

Edgar Filing: HOME PROPERTIES INC - Form 8-K

HOME PROPERTIES INC  
Form 8-K  
February 16, 2007

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT  
PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

Date of Report (Date of earliest event reported):  
February 14, 2007

HOME PROPERTIES, INC.  
(Exact name of Registrant as specified in its Charter)

MARYLAND	1-13136	16-1455126
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification Number)

850 Clinton Square, Rochester, New York 14604  
(Address of principal executive offices)

(585) 546-4900  
(Registrant's telephone number, including area code)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

ITEM 5.02(c) DEPARTURE OF DIRECTORS OR CERTAIN OFFICERS.

At its recent meeting, the Board of Directors of Home Properties, Inc. (the "Company") nominated the individuals to be presented at the 2007 Annual Stockholders' Meeting for election by the stockholders of the Company. All of the current directors, except for William Balderston, III were nominated for re-election. Mr. Balderston was not nominated because the Company's retirement policy was amended in 2006 to provide for mandatory retirement at age 75, with no exceptions permitted as of the 2007 Annual Stockholders' Meeting. Mr. Balderston is 79 years old.

ITEM 5.02(e) COMPENSATION ARRANGMENTS OF CERTAIN OFFICERS.

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At its recent meeting, the Board of Directors of the Company approved a Base Salary of \$550,000 per annum to be paid to Edward J. Pettinella, the Company's President and Chief Executive Officer, commencing on March 16, 2007 pursuant to the terms of Mr. Pettinella's Employment Agreement with the Company. In addition, the Board approved the amount of the bonus payment to Mr. Pettinella pursuant to the Company's Incentive Compensation Plan for services rendered in 2006. As reported in the proxy statement for the Company's 2006 Annual Stockholders' Meeting, the Board previously set Mr. Pettinella's bonus factor under the plan at 13%. At its recent meeting, the Compensation Committee of the Board of Directors determined that the application of the formula under the Incentive Compensation Plan resulted in a pay-out of 10.07 bonus units for all participants in the plan. The entire amount of the bonus payable to the Chief Executive Officer of the Company is discretionary with the Compensation Committee to make a recommendation to the Board as to what portion of the bonus should be paid. The Compensation Committee recommended and the full Board approved the payment of 100% of the 2006 bonus to Mr. Pettinella. This will result in a bonus being paid to Mr. Pettinella in the amount of \$680,459.20 on or about February 21, 2007.

In addition, pursuant to a Development Agreement, dated March 27, 2006 between Nelson B. Leenhouts and the Company, Mr. Leenhouts, who is the Co-Chairman of the Board of Directors of the Company, was to be paid a bonus of up to \$150,000 upon the achievement of certain objectives specified in the Agreement. Mr. Pettinella, as Chief Executive Officer of the Company recommended to the Compensation Committee that the full amount of the bonus be paid and the Compensation Committee made the same recommendation to the Board of Directors. At its recent meeting, the Board of Directors approved the payment of a \$150,000 bonus to Mr. Leenhouts pursuant to the terms of the Development Agreement. Mr. Leenhouts will therefore be paid a bonus of \$150,000 on or about February 21, 2007.

The Development Agreement by its terms expired on December 31, 2006, as did an Employment Agreement dated October 28, 2003 between the Company and Nelson Leenhouts. Management determined that it would like Mr. Leenhouts to remain an employee of the Company for an additional year in order to lead the Company's development activities. The Board of Directors, at its recent meeting, therefore approved the terms of an Employment Agreement with Mr. Leenhouts and authorized Mr. Pettinella, as Chief Executive Officer, and Clifford Smith, as Chair of the Compensation Committee to execute an Employment Agreement with Mr. Leenhouts. The Employment Agreement is retroactive to January 1, 2007 as Mr. Leenhouts has been performing the duties specified in the agreement since that date. The base salary to be paid to Mr. Leenhouts for the period from January 1, 2007 to December 31, 2007 is \$300,000. In addition, Mr. Leenhouts is to be paid a bonus of up to \$350,000 upon the achievement of certain specified objectives. A copy of the Employment Agreement is attached as an exhibit and its terms are incorporated by reference into this Form 8-K.

