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December 8, 1999

Director of ERISA Compliance
Department of Labor
200 Constitution Avenue, NW
Washington, D.C. 20210

RE: Studio of Elegance Inc. 25-10 70483
Stock Bonus Incentive Plan

Dear Sir or Madam:

We represent Studio of Elegance Inc., a Pennsylvania corporation. Studio of Elegance intends to implement a Stock Bonus Incentive Plan. Performance units convertible into Class B shares of the Corporation shall be awarded to key employees based upon performance targets. As a result of the very select group to whom the awards may be granted, the Plan qualifies as a Top Hat Plan under the provisions of the ERISA.

I am enclosing a copy of the Plan for your review. If you have any questions or comments, please contact me at the above number.

Very truly yours,


Elly Heller Toig

EHT:mlh
Enclosure

cc: Philip Pelusi
Milt Estner, CPA

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STUDIO OF ELEGANCE INC.

Stock Bonus Incentive Plan

The purposes of the Studio of Elegance Inc. Stock Bonus Incentive Plan (the "Plan") are to encourage eligible key employees of Studio of Elegance Inc. (the "Corporation") to continue their efforts to make the Corporation successful, to provide an additional inducement for such employees to remain with the Corporation, and to reward such employees by providing an opportunity to acquire shares of the Common Stock of the Corporation (the "Common Stock") on favorable terms.

SECTION I Administration

The Plan shall be administered by a Committee (the "Committee") appointed by the Board of Directors of the Corporation (the "Board") and consisting of not less than two (2) members of the Board who shall not be eligible to participate in the Plan. These individuals will be appointed and will serve at the pleasure of the Board of Directors.

Subject to the provisions of the Plan and to policies determined by the Board, the Committee shall interpret the Plan and prescribe such rules, regulations and procedures in connection with the operation of the Plan as it shall deem to be necessary and advisable for the administration of the Plan consistent with the purposes of the Plan. All questions of interpretation and application of the Plan, or as to awards under the Plan, shall be subject to the determination of the Committee which shall be final and binding. The Committee shall have the power to correct any defect or omission or reconcile any inconsistency in the Plan to the extent that the Committee deems it necessary to do so.

The Committee shall keep records of action taken. A majority of the Committee shall constitute a quorum at any meeting, and the acts of a majority of the members present at any

meeting at which a quorum is present, or acts approved in writing by all the members of the Committee, shall be the acts of the Committee.

SECTION 2

Eligibility

Those key employees of the Corporation who share responsibility for the management, growth or protection of the business of the Corporation shall be eligible to receive awards of performance units as described herein. Eligible employees must be full time employees. For purposes of this Plan, "full time" shall be defined as an employee who works a minimum of thirty (30) hours per week.

Subject to the provisions of the Plan, the Committee shall have full and final authority, in its discretion, to award performance units as described herein and to determine the employees to whom any such award shall be made and the number of performance units to be covered thereby.

SECTION 3

Award of Performance Units

The Committee shall have authority, in its discretion, to award performance units all as provided herein. Entitlement to the shares for which the performance units shall be exchanged will be spread equally over a ten (10) year period at the rate of ten percent (10%) per year. For example, if Awardee is awarded one thousand (1,000) performance units and the fair market value of each share of stock is ten (\$10.00) dollars, he/she will be awarded one hundred (100) shares of stock. Entitlement to the shares will accrue at the rate of ten (10) shares each year over a ten (10) year period. In order for entitlement to shares to accrue, Awardee must be an active employee in good standing on the date of the annual accrual. Except as otherwise provided hereunder, if Awardee is not an active employee in good standing on the annual accrual date, entitlement to shares not yet accrued shall be forfeited. The shares granted under the Plan will be

evidenced by a Stock Bonus Incentive Agreement between the Corporation and the employee to whom the shares are awarded.

