



Michael P. Jewer
& Associates, Inc.

Hoss's Steak & Sea House, Inc. Employee Stock Ownership Plan (ESOP)



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Michael P. Jewer
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Employee

Stock

Ownership

Plan



Retirement Plan

Invests primarily
in company
stock.

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What is an ESOP? For starters, the letters E, S, O, P stand for Employee Stock Ownership Plan. An Employee Stock Ownership Plan is a qualified retirement plan much like a Profit Sharing Plan or 401(k), the main difference is that within an ESOP the primary investment is the stock of the employer.

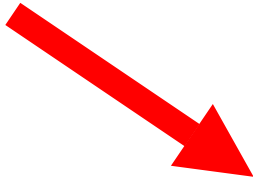
Some of you may have heard of ESOPs and perhaps some of you may have even been a participant in an ESOP with a previous employer.

Hoss's is pleased to be offering participation in its ESOP as a benefit to all eligible employees.

THE EVOLUTION OF ESOP's (Early 1970's)

What Congress Observed was Happening

United States
Competitiveness
Declining



Concentration
of Wealth



Americans Not Saving
Enough for Retirement



ESOPs are not new; in fact, they have been around longer than the 401(k) plan. During the early 1970s, among other concerns, Congress was worried about a declining competitiveness of the U.S. economy and the economies of other nations. Congress also began to realize that Americans were not saving enough towards their own retirement...seems like nothing has changed in over 30 years. Additionally, leaders on Capital Hill were concerned with what they viewed as a concentration of wealth among a few – “the owners.” As a result they were looking for ways to affect U.S. productivity, help Americans save more for retirement and create an “ownership culture.” Actually I stole the term “ownership culture” from President George W. Bush who uses it quite frequently. While he has been more focused on home ownership and entrepreneurial undertaking, it is a concise description of one of the benefits leaders in the 70's were going for when they created the ESOP.

Congress had to figure out how to answer their concerns so they turned to business owners.

THE EVOLUTION OF ESOP's (Early 1970's)

What Congress Wanted to Happen

More People With an
Ownership Stake



Spread the
Wealth



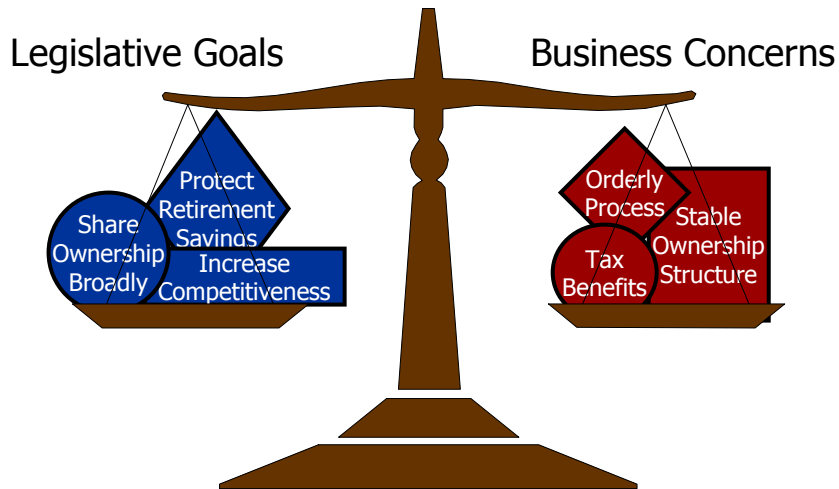
Americans Saving
More for retirement





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Legislative Balance

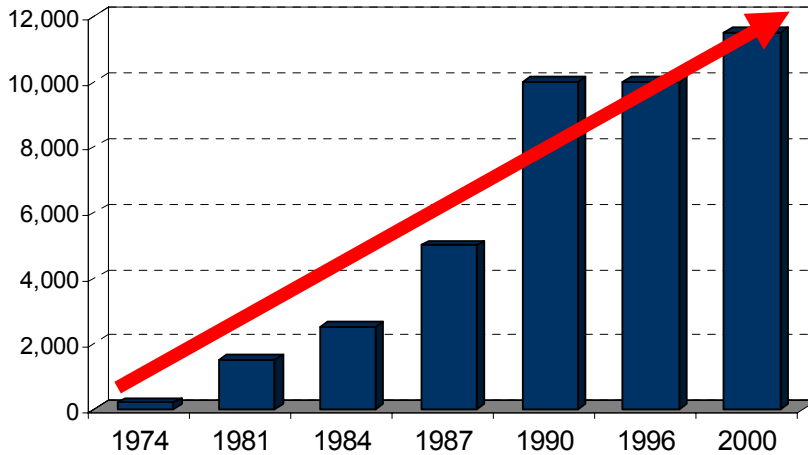


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Business owners were concerned with some of their own issues. For one, they wanted more tax benefits from the Congress. And when it came to succession planning for their businesses, owners were concerned with maintaining the stability of their company and having an orderly process in place for exit.