Finally, the Board of Directors waived the application of the mandatory deferral component of the Company's Incentive Compensation Plan with respect to the bonus to be paid to all participants, including the Chief Executive Officer and the other executive officers, for services rendered in 2006. The Board of Directors also approved an amendment to the Incentive Compensation Plan to eliminate the mandatory deferral provisions from the Plan for future bonus payments. The mandatory deferral provision of the Plan provided that participants that were assigned a bonus factor of 3% and higher would be subject to a mandatory deferral of all amounts earned in excess of eight bonus units. A copy of the Company's Second Amended and Restated Incentive Compensation Plan is attached as an exhibit.

ITEM 9.01. FINANCIAL STATEMENTS AND EXHIBITS.

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### c. Exhibits

Exhibit 10.1 Employment Agreement between Nelson B. Leenhouts and Home Properties, Inc.

Exhibit 10.2 Second Amended and Restated Incentive Compensation Plan

### SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: February 16, 2007

HOME PROPERTIES, INC.  
(Registrant)

By /s/ David P. Gardner  
David P. Gardner, Executive Vice President  
and Chief Financial Officer

EXHIBIT 10.1

### EMPLOYMENT AGREEMENT

This Employment Agreement (this "Agreement") is made and entered into by and among Home Properties, L.P., a New York limited partnership (the "Company"), Home Properties, Inc., a Maryland corporation ("HME") and Nelson B. Leenhouts, an individual (the "Employee").

WHEREAS, the Company and the Employee desire to enter into an Employment Agreement to formalize the terms pursuant to which the Employee will continue to be employed by the Company.

NOW, THEREFORE, in consideration of the mutual promises, benefits and covenants herein contained, the parties hereby agree as follows:

#### 1. Definitions.

"Affiliate" means any person, corporation, company, partnership or other legal entity, which controls, is controlled by or is under common control with the Company.

"Board of Directors" means the Board of Directors of Home Properties, Inc.

"Development Business" means the creation, operation and maintenance of a development department within the Company and its Affiliates as outlined in the Development Plan (hereinafter defined).

"Development Plan" means the Development Plan and Development Proforma attached hereto as Exhibit A and made a part hereof.

2. Term. This Agreement will be effective on January 1, 2007 ("the Commencement Date") and shall terminate on December 31, 2007 (the "Expiration Date") unless terminated sooner in accordance with Section 5 of this Agreement.

3. Duties. During the term of this Agreement, subject to the direction and

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control of the President and Chief Executive Officer of HME, Employee is responsible for fostering all activities reasonably contemplated in the Development Plan including, but not limited to: (a) creating, staffing and leading a development department (the "Development Department") and the undertaking by such Development Department of the activities outlined in the Development Plan; (b) focusing on the key financial objectives (investments/yields) included in the Development Plan; and (c) managing the budget for the Development Department to be consistent with the budget included in the Development Plan. The Employee shall devote substantially all of his business time to the interests and business of the Company, HME and their subsidiaries and affiliates except during vacation periods, periods of illness and other absences beyond his control.

#### 4. Compensation, Benefits and Expenses.

4.1 Base Salary. The Base Salary to be paid to the Employee under this Agreement shall be \$300,000.

4.2 Bonus. The Employee shall receive a bonus ("Bonus") of up to \$350,000 payable within sixty (60) days after December 31, 2007 upon achievement of the following objectives on or before that date. Achievement of the following objectives shall be determined at the sole discretion of the Chief Executive Officer of the Company after consultation with the Compensation Committee of the Board of Directors.

(a) \$70,000 payable if the actual Net FFO Contribution of development activities for the year 2007 exceeds the budgeted Net FFO Contribution for development activities for the year 2007 set forth in the Development Proforma set forth in Exhibit A.

(b) \$122,500 payable if approval of the project plan for the redevelopment of Falkland Chase are received from Montgomery County

(c) \$70,000 payable if the Company acquires two or more development sites where substantially all of the zoning and other approvals are in place at the time of purchase. These development sites can include the sites at 1200 East-West Highway and Huntington Metro.

(d) \$70,000 payable if the Company acquires one or more development sites where the zoning and other approvals are not in place at the time of purchase.

(e) \$17,500 if the Company's Board of Directors approves the Development Plan substantially in the form attached hereto as Exhibit A.

The Base Salary and Bonus shall be paid pursuant to the Company's standard payroll policies and shall be subject to withholding or deductions as may be mutually agreed between the Company and Employee or required by law.