SECTION 4 Performance Units

The Committee shall award performance units based upon the level of performance over a specified period of time by the Corporation, as determined by the Committee. For purposes of the award of performance units, the following definitions shall apply:

1. *"Performance Unit"* shall mean an award expressed in units with respect to a Performance Period which will be exchanged for Common Non Voting B Stock, based upon the fair market value of the stock in the year of the award. For example: if Awardee is awarded 3,000 performance units in the Year 2000, and the fair market value of the shares is \$10 per share for the Year 2000, Awardee will receive 300 shares of stock pursuant to the accrual terms contained in this Plan.
2. *"Performance Period"* shall mean calendar year (January - December) or as otherwise determined by the Committee in its discretion.
3. *"Performance Target"* shall mean that level of performance established by the Committee which must be met in order for performance unit(s) to be awarded as hereinafter set forth. The Performance Target may be expressed in terms of earnings per share, return on assets, asset growth, ratio of capital to assets, increase in gross sales of the salons or such other level or levels of accomplishment by the Corporation as may be established by the Committee at the beginning of each year or revised from time to time.

4. "Performance Minimum" shall mean that in order for the gross sales of a new salon to be considered during the salon's first year of operation, the salon must achieve the following gross sales for that year:

- A. Philip Pelusi Phyto Life Salon.....\$700,000
- B. Advanced Skill Center.....\$300,000
- C. Pelusi 2's.....\$300,000

The aforementioned amounts will be prorated for a partial year based upon a 365-day year.

5. "Gross Sales" shall mean sales of products and services.

6. "Shares" shall mean shares of Class B Common Non-Voting Stock of the Corporation issued in payment of performance units.

At any time prior to the end of a Performance Period, the Committee may adjust downward (but not upward) the Performance Target as a result of major events unforeseen at the time of the award, such as changes in the economy, in the industry or laws affecting the operations of the Corporation or any other event the Committee determines would have a significant impact upon the probability of attaining the previously established Performance Target.

The determination of the number of Performance Units awarded, if any, will be made within a reasonable period of time after the Corporation receives its financial statement for the Performance Period. The determination of the number of shares into which the Performance Units shall be exchanged shall be made within a reasonable period after the receipt by the Corporation of an independent valuation for the Performance Period.

In the event that the fair market value of the shares received by Awardee is double at the end of the fifth year after receipt, Awardee will receive an additional bonus award of 25,000 Performance Units, provided that Awardee is an active employee in good standing at such five-year period. Entitlement to shares pursuant to such bonus award may be spread over a period of years in the sole discretion of the Committee.

Except as provided hereunder, if the employment of an Awardee terminates prior to the close of the Performance Period or prior to an annual share accrual period, the Performance Units and/or shares shall be deemed not to have been earned and/or accrued and shall not be awarded or paid. In the event of death, retirement at age 65, or permanent disability as certified by a licensed physician, entitlement to all shares previously awarded shall immediately accrue and Awardee shall be entitled to all shares awarded.

If an Awardee of Performance Units (i) accepts employment, engages in the operation or management of a business (whether as owner, partner, officer, director, employee or otherwise and whether during or after termination of employment as prohibited by his/her Employment Agreement with the Corporation) which is in competition with the Corporation, (ii) induces or attempts to induce any customer, supplier, or other individual, corporation or other business organization having a business relationship with the Corporation to cease doing business with the Corporation or in any way interferes with the relationship between any such customer, supplier, or other person and the Corporation and/or (iii) solicits any employee of the Corporation to leave their employment with the Corporation or in any way interferes with the relationship of such employee with the Corporation, the Awardee shall be required to sell the shares which he/she received pursuant to this Plan back to the Corporation at their fair market value as of the date of receipt and entitlement to any shares not yet accrued shall be forfeited. Awardee shall have no right, title, and/or interest in or to any shares which are forfeited.

Entitlement to receive shares pursuant to an award of Performance Units shall be evidenced by a written agreement in the form prescribed by the Committee. Entitlement shall be effective only upon execution of the applicable Award Agreement on behalf of the Corporation by the President or any Vice President, and by the Awardee.