Surely, this was a fit. Congress could provide the business owner with an orderly exit strategy from ownership, while maintaining a stable ownership structure so the company could continue and excel. Owner(s) would willingly give their employees an ownership stake in the business, whereby employee/owners would naturally desire to be more efficient and productive since they would share in the results of the company's earnings and/or increased value. The tax benefits the Congress would provide to business owners that sold stock to their employees would make selling to the ESOP more enticing to the owners.

ESOP COMPANIES IN THE UNITED STATES

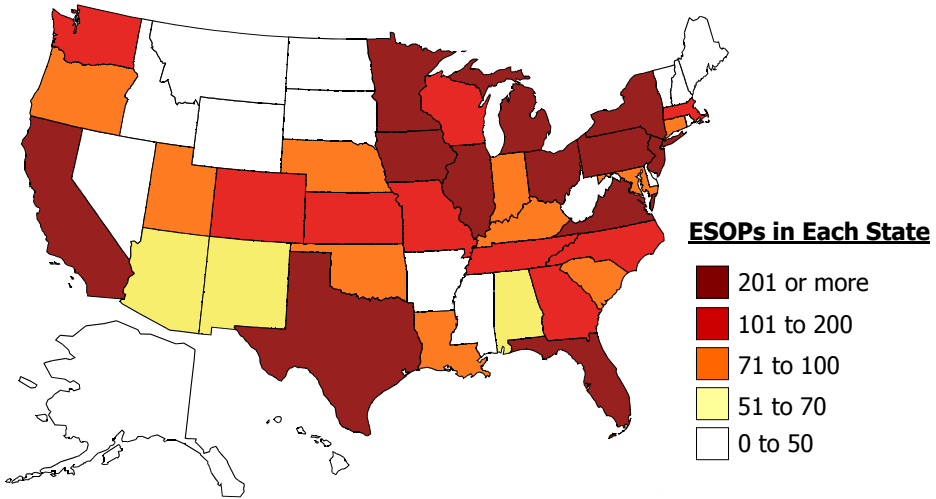


Since 1974, ESOPs have grown in number within the U.S. Clearly this is not something that every company does, nor should they. It takes a certain kind of company to make an ESOP work. ESOPs tend to work great within businesses that view their operation more like a family, like Hoss's. Today there are over 12,000 ESOP owned companies within the United States. Within the last ten (10) years the number of ESOPs in the U.S. has grown by 300%.



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United States



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In Pennsylvania alone there are more than 200 ESOP owned companies today and that number is growing each year.

ESOP Must Follow the Same Rules as Other Retirement Plans



IRS

Ensures companies only receive tax benefits when the ESOP's are run equitably and fairly.

DEPT. OF LABOR



Ensures that employees receive a fair benefit from the ESOP.

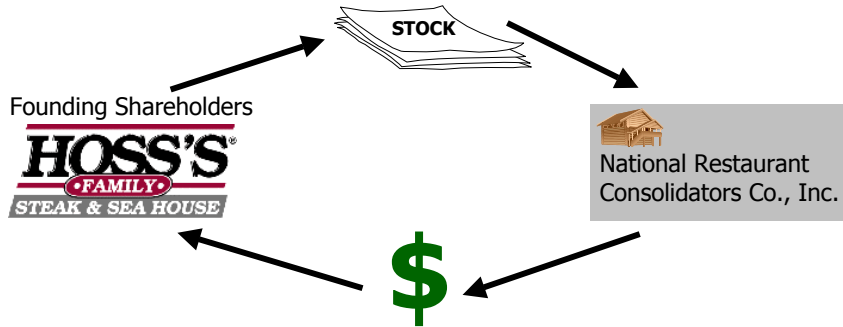
As we said at the beginning, an Employee Stock Ownership Plan is a qualified retirement plan much like a traditional Profit Sharing Plan or 401(k) with the main difference being that it invests primarily in the stock of the employer.

Like Profit Sharing and 401(k) plans, ESOPs are governed by the same bodies of government: the Internal Revenue Service (IRS) and the Department of Labor (DOL). Both the IRS and DOL create rules and regulations that govern these plans and both are responsible for enforcement of those rules and regulations. You can feel quite comfortable with the fact that the government is overseeing what your employer is doing. In fact, the employer will actually report in detail to both the IRS and DOL each year on the operation of the plan.