4.3 Fringe Benefits. During the period of the Employee's employment, the Company shall provide the Employee with such fringe benefits as shall be determined by the Compensation Committee, provided such fringe benefits shall be no less favorable than those provided to other senior executives of the Company, HME or their subsidiaries or affiliates.

4.4 Expenses. During the term of this Agreement, the Company authorizes the Employee to incur reasonable and necessary expenses in the course of performing his duties and rendering services under this Agreement, and the Company shall reimburse the Employee for all such expenses within 30 days after the Employee renders to the Company an account of such expenses and such other substantiation as the Company may reasonably request. At the Company's corporate office, the Company shall provide the Employee with an office, office equipment and appropriate clerical support to discharge Employee's duties under this

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Agreement.

### 5. Termination.

5.1 Termination. This Agreement may be terminated by the Company (after approval by the Chief Executive Officer) at any time, with or without "Cause," or by the Employee at any time, with or without "Good Reason."

5.2 Definition of Cause. As used herein, "Cause" shall be determined by the Chief Executive Officer in the reasonable and good faith exercise of his discretion, and shall mean: (a) dishonest or fraudulent actions by the Employee in the conduct of his duties for the Company or the conviction of the Employee of a felony; (b) death of the Employee; (c) a material failure by the Employee to devote substantially all of his business time to the business of the Company; (d) a material failure by the Employee to follow the Company's good faith instructions and directives that is not cured by the Employee within 60 days after receiving notice; (e) unreasonable and material neglect, refusal or failure by the Employee to perform the duties assigned to him that is not cured by the Employee within 30 days after receiving notice; (f) the Employee's material breach of this Agreement that is not cured by the Employee within 30 days after receiving notice; (g) the Employee's material breach of any portion of Section 7 of this Agreement; (h) the Employee's breach of the Code of Business Conduct and Ethics of Home Properties, Inc. and its Affiliated Companies and/or the Company's Code of Ethics for Senior Financial Officers (the "Code of Ethics"); (i) any other act or omission which subjects the Company, HME or their subsidiaries or affiliates to substantial public disrespect, scandal or ridicule; (j) any governmental regulatory agency recommends or orders that the Company terminate the employment of the Employee or relieve him of his duties; or (k) any physical or mental disability of the Employee that prevents him from performing his duties for 60 consecutive days or for an aggregate of 90 days in any 12-month period.

5.3 Definition of Good Reason. As used herein, "Good Reason" shall mean: (a) a material breach of this Agreement by the Company or HME that is not cured within 30 days after receiving notice of such breach, with the determination as to whether there has been a breach and whether the breach is material to be determined by the Chief Executive Officer in the reasonable and good faith exercise of his discretion; or (b) any requirement by the Company that the Employee relocate to a principal place of business outside of the Rochester, New York metropolitan area.

5.4 Termination for Cause or Without Good Reason. In the event that: (a) the Company terminates this Agreement for Cause; or (b) the Employee resigns or terminates without Good Reason, then the Employee's rights to receive any payments and benefits pursuant to this Agreement shall, effective upon the date of termination, terminate in all respects, except that the Company shall pay to the Employee any payments and benefits hereunder that are accrued and unpaid up to such date (which amount shall not include any Bonus and shall reimburse the Employee for any expenses incurred as of such date pursuant to Section 4.4 of this Agreement).

5.5 Termination Without Cause or for Good Reason. In the event that (a) the Company terminates this Agreement for any reason other than for Cause, or (b) the Employee resigns or terminates with Good Reason, then the Company shall pay to the Employee any payments and benefits hereunder that are accrued and unpaid up to, shall reimburse the Employee for any expenses incurred pursuant to Section 4.4 of this Agreement prior to, the date of termination and shall promptly pay to the Employee the full amount of the Bonus as described in Section 4.2 hereof whether or not earned at the time of termination.

5.6 Termination Following A Change of Control. In the event of a "Change of Control" as defined in the Company's Executive Retention Plan (including any and

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all amendments thereto) (the "Retention Plan") and a subsequent termination of the Employee's employment by the Company or by the Employee for good cause as defined in the Executive Retention Plan, the benefits to be paid to the Employee upon such a termination shall be two times the Employee's Base Salary, two times the amount of the Employee's Bonus earned prior to the termination and the Gross-Up Amount (as defined in the Executive Retention Plan).