SECTION 5

Shares Available Under the Plan

The aggregate number of shares of the Common Stock that may be issued and as to which Performance Units may be exchanged is 3,000,000. These shares are Class B Common Stock Non-Voting shares. These shares may be converted to Class A Voting shares, at Awardee's election, five (5) years after Awardee has received the shares provided that Awardee is an active employee of the Corporation and in good standing at the time of his /her election to convert the shares. If shares of awarded Common Stock are forfeited to the Corporation pursuant to the restrictions stated hereunder, the shares so forfeited shall again be available for purposes of the Plan. To the extent that entitlement to any shares does not accrue, the number of shares covered thereby shall again be available for purposes of the Plan.

The shares which may be issued under the Plan may be either authorized but unissued shares or treasury shares or partly each, as shall be determined from time to time by the Board.

SECTION 6

Equality in Treatment

Awardee shall share, on a prorata basis, in any distributions of the Corporation and, to the extent the Corporation is a Sub S, Awardee shall be responsible for his/her share of Sub S earnings. Upon liquidation or sale, Awardee will be entitled to the same rights as all other Corporate Shareholders and will share in proceeds on a prorata basis.

SECTION 7
Non-Transferability of Awards

The awarded shares are not transferable or assignable by the Awardee.

SECTION 8
Effect of the Plan on the Rights of Employees and Employer

Neither the adoption of the Plan nor any action of the Board or the Committee pursuant to the Plan shall be deemed to give any employee any right to be awarded Performance Units under the Plan. Nothing in the Plan, or in any award of Performance Units under the Plan or in any agreement providing for any of the foregoing shall confer any right on any employee to continue in the employ of the Corporation or interfere in any way with the rights of the Corporation to terminate the employment of any employee at any time, to change his/her compensation at any time, or with the terms of his/her Employment Agreement with the Corporation. At all times, employee shall remain an employee-at-will.

SECTION 9
Withholding

Income, excise or employment taxes may be required to be withheld by the Corporation at the time entitlement to shares accrues. The Corporation will request that the Awardee pay any amount required to be withheld directly to the Corporation in cash or to receive a reduced number of shares based upon each awarded share's fair market value. If so elected by Awardee, the Corporation will reduce the number of the shares to which Awardee is entitled based upon the fair market value of each share and will pay the tax on behalf of Awardee. For example:

assume Awardee is awarded 3000 Performance Units, the fair market value of the shares is \$10 per share, and the tax liability is \$1,000. If Awardee elects to receive fewer shares and have the Corporation pay the taxes, Awardee will receive 200 shares rather than 300 shares and the Corporation will pay the taxes. If an Awardee does not pay any taxes required to be withheld by the Corporation or elect to receive a reduced number of shares within ten (10) days after a request for the payment of such taxes, the Corporation may withhold such taxes from any compensation to which the Awardee is entitled.

SECTION 10 Holding Period

Anything contained in the Plan to the contrary notwithstanding, any disposition of stock otherwise permitted by the terms of the Plan, or of the Common Stock acquired upon accrual, shall be subject to compliance with the requirements of paragraph (c)(1) of Rule 16b-3 promulgated under the Securities Exchange Act of 1934, as amended, applicable to such disposition, and any date, period or procedure specified or referred to in the Plan with respect to any such disposition shall be adjusted, if necessary, so as to give effect to this Section 10.

SECTION 11 Sale of the Company

In the event that the Corporation or substantially all of its assets are sold, all employees who have acquired shares of stock pursuant to an award shall share in the net proceeds of the sale in the same proportion that their shares bear to all of the issued and outstanding shares of the

Corporation. Notwithstanding anything above to the contrary, it shall not be considered a "sale" for purposes of this paragraph in the event that Henry Pelusi purchases the shares owned by Philip Pelusi in the Corporation or Philip Pelusi purchases the shares owned by Henry Pelusi.