The IRS doesn't allow the employer to enjoy the tax benefits of the plan unless the plan is run in a fair and equitable manner and the DOL ensures that the employee is provide with a fair benefit, making it almost impossible for the employer to tilt the table in their favor.

OPTION 1

The founding shareholders sell the company stock to an outside purchaser.

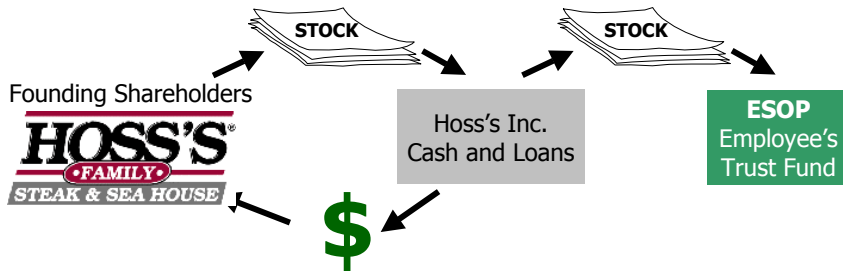


- What will happen to Hoss's Inc.?
- What will happen to Hoss's employees?
- What will happen to Hoss's culture?

Generally, when a shareholder of a privately held company wishes to sell their stock they either sell the stock to other current shareholders or an outside purchaser. In most cases that means that the stock of a company that has developed its own core values and its own culture is now going to be owned by outsiders...people who may not care about our employees, people who may not share our values or care to support and continue to develop our culture. As you are aware, we at Hoss's view this operation as a family and a transaction like the one just described is not one we would wish to engage in. So, when several of our minority shareholders were ready to move on and we were discussing how to repurchase the stock so that it stayed within the Hoss's family we decided to start an ESOP.

OPTION 2

The founding shareholders sell Hoss's stock to an ESOP with borrowed funds



- Company gets money.
- As loan is paid back, the stock goes into a trust for Hoss's employees.
- Same people are in charge.
- All worries are null, everything stays in tact.

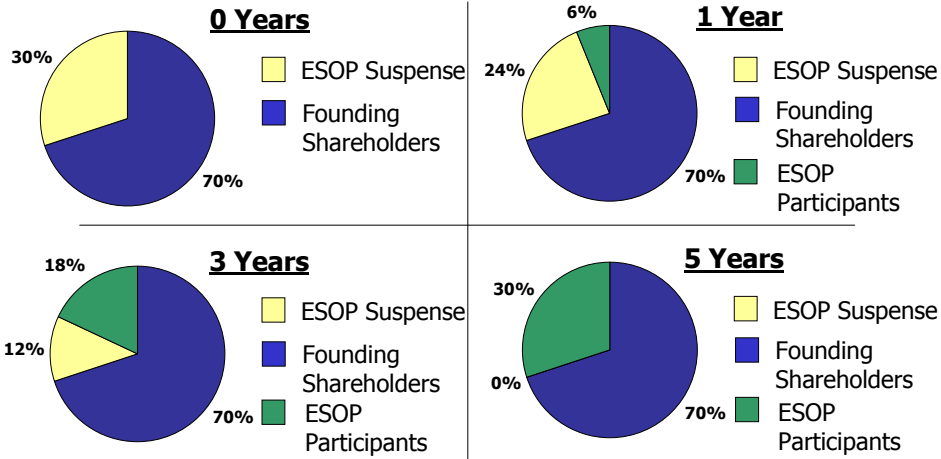
An ESOP is allowed to borrow the monies necessary to purchase the shares of stock in question at an independently determined Fair Market Value. Once purchased the shares are held by the ESOP in a suspense account until future allocation to the participants within the plan. The stock within the ESOP is the collateral for the loan taken. As the company contributes dollars to the ESOP each year (at least sufficient to make the annual principle and interest payments on the loan) a proportionate amount of stock is released from the suspense account and allocated the participant accounts within the plan. The allocation of the stock will be described in greater detail later. Implementing the Hoss's ESOP, allowed the Plan to borrow enough capital to purchase the stock of the minority shareholders and keep the stock within the Hoss's family.

As a result of this transaction, we don't have to worry about what will happen to our employees, our values or our culture. In fact, this transaction further establishes the culture we have always tried to develop.