5.7 Definition of Termination. For the purpose of any payments or reimbursements to be made, or any benefits to be continued, by the Company to the Employee under this Section 5 as a result of the Employee's termination, "termination" shall mean a "separation of service" (as such term is defined in Section 409A of the Internal Revenue Code of 1986, as amended (the "Code")).

5.8 Delay or Reduction of Payments, Reimbursements and Benefits.

5.8.1 Section 409A of the Code. Notwithstanding any provision of this Section 5 to the contrary, if the Employee is a "specified employee" (as such term is defined in Section 409A of the Code) at the time of his termination, then, to the extent necessary to prevent any excise tax to the Employee under Section 409A of the Code: (a) any payments or reimbursements that would otherwise be made by the Company pursuant to this Section 5 before the first day of the seventh month following the Employee's termination instead shall be accumulated and paid on the first day of the seventh month following the Employee's termination; and (b) if any of the benefits that would otherwise be provided by the Company pursuant to this Section 5 before the first day of the seventh month following the Employee's termination are treated as deferred compensation for purposes of Section 409A of the Code, then the Employee shall bear the full cost of such benefits during such period, and the Company shall reimburse the Employee for any out-of-pocket costs so incurred on the first day of the seventh month following the Employee's termination. This Section 5.8 is intended to delay payments, reimbursements and benefits to the Employee following termination only if such delay is required by Section 409A of the Code, and shall be construed accordingly. Unless necessary to prevent any excise tax to the Employee under Section 409A of the Code, this Section 5.8 shall not apply in the event of the Employee's termination as a result of his death or his disability (if such disability qualifies as a "disability" for purposes of Section 409A of the Code).

5.8.2 Section 162(m) of the Code. To the extent that any payment to be made to the Employee under this Section 5 would be non-deductible by the Company as a result of the \$1 million compensation limit provisions of Section 162(m) of the Code, then such payment shall not be made to the Employee at that time, but shall instead, to the extent permissible under Section 409A of the Code, be deferred and paid without interest to the Employee in the first month of the taxable year in which such amount is fully deductible by the Company under Section 162(m) of the Code.

5.8.3 Section 280G of the Code. In the event that payments and the value of any benefit received or to be received by the Employee would result in all or a portion of such payment being subject to excise tax under Section 4999 of the Code (the "Excise Tax"), then the Employee's payment shall be either (a) the full payment or (b) such lesser amount that would result in no portion of the payment being subject to the Excise Tax, whichever of the foregoing amounts, taking into account the applicable federal, state, and local employment taxes, income taxes, and the Excise Tax, results in the receipt by the Employee, on an after-tax basis, of the greatest amount of the payment notwithstanding that all or some portion of the payment may be taxable under Section 4999 of the Code. All determinations required to be made under this Section 5.8.3 shall be made by the nationally recognized accounting firm which is the Company's outside auditor immediately prior to the event triggering the payments that are

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subject to the Excise Tax, which firm must be reasonably acceptable to the Employee (the "Accounting Firm"). The Company shall cause the Accounting Firm to provide detailed supporting calculations of its determinations to the Company and the Employee. Notice must be given to the Accounting Firm within 15 business days after an event entitling the Employee to a payment under this Section 5. All fees and expenses of the Accounting Firm shall be borne solely by the Company. The Accounting Firm's determinations must be made with substantial authority (within the meaning of Section 6662 of the Code).

5.9 No Voluntary Adverse Assistance. The Employee agrees that he will not voluntarily assist any other person in preparing, bringing, or pursuing any litigation, arbitration, administrative claim or other formal proceeding against the Company, HME or their subsidiaries or affiliates, or their officers, directors, employees or partners unless pursuant to subpoena or other compulsion of law.

6. Notices. Any notices or other communications under this Agreement shall be in writing and shall be given by personal delivery or by a nationally recognized overnight delivery service, and shall be deemed given when personally delivered, or on the next business day following delivery to a nationally recognized overnight delivery service: (a) if to the Employee, addressed to his last address on record with the Company; and (b) if to the Company, addressed to: Home Properties, L.P., 850 Clinton Square, Rochester, NY 14604, Attn: Edward Pettinella and Ann McCormick; or to such other address or addresses as either party shall have specified in writing to the other party hereto.