SECTION 12 **Buy-Back of Shares**

All shares of stock acquired pursuant to the terms of this Plan are non-transferable. An appropriate legend will be placed on the share certificate(s). In the event of termination of employment, total disability, retirement at age 65 or death (hereinafter collectively referred to as "termination of employment"), the Awardee or his/her Estate must sell and the Corporation shall repurchase any shares which have been acquired. In addition, in the event that an Awardee desires to sell all or a part of the shares which he/she has acquired five years after he/she has acquired such shares, the Corporation shall repurchase such shares provided Awardee is a current employee in good standing. Except as provided hereunder, the price at which the Corporation will repurchase the shares shall be fair market value as of the end of the calendar year immediately preceding the termination of employment or election to sell.

The Awardee or his/her Estate shall tender the shares to the Corporation upon the termination of employment or election to sell the shares. Except in the event of death, permanent disability as certified by a physician retained by the Corporation, or retirement at age 65, the purchase price shall be paid by the Corporation to the Awardee in equal installments over a period of three (3) years commencing within sixty (60) days after the expiration of the covenant

against competition stated in the Awardee's Employment Agreement (if separation of employment) or on the first anniversary following the tendering of the shares (if electing to sell the shares). In the event of death, permanent disability as certified by a physician retained by the Corporation, or retirement at age 65, the purchase price shall be paid by the Corporation in equal installments over a period of eighteen (18) months commencing within sixty (60) days of written notice of such death, permanent disability, or retirement.

Notwithstanding anything above to the contrary, in the event that during the period after the termination of employment or election to sell the shares, the Awardee engages in competition with the Corporation precluded by the Awardee's Employment Agreement with the Corporation, the Awardee shall only receive as the purchase price for the shares the fair market value of the shares as of the date of receipt. This provision shall not be interpreted to limit, in any way, any other recourse which the Corporation may have against the Awardee by virtue of the aforesaid competition.

SECTION 13 **Compliance with Governmental Regulations**

Notwithstanding the other provisions of the Plan, the entitlement to shares will be effective only at such time as Counsel to the Corporation has determined that the issuance and delivery of the shares will not violate any state or federal securities or other laws. An Awardee may be required by the Corporation, as a condition to the effectiveness of any award, to

acknowledge and agree in writing that all shares to be acquired are being acquired for investment and not for resale and will be held for his or her own account without a view to any further distribution, that the certificates for the shares will bear an appropriate legend to that effect, and that the shares will not be transferred or disposed of except in compliance with applicable federal and state laws. The Corporation may, in its sole discretion, defer the effectiveness of any award in order to allow the issuance of the shares to be made pursuant to registration or an exemption from registration or other methods for compliance available under the federal or state securities laws. The Corporation will inform the Awardee in writing of its decision to defer the effectiveness of the award. The Corporation will be under no obligation to effect the registration pursuant to the Securities Act of 1933 of any shares to be issued hereunder or to effect similar compliance under any state laws.

SECTION 14 Headings and Captions

The headings and captions contained in this Plan are for convenience only and may not be utilized to interpret the Plan.

SECTION 15 Amendment

The right to alter and amend the Plan at any time to time and the right to revoke or terminate the Plan are hereby specially reserved to the Board; provided that no such alteration or

amendment of the Plan shall, without stockholder approval, (i) increase the number of shares which may issued under the Plan as set forth in Section 5, or (ii) make any changes in the class of employees eligible to receive awards under the Plan. No alteration, amendment, revocation or termination of the Plan shall, without the written consent of the holder of an outstanding award under the Plan, adversely affect the rights of such holder with respect to such outstanding award.

ATTEST:

STUDIO OF ELEGANCE, INC.



By: 

Its: 

Date: DEC 2ND 1999

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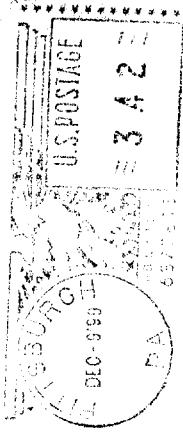
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MAIL

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Director of ERISA Compliance
Department of Labor
200 Constitution Avenue, NW
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