established, from time to time, by the Committee at that rate which the Committee, in its sole discretion, determines to be appropriate and in the best interests of the Corporation to assist Employees in paying income taxes incurred as a result of the events described in the preceding sentence. Tax Offset Payments shall be subject to the restrictions on transferability applicable to Options set forth in Section 2.1(f).

4.6 USE OF PROCEEDS AND FUNDING.

(a) USE OF PROCEEDS. The proceeds from the sale of Common Stock pursuant to Options granted under the Plan shall constitute general funds of the Corporation and may be used for its corporate purposes as the Corporation may determine.

(b) FUNDING. No provision of the Plan shall require or permit the Corporation, for the purpose of satisfying any obligations under the Plan, to purchase assets or place any assets in a trust or other entity to which contributions are made or otherwise to segregate any assets, nor shall the Corporation maintain separate bank accounts, books, records or other evidence of the existence of a segregated or separately maintained or administered fund for such purposes. Employees shall have no rights under the Plan other than as unsecured general creditors of the Corporation, except that insofar as they may

have become entitled to payment of additional compensation by performance of services, they shall have the same rights as other employees under general law. This Subsection shall not prevent the Corporation from purchasing its Common Stock for the purpose of meeting its requirements to issue Common Stock pursuant to the Plan.

4.7 OTHER.

To the extent applicable, this Plan is intended to permit the issuance of Qualified Stock Options in accordance with the provisions of Section 1046 of the PRC and Incentive Stock Options in accordance with Section 422 of the IRC. This Plan may be modified or amended at any time, both prospectively and retroactively, and in such manner as to affect Qualified Stock Options or Incentive Stock Options previously granted, if such amendment or modification is necessary for this Plan and the Qualified Stock Options or Incentive Stock Options granted hereunder to qualify under said provisions of the PRC and the IRC.

STOCK OPTION AGREEMENT

THIS AGREEMENT, dated as of _____, is made and entered into by and between MARGO CARIBE, INC., a Puerto Rico corporation (the "Company"), and _____ (the "Optionee").

WITNESSETH:

WHEREAS, the Company has adopted and approved the 1998 Stock Option Plan (the "Plan") for the purpose of providing economic incentive to the employees and directors of the Company; and

WHEREAS, the Plan provides for the grant of qualified stock options which meet the requirements of Section 1046 of the Puerto Rico Internal Revenue Code of 1994, as amended, ("qualified stock options") incentive stock options which meet the requirements of Section 422 of the Internal Revenue Code of 1986, as amended, ("incentive stock options") and stock options not intended to qualify as incentive stock options or qualified stock options ("non-statutory options"); and

WHEREAS, this Agreement is executed pursuant to, and is intended to carry out the purposes of the Plan, by granting [a qualified stock option] [an incentive stock option] [a non-statutory stock option] to the Optionee.

NOW, THEREFORE, in consideration of the Optionee's employment by the Company or Optionee's service as a non-employee director, and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereby agree as follows:

1. GRANT OF THE OPTION. Subject to and upon the terms and conditions set forth in this Agreement and of the Plan, a copy of

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which is attached hereto as Exhibit A, the Company hereby grants to the Optionee [a qualified stock option] [an incentive stock option] [a non-statutory stock option] (the "Option") to purchase up to _____ (_____) shares (the "Option Shares") of the Company's common stock, par value \$0.001 per share (the "Common Stock"), at a price equal to \$_____ per share, which is equal to the Fair Market Value of the Common Stock, as defined in the Plan.

2. TERM. The term of the Option shall commence on the date of this Agreement, and, subject to the provisions of Section 5 hereof, shall expire ten (10) years from the date of this Agreement. Upon its termination, the Option shall be of no further force and effect and shall not be exercisable to any

extent.

3. VESTING. Subject to the provisions of Section 5 of this Agreement, the right of the Optionee to purchase the Option Shares under the Option shall vest over a period of five (5) years at the rate of twenty percent (20%) per year, the first twenty percent (20%) to vest on the first anniversary date of this Agreement, and an additional twenty percent (20%) shall vest on each subsequent anniversary date of this Agreement.