7. Covenants as to Confidential Information and Non-Compete.

7.1 Non-Compete. The Employee recognizes that by virtue of his status as an employee and a member of the Board of Directors, he is obligated to uphold his fiduciary and other obligations to the Company and HME, and to comply with all of the restrictions set forth in the Code of Ethics, which is incorporated herein by reference. The Employee acknowledges and agrees that he will fully and faithfully abide by the Code of Ethics for so long as he is an employee and/or a member of the Board of Directors. In addition, the Employee acknowledges and recognizes the highly competitive nature of the Company's business and agrees that during the term of this Agreement, in the event this Agreement is terminated for any reason other than with Cause or without Good Reason, the Employee will not, directly or indirectly, without the written consent of the Real Estate Investment Committee of the Board of Directors, own, manage, operate, control, be employed by, or participate in or be connected with any entity owning or having financial interest in, whether direct or indirect, a business entity which is in the business of owning, operating, acquiring, developing or otherwise dealing in Market-Rate (as subsequently defined) multifamily residential real properties in the United States and Canada, except as described below. In addition, in the event this Agreement is terminated for Cause or without Good Reason then, for one year after the termination of this Agreement, the Employee will not, directly or indirectly, without the written consent of the Real Estate Investment Committee of the Board of Directors, own, manage, operate, control, be employed by, or participate in or be connected with any entity owning or having financial interest in, whether direct or indirect, a business entity which is in the business of owning, operating, acquiring, developing or otherwise dealing in Market-Rate multifamily residential real properties in the United States and Canada, except as described below. A property shall be deemed "Market-Rate" if there is no project-based governmental assistance for residents of the property, if there is no government subsidized interest rates that apply to the financing for the property and if no interests in the entity owning the property have been sold to a third party for purposes of that party acquiring tax credit benefits. The above restrictions shall not be violated if and to the extent that the Employee owns, manages, operates, controls, is employed by or participates in or is connected with any entity

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owning or having a financial interest in a business entity which owns, operates, acquires, develops or otherwise deals in any multifamily residential real property consisting of: (a) 50 or fewer apartment units wherever located; (b) 200 or fewer apartment units if the property is located in a state in which the Company does not own real property at the time that the acquisition or transaction occurs, or if the property is located in Upstate New York; and/or (c) to the extent that the Employee's interest in any entity consists of less than a 5% limited partnership interest in the case of a partnership and less than 5% of the outstanding vesting shares in the case of a corporation in all cases so long as such ownership, management, operation or control does not violate the Code of Ethics.

7.2 Confidential Information. In addition to the obligations of confidentiality as set forth in the Code of Ethics, the Employee recognizes and acknowledges the existence of confidential business matters, trade secrets, and proprietary information of the Company and HME, including but not limited to customer lists sales, products, markets, inventions, marketing strategies and plans, research, practices, procedures, current and planned corporate strategies, strategic customers and business partners, and the identity, skills and interest of its employees, which matters are valuable, special, and unique assets of the Company's and HME's business. The Employee shall not, during or after the term of employment with the Company, disclose the Company's or HME's confidential business matters to any person, firm, corporation, partnership, association or other entity for any reason or purpose whatsoever, without the prior written consent of the Board of Directors, except as required by law or pursuant to legal process.

7.3 Remedies for Breach of this Section 7. The Employee further acknowledges that (a) compliance with all of this Section 7 is necessary to protect the Company's and HME's business and goodwill; (b) a breach of this Section 7 will irreparably and constitutionally damage the Company and HME; and (c) an award of money damages will not be adequate to remedy such harm. Consequently, the Employee agrees that, and in addition to other remedies, in the event he breaches or threatens to breach any of these covenants, the Company and HME shall be entitled to both: (1) a preliminary or permanent injunction to prevent the continuation of such harm; and (2) money damages, insofar as they can be determined, including, without limitation, all reasonable costs and attorneys' fees incurred by the Company and/or HME in the enforcement of the provision.

7.4 Enforceability. The Employee acknowledges and agrees that the provisions of this Agreement are reasonable and necessary for the protection of the Company and HME. If, however, a final judicial determination is made by a court having jurisdiction that the time or territory or any other restriction contained in Section 7.1 of this Agreement is an unreasonable or otherwise unenforceable restriction against the Employee, the provisions of Section 7.1 of this Agreement shall not be rendered void, but rather shall be deemed amended to apply as to the maximum time and territory and to the other extent as this court may judicially determine or indicate to be reasonable.

8. Breach of Agreement. Each party agrees to indemnify and hold harmless the others from and against any loss, liability, damages, judgments, suits, costs or expenses (including the costs of investigating and enforcing each party's rights under this Agreement and attorneys' fees and expenses) relating to or arising from any breach by any party of the terms of this Agreement.

9. Section 409A of the Code. To the extent applicable, it is intended that this Agreement comply with the provisions of Section 409A of the Code. This Agreement shall be construed and administered in a manner consistent with this intent, and any provision that would cause this Agreement to fail to satisfy Section 409A of the Code shall have no force and effect unless and until such provision is amended to comply with Section 409A of the Code (which amendment

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may be retroactive to the extent permitted by Section 409A of the Code and may be made by the Company without the consent of the Employee). Any amendment to the timing and receipt of any payment or benefit provided hereunder shall be effected in a manner that is intended to be in compliance with Section 409A of the Code. Any reference in this Agreement to Section 409A of the Code will also include any proposed, temporary or final regulation, or any other guidance, promulgated with respect to such section by the U.S. Department of the Treasury or the Internal Revenue Service.

10. Governing Law. ALL QUESTIONS PERTAINING TO THE VALIDITY, CONSTRUCTION, EXECUTION AND PERFORMANCE OF THIS AGREEMENT SHALL BE CONSTRUED IN ACCORDANCE WITH, AND BE GOVERNED BY, THE LAWS OF THE STATE OF NEW YORK WITHOUT REFERENCE TO ITS PRINCIPLES OF CONFLICTS OF LAW.

11. Entire Agreement. This Agreement and the benefit plans referred to herein constitute the entire agreement of the parties hereto with respect to the matters contained herein, and no modification, amendment or waiver of any of the provisions of this Agreement shall be effective unless in writing and signed by each of the parties hereto. No failure to exercise any right or remedy hereunder shall operate as a waiver thereof. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective heirs, representatives, successors and assigns.

12. Headings. The section and subsection headings contained in this Agreement are for reference purposes only and shall not affect the construction or interpretation of this Agreement.

13. Counterparts. This Agreement may be executed in several counterparts, and all counterparts so executed shall constitute one agreement, binding on the parties hereto, notwithstanding that both parties are not signatory to the original or the same counterpart.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the respective dates set forth below, effective as of the latest such date.

HOME PROPERTIES, L.P.  
By: Home Properties, Inc.  
Its: General Partner

Date: February 15, 2007

By: /s/ Edward J. Pettinella  
Edward J. Pettinella  
President and Chief Executive Officer

HOME PROPERTIES, INC.

Date: February 16, 2007

By: /s/ Clifford W. Smith, Jr.  
Clifford W. Smith, Jr.  
Chair of Compensation  
Committee of the Board of Directors

Date: February 16, 2007

By: /s/ Nelson B. Leenhouts  
Nelson B. Leenhouts

HOME PROPERTIES, INC. SECOND AMENDED AND RESTATED  
INCENTIVE COMPENSATION PLAN

PURPOSES OF THE PLAN.

The purposes of this Second Amended and Restated Incentive Compensation Plan (the "Plan") are to enable Home Properties, Inc. (the "Company") and its Subsidiary to attract and retain the services of key employees and persons with managerial, professional or supervisory responsibilities and to provide them with increased motivation and incentive to achieve and exceed prior performance as a basis for increased stockholder return and value.

GENERAL PROVISIONS.

2.1 Definitions. As used in the Plan:

- (a) "Board of Directors" means the Board of Directors of the Company.
- (b) "Bonus Units" means the number calculated as described in Section 3.3(a) which is multiplied by a Participant's Bonus Factor to determine the percentage of a Participant's base salary that is to be paid to the Participant as incentive compensation.
- (c) "Committee" means the Compensation Committee of the committee appointed by the Board of Directors.
- (d) "Common Stock" means the Company's Common Stock, \$.01 par value.
- (e) "Company" means Home Properties, Inc. and any of its affiliates, predecessors or successors.
- (f) "Funds from Operation" or "FFO" means income (loss) before gains (losses) from the sale of property plus certain non-cash items, primarily depreciation and amortization, as such term is defined by the National Association of Real Estate Investment Trusts ("NAREIT") and applied by the Company in its quarterly earnings press release.
- (g) "Net Operating Income" or "NOI" means the Company's reported rental income and property other income less operating and maintenance expenses.
- (h) "Operating FFO" means FFO adjusted for purposes of the bonus calculation in order to remove certain non-recurring items from published FFO as follows: (i) losses and/or impairment charges on the sale of real estate will be excluded; (ii) prepayment penalties incurred in connection with the sale of real estate will be considered a reduction to the gain (loss) incurred and not a separate financing transaction; (iii) issuance costs associated with preferred share redemptions will be excluded; and (iv) such additional adjustments as deemed necessary and approved by the Committee.
- (i) "Operating FFO per share" means: (i) Operating FFO during a Plan Year divided by: (ii) the average number of outstanding shares and securities convertible into Common Stock (on an as-converted basis) during the Plan Year.