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STOCK OWNERSHIP



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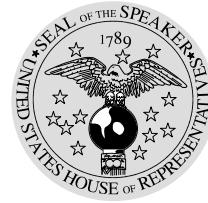
An example of the transaction is as follows:

In 2004 the ESOP borrows monies enough to purchase 30% of the stock of the company from its shareholders. The loan is amortized over a period of five (5) years. Each year as the loan is repaid; the stock that was collateral for that portion of the loan is released from the suspense account and allocated to the eligible participants within the plan. At the end of the five (5) years all of the stock attributed to the loan transaction will have been allocated to the plan participants.

In addition to the stock purchased with the loan, the company may elect to contribute additional share of stock to the ESOP.



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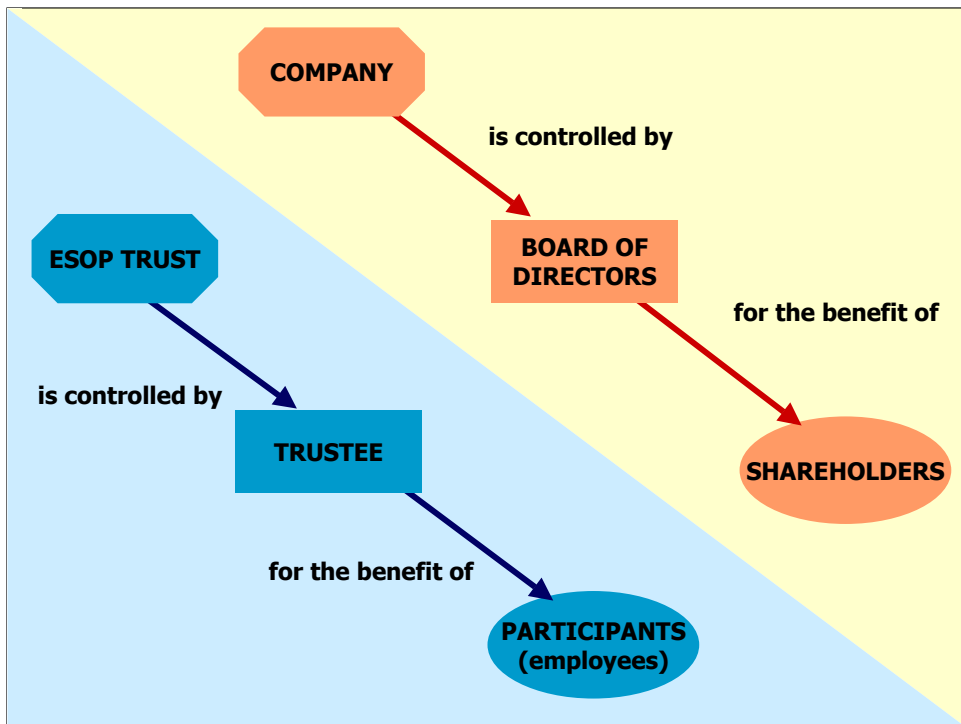


CONGRESSIONAL RULES

- The stock is held in the trust for the participants until they retire.
- The trust must be run in the interests of the participants.
- Voting of stock is done by the ESOP trustee (in limited situations, the voting is directed by participants).
- Requirements for sharing information is limited.
- Tax benefits for the company, selling shareholders and participants.

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There are, of course, specific rules that apply to this type of a transaction. Generally, the stock must be held in trust for the participants until they retire. The trust must be administered in the sole interest of the participants. Voting is generally handled by the Trustee of the plan; however, participants do have a say on a few very significant issues. There are tax benefits to both the employer and the participants within the plan. The employer receives a deduction for the amount contributed to the ESOP to make principle and interest payments on the loan. The participant receives a contribution of employer stock which is not taxed upon deposit nor is its annual increase or decrease in value a taxable event.



Hoss's is still controlled by the board of directors for the benefit of its shareholders.

The Hoss's ESOP Trust is controlled by the Trustees for the benefit of the plan participants.



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ESOP TRUSTEE

Has legal responsibility for the ESOP. Trustees must ensure the plan is operated in the best interest of the plan participants.

ESOP COMMITTEE

Ensures the smooth operation of the ESOP, manages all employee education and communication.

ADMINISTRATOR

Responsible for the actual operation of the ESOP, including making contributions and distributions.

THIRD-PARTY ADMINISTRATOR

May be hired to perform some or all of the Administrator's responsibilities.

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The ESOP Trustees are responsible for ensuring the plan is operated solely in the best interest of the plan participants.

Hoss's will be forming an ESOP Committee. This committee will be responsible education and communicating with the plan participants. One of their core duties will be to develop and foster an "ownership culture" within Hoss's. This committee will work with employees to help them understand how their individual contributions to the company actually results in affects on the share value of the stock held in trust for each of them.

The Plan Administrator, in this case Hoss's, is responsible for the actual day to day operation of the ESOP including the making of contributions to and distributions from the plan.

Hoss's has hired a Third-Party Administrator to assume the specific tasks necessary to ensure compliance with the rules and regulations as developed by the IRS and DOL.

What ESOP Ownership is/is Not

Collective Ownership (not individual)

Minority Ownership (not full)

Indirect Ownership (not direct)

The easiest way to describe what your ownership via the ESOP Trust is is to describe what it is not. It is not individual ownership of Hoss's stock. The ESOP Trust owns the shares for the benefit of the plan participants. Therefore it is considered "collective ownership." It is not full ownership of the company, in actuality it is a minority ownership stake. You as a participant will not be a direct owner of the shares of stock. The shares are owned by the ESOP Trust for your benefit. You own an account within the Trust and therefore will receive allocations of stock within the ESOP. You are therefore and indirect owner of the company's stock.

LEGAL RIGHTS OF PARTICIPANTS



- Legal right to receive information about the plan.
- Legal right to have access to Plan documents.
- Legal right to receive annual account statements.
- Legal right to vote on **MAJOR** corporate decisions.
 - Liquidation
 - Sale of substantially all assets
 - Recapitalization
 - Merger or consolidation
 - Dissolution

As a plan participant you have several very important legal rights. You have the legal right to received information about the plan. In the last few months, you have received several mailings with material pertaining to the plan including but not limited to a Summary Plan Description. You have a legal right to review all plan documents. You have a legal right to receive an annual plan statement indicating how much the value of your account is worth. Finally, participants have the legal right to vote on several key issues that might one day face the firm.

STAGE 1 - PARTICIPATION

Eligibility

- Works 1000 hours
- Completes 1 year of service
- Attains age 21

Entry

- Employees become a participant by meeting the eligibility requirements outlined above.
- Employees may only enter the plan on a designated entry date (January 1 and July 1) coincident with, or next following, the date the eligibility requirements are met.

As described in the materials you have been given already:

Participation in the plan is open to employees who:

- Have attained age 21
- Have completed 1 year of service, as defined by the plan

The plan does not allow participation by employees who are:

- Covered by a collective bargaining agreement with the company
- Leased employees

Employees may join the plan on January 1 or July 1 following the date that they meet the eligibility requirements.

STAGE 2 - ALLOCATION

Yearly Allocation

- Each year when a contribution or loan payment is made, stock is allocated to the accounts of qualifying ESOP participants.
- Each qualifying participant receives a prorated allocation based on their compensation.

Qualifying Participant

- Must be employed on the last day of the plan year
- OR**
- Work more than 500 hours in the plan year

Your employer will make a discretionary contribution on an annual basis to each participant. You must be actively employed on the last day of the plan year or you must have completed more than 500 hours of service during the plan year before terminating employment in order to share in that year's contribution.

Your share of the employer's contribution will be determined based on your compensation during the year for which the contribution is made. See below:

Your company contribution for a given year is \$100,000; your compensation is \$20,000; the compensation of all participants eligible to share in the contribution is \$1,000,000. Your share of the contribution would be \$2,000 ($\$100,000 \times \$20,000 / \$1,000,000 = \$2,000$)

Generally, you will be allocated \$2,000 worth of Hoss's stock and not cash.

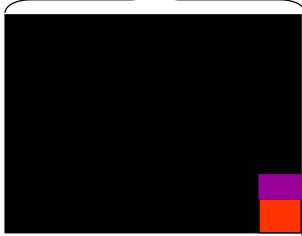
Additionally, you may be allocated stock dividends within your ESOP account.

SAMPLE ALLOCATION

Eligible Payroll

Suppose eligible payroll is \$2,500,000
and Beth earns \$25,000
and John earns \$20,000.

Total payroll = \$2,500,000



John's \$20,000
Beth's \$25,000

ESOP

If the total allocation is 850 shares,
Beth gets 8.5 shares
and John gets 6.8 shares.

Total allocation = 850 shares



John's 6.8 shares
Beth's 8.5 shares

STAGE 3 - VESTING

Vesting

- A non-forfeitable right to the assets in your ESOP account.
- Participants are fully vested at Normal Retirement Age, Death, Disability.

Vesting Schedule

- The vesting schedule is a five-year cliff.

Normal Retirement Age

- A participant's 65th birthday.

Forfeiture

- If you leave the company before you are vested, you forfeit the assets in your account. Forfeited assets remain in the plan and are