4. RESTRICTIONS ON TRANSFER. The Optionee may not transfer any of the Optionee's rights in the Option or under this Agreement except upon the Optionee's death. No transfer of an option by an Optionee by will or by the laws of descent and distribution shall be effective to bind the Company unless the Company shall have been furnished with written notice thereof and a copy of the will and/or such other evidence as the Committee may determine necessary to establish the validity of the transfer.

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5. TERMINATION OF OPTION ON TERMINATION OF EMPLOYMENT AND CERTAIN OTHER EVENTS.

(a) If the Optionee's employment or service as a non-employee director with the Company or any of its subsidiaries terminates by reason of death, the Option shall become fully vested and may thereafter be immediately exercised by the legal representative of the estate or by the legatee of the Optionee under the will of the Optionee, for a period of one (1) year from the date of death or until the expiration of the stated term of the Option, whichever period is shorter.

(b) If the Optionee's employment or service as a non-employee director with the Company or any of its subsidiaries terminates voluntarily (with or without the consent of the Company) or by reason of Disability (as hereinafter defined), retirement, or because the employing subsidiary ceased to be a Subsidiary (as hereinafter defined) of the Company and the employee or director does not, prior thereto or contemporaneously therewith, become an employee or director of the Company or of another Subsidiary, the Option shall become fully vested and may thereafter be exercised for a period of ninety (90) days from the date of such termination of employment or the expiration of the stated term of such Option, whichever period is shorter.

(c) If the Optionee's employment or service as a non-employee director with the Company or any of its subsidiaries is terminated by the Company or any of its subsidiaries, with or without cause, the Option may thereafter be exercised to the extent it was exercisable at the time of termination of employment for a period of ninety (90) days from the date of termination of the expiration of the stated term of the option, whichever period is shorter, provided that the Option shall terminate as of the date the Optionee

ceased being an employee of the Company or any of its subsidiaries if the Committee (as hereinafter defined) in its sole discretion shall determine that it is not in the best interest of the Company that the option should continue for such ninety (90) day period.

(d) For purposes of this Agreement, "Disability" shall mean complete and permanent inability by reason of illness or accident to perform the duties of the occupation of the employee or non-employee director when such disability commenced, "Subsidiary" shall mean any corporation in an unbroken chain of corporations beginning with the Company if, at the time a stock option is granted, each of the corporations other than the Company owns stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock of one of the other corporations in such chain, and "Committee" shall mean the compensation committee or such other committee or committees as shall be appointed by the Board of Directors of the Company to administer the Plan pursuant to the provisions of Section 4.1 therein.

6. ADJUSTMENT IN CERTAIN EVENTS.

(a) In the event of any stock dividend or stock split, the Company (subject to any required action by the shareholders of the Company) shall make such equitable adjustments as are necessary and appropriate to protect the Option from dilution in the number, kind and the exercise price of the Option Shares underlying the Option.

(b) In the event that (1) any person (as defined for purposes of Section 13(d) and 14(d) of the Exchange Act, but excluding the Corporation, any of its wholly-owned subsidiaries, Michael J. Spector and Margaret D. Spector or any entity controlled by the Spectors) acquires direct or indirect ownership of 50% or more of the combined voting power of

the then outstanding securities of the Corporation as a result of a tender or exchange offer, open market purchases, privately negotiated purchases or otherwise; or (2) the shareholders of the Corporation approve (A) any consolidation or merger of the Corporation in which the Corporation is not the surviving corporation (other than a merger of the Corporation in which the holders of Common Stock immediately prior to the merger have the same or substantially the same proportionate ownership of the surviving corporation immediately after the merger), or (B) any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all, or substantially all, of the assets of the Corporation to an entity which is not a wholly-owned subsidiary of the Corporation, then the exercisability of each Option outstanding under the Plan shall be automatically accelerated so that each Option shall, immediately prior to the specified effective date of any of the foregoing transactions, become fully exercisable with respect to the total

number of shares subject to such Option and may be exercisable for all or any portion of such Shares. Upon the consummation of any of such transactions, all outstanding Options under the Plan shall, to the extent not previously exercised, terminate and cease to be outstanding.

(c) In the event of the proposed dissolution or liquidation of the Corporation, all outstanding Options will terminate immediately prior to the consummation of such proposed action, unless otherwise provided by the Committee.

7. PRIVILEGE OF STOCK OWNERSHIP. The Optionee shall not be deemed to be the holder of, or to have any of the rights of a shareholder with respect to, any Option Shares unless and until the Optionee properly exercises the Option in accordance with the requirements of Sections 8 and 9. Upon the proper exercise of the

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Option, the Optionee shall have full voting and other ownership rights with respect to the Option Shares.

8. MANNER OF EXERCISING OPTION. The Option may be exercised only as to whole shares and only by written notice signed by the Optionee (or in the case of exercise after Optionee's death or mental disability by Optionee's legal representative, executor, administrator or heir or legatee, as applicable), and mailed or delivered to the Secretary of the Company at its principal office. The notice shall specify the number of Option Shares with respect to which the Option is being exercised. The notice must be accompanied by payment in full for such Shares in cash and include any representations required by Section 9. If the Option is exercised by a person other than the Optionee, such person must provide the Company with proof, in a form satisfactory to the Company and its counsel, that such person has the right to exercise the Option. The Company shall have the right to accept payment, in whole or in part, for the Option in the form of Common Stock of the Company valued at the then Fair Market Value thereof, at the sole discretion of the Committee.

9. COMPLIANCE WITH LAWS AND REGULATIONS.

(a) Prior to the exercise of the Option, the Optionee shall deliver to the Company such representations in writing as may be requested by the Company in order to ensure that the exercise of the Option and the issuance of the Option Shares will comply with all applicable federal and state securities laws.

(b) The Optionee acknowledges and confirms that (i) it has received a copy of the Prospectus relating to the Plan; (ii) it is familiar with the business and affairs of the Company and (iii) that the granting of the Option by the Company does not involve

any representation of any kind by the Company as to its business, affairs, earnings or assets, the tax consequences of the exercise thereof, or otherwise.

(c) If the Company shall determine, in its discretion, that it is necessary or desirable to obtain the listing, registration or qualification of the Option Shares upon any securities exchange or under any federal or state law, or the consent or approval of any government regulatory body, then the Option may not be exercised in whole or in part, and no shares may be issued under the Option, until such listing, registration, qualification, consent or approval is obtained free of any conditions deemed unacceptable to the Company.

10. TAXES. The Company shall have the right to require the Optionee to pay to the Company, or to make arrangements satisfactory to the Company regarding the payment of, any federal, state or local taxes required to be paid or withheld with respect to the Option.

11. EMPLOYMENT. Nothing in this Agreement shall be deemed to grant any right of continued employment to the Optionee or to limit, restrict or waive any right of the Company to terminate the Optionee's employment at any time with or without cause.

12. MISCELLANEOUS.

(a) ASSIGNMENT. This Agreement may not be assigned by the Optionee without the prior written consent of the Company. This Agreement shall be binding upon and inure to the benefit of the parties, and their successors and assigns.

(b) ENTIRE AGREEMENT. This Agreement constitutes the entire agreement between the parties regarding the subject matter hereof. This Agreement supersedes all prior discussions and agree-

ment (oral or written) between the parties with respect to the subject matter of this Agreement. This Agreement may not be modified except in a written document signed by both of the parties.

(c) NOTICES. All notices required or permitted under this Agreement shall be in writing and shall be deemed to have been duly given upon receipt if delivered in person or upon the expiration of seven (7) days after the date of posting, if mailed by registered or certified mail, postage pre-paid to the parties at the following addresses:

If to the Company:

Margo Caribe, Inc.
P.O. Box 706
Dorado, Puerto Rico 00646
Attention: Chief Executive Officer

If to the Optionee:

Any party may change the address to which notices to such party shall be delivered or mailed by giving notice thereof to the other party in the manner provided by this Section.

(d) GOVERNING LAW. The validity and effect of this Agreement shall be governed by and construed and enforced in accordance with the laws of the Commonwealth of Puerto Rico without regard to its principles of conflicts of laws.

(e) WAIVER. Any term or condition of this Agreement may be waived at any time by the party which is entitled to the benefit thereof, but only if such waiver is evidenced by a writing signed

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by such party. No failure on the part of a party hereto to exercise, and no delay in exercising, any right, power or remedy created hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of such right, power or remedy by any such party preclude any other future exercise thereof or the exercise of any other right, power or remedy. No waiver by any party hereto to any breach of or default in any term or condition of this Agreement shall constitute a waiver of or consent to any subsequent breach of or default in the same or any other term or condition hereof.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the date first written above.

MARGO CARIBE, INC.

By:

Name:

Title:

OPTIONEE:

By:

PIETRANTONI MENDEZ & ALVAREZ
Banco Popular Center - Suite 1901
209 Munoz Rivera Avenue
San Juan, Puerto Rico 00918
Switchboard (787) 274-1212
Telecopier (787) 274-1470

July 22, 1998

Board of Directors
Margo Caribe, Inc.
Highway 690, Kilometer 5.8
Vega Alta, Puerto Rico 00692

Dear Sirs:

As special counsel to Margo Caribe, Inc., a Puerto Rico corporation (the "Company"), we have been requested to render this opinion for filing as Exhibit 5 to the Company's registration statement on Form S-8, which is being filed with the Securities and Exchange Commission (the "Registration Statement").

The Registration Statement covers 200,000 shares (the "Shares") of Common Stock, which may be sold by the Company upon the exercise of options to be granted pursuant to the Company's 1998 Stock Option Plan (the "Plan") filed as Exhibit 4.2 to the Registration Statement.

We have examined the Company's Certificate of Incorporation, the Company's By-Laws, the Plan, and related minutes of action taken by the Board of Directors and Stockholders of the Company and such other documents and records as we have deemed appropriate. In the foregoing examination, we have assumed the genuineness of all signatures, the authenticity of all documents submitted to us as originals and the conformity to originals of all documents submitted to us as certified or reproduced copies of originals.

Based upon the foregoing, we are of the opinion that:

1. The Plan and the Shares have been duly authorized by all requisite corporate action on the part of the Company.
2. When the Shares are sold in the manner and for the consideration described in the Plan, the Shares will be validly issued, fully paid and non-assessable.

Margo Caribe, Inc.

July 22, 1998

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We hereby consent to the filing of this opinion as Exhibit 5 to the Registration Statement. In giving the foregoing consent, we do not thereby admit that we are within the category of persons whose consent is required under Section 7 of the Securities Act of 1933, as amended.

Very truly yours,

/s/ Pietrantoni Mendez & Alvarez

DELOITTE & TOUCHE LETTERHEAD

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in this Registration Statement of Margo Caribe, Inc. (formerly Margo Nursery Farms, Inc.) on Form S-8 of our report dated March 20, 1998 appearing in the Annual Report on Form 10-K of Margo Nursery Farms, Inc. for the year ended December 31, 1997.

/s/ DELOITTE & TOUCHE LLP

DELOITTE & TOUCHE LLP

San Juan, Puerto Rico

July 22, 1998

CONSENT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

We hereby consent to the incorporation by reference in this Registration Statement on Form S-8 of our report, dated February 25, 1997, which appears on page F-4 of the annual report on Form 10-K of Margo Nursery Farms, Inc. for the years ended December 31, 1996 and 1995.

/s/ KAUFMAN, ROSSIN & CO.

KAUFMAN, ROSSIN & CO.

Miami, Florida
July 22, 1998