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- (j) "Participant" means each full-time employee of the Company and its Subsidiary, provided that employees participating in the Property Management Incentive Plan are not eligible to participate in this Plan except for Regional Property Managers and Regional Vice Presidents, who will receive 10% and 20%, respectively, of their total calculated incentive compensation awards under this Plan.
- (k) "Participant Bonus Factor" means the percentage applied to a Participant's base salary, which shall range from 1% to 13%.
- (l) "Plan Year" shall be the fiscal year of the Company.
- (m) "Subsidiary" means Home Properties, L.P.

### 2.2 Administration of the Plan.

- (a) The Plan shall be administered by the Committee. The Board of Directors may from time to time remove members from, or add members to, the Committee. Vacancies on the Committee, howsoever caused, shall be filled by the Board of Directors. The Committee shall select one of its members as Chairman, and shall hold meetings at such times and places as it may determine.
- (b) The Committee shall have the full power, subject to and within the limits of the Plan, to: (i) interpret and administer the Plan and any incentive compensation under it; (ii) make and interpret rules and regulations for the administration of the Plan and to make changes in and revoke such rules and regulations (and in the exercise of this power, shall generally determine all questions of policy and expediency that may arise and may correct any defect, omission, or inconsistency in the Plan); (iii) determine who shall be Participants for any Plan Year; and (iv) generally, exercise such powers and perform such acts in connection with the Plan as are deemed necessary or expedient to promote the best interests of the Company. The interpretation and construction by the Committee of any provisions of the Plan shall be final, binding and conclusive.
- (c) The Committee may act only by a majority of its members then in office; however, the Committee may appoint such agents, who need not be members of the Committee, as it may deem necessary for the effective performance of its duties, and may delegate to such agents such powers and duties as the Committee may deem appropriate.
- (d) No member of the Committee shall be liable for any action taken or omitted to be taken or for any determination made by him or her in good faith with respect to the Plan, and the Company shall indemnify and hold harmless each member of the Committee against any cost or expense (including counsel fees) or liability (including any sum paid in settlement of a claim with the approval of the Committee) arising out of any act or omission in connection with the administration or interpretation of the Plan, unless arising out of such person's own fraud or bad faith.

### 2.3 Effective Date.

The Plan shall become effective upon its adoption by the Board of Directors.

## 3. INCENTIVE AWARDS.

### 3.1 Establishment of Participation Levels.

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Prior to the beginning of each Plan Year, the Committee shall establish the Participant Bonus Factor for each Participant.

### 3.2 Calculation of Bonus Units Earned.

- (a) The number of Bonus Units to be awarded for services rendered in each Plan Year shall be based on two performance measures: (i) the percentage of growth in the Company's Operating FFO per share from the previous Plan Year; and (ii) the percentage of growth in same store NOI from the previous Plan Year as compared to the Company's industry peers. Initially, the FFO component is to receive 75% weighting and the NOI component is to receive 25% weighting. The Committee will review the weighting of the components on an annual basis and may amend it in its discretion. Bonus Units earned given varying percentages of growth are shown below:

Funds from Operations (FFO)			Same Store NOI		
% Growth	Bonus Unit	75%	% Growth	Bonus Unit	25%
-2%	4.00	3.00	-2%	4.00	1.00
-1%	4.50	3.38	-1%	4.50	1.13
0%	5.00	3.75	0%	5.00	1.25
1%	6.00	4.50	1%	6.00	1.50
2%	7.00	5.25	2%	7.00	1.75
3%	8.00	6.00	3%	8.00	2.00
4%	9.00	6.75	4%	9.00	2.25
5%	10.00	7.50	5%	10.00	2.50
6%	11.00	8.25	6%	11.00	2.75
7% and above	12.00	9.00	7% and above	12.00	3.00

- (b) In the event that the Company experiences FFO growth and/or relative NOI same store growth less than minus 2% or greater than 7%, the Committee has complete discretion in determining Bonus Unit award levels that it will recommend for the Board's approval. The Committee will consider various factors, including economic conditions, the Company's performance relative to its industry peers and the occurrence of any extraordinary events in making its determination.

### 3.3 Calculation and Payment of Incentive Compensation.

- (a) A Participant's bonus award equals the Participant's Base Salary multiplied by the product (expressed as a percentage) of the Participant's Bonus Factor and the Bonus Units earned plus or minus performance factors.
- (b) The entire amount of the bonus payable to the Chief Executive Officer is discretionary with the Committee making a recommendation to the full Board as to which portion of the bonus should be paid. Management of the Company is authorized to determine the portion of the bonus to be paid to other Participants provided that each Participant is entitled to receive at least 50% of the calculated bonus. Factors to be considered in determining the percentage to be paid include the Participant's performance, the results of the Participant's department and the Participant's relative influence on the Company's performance.
- (c) Incentive compensation shall be calculated as soon as practicable after the end of the Plan Year, and all incentive compensation shall

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be paid prior to the end of the first fiscal quarter of the following Plan Year. The Company's obligations under this Plan shall be subject to applicable federal, state and local tax withholding requirements. Federal, state and local withholding tax due at the time of payment of incentive compensation required to be withheld by the Company may be deducted from any payment of any kind otherwise due to each Participant.

### 3.4 Bonus Deferrals.

Participant's having been assigned a Participant Bonus Factor of 3% and higher and who are designated as "highly compensated" as defined in Section 414(q) of the Internal Revenue Code may participate in the Company's Deferred Bonus Plan.

### 3.5 Termination of Employment.

If a Participant's employment terminates prior the payment date of a bonus award for any reason other than retirement, death or disability, such Participant shall not be entitled to receive any incentive compensation. Participants must be employed on the date of the award payment to receive a payment for the prior Plan Year. If a Participant's employment terminates during any Plan Year by reason of retirement, death or disability, such Participant or such Participant's legal representative shall receive any incentive compensation with respect to such Plan Year pro rated for the portion of the Plan Year during which Participant was an employee. Incentive compensation to be paid to any Participant who becomes an employee during a Plan Year also shall be pro-rated based on the portion of the Plan Year during which the Participant was an employee.

## 4. MISCELLANEOUS PROVISIONS.

### 4.1 Non-Transferability.

No right to receive any incentive compensation shall be transferable except by will or the laws of descent and distribution. Any purported transfer contrary to this provision will be null and void and without effect.

### 4.2 No Right to Employment.

Neither the adoption of the Plan nor its operation, nor any document describing or referring to the Plan, or any part thereof, nor the designation of any employee as a Participant in the Plan shall confer upon any Participant under the Plan any right to continue in the employ of the Company or any Subsidiary, or shall in any way affect the right and power of the Company or any Subsidiary to terminate the employment of any Participant at any time with or without assigning a reason therefor, to the same extent as might have been done if the Plan had not been adopted.

### 4.3 Exclusion from Pension Computations.

By acceptance of any incentive compensation under the Plan, the recipient shall be deemed to agree that any compensation paid hereunder will not be taken into account as "base remuneration", "wages", "salary" or "compensation" in determining the amount of any contribution to or payment or any other benefit under any pension, retirement, incentive, profit-sharing or deferred compensation plan of the Company or any Subsidiary.

### 4.4 Interpretation of the Plan.

Headings are given to the sections of the Plan solely as a convenience to

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facilitate reference, such headings, numbering and paragraphing shall not in any case be deemed in any way material or relevant to the construction of the Plan or any provision hereof. The use of the masculine gender shall also include within its meaning the feminine. The use of the singular shall also include within its meaning the plural and vice versa.

### 4.5 Construction of Plan.

The place of administration of the Plan shall be in the State of New York, and the validity, construction, interpretation, administration and effect of the Plan and of its rules and regulations, and rights relating to the Plan, shall be determined solely in accordance with the laws of the State of New York.

Approved by Board of Directors

February 14, 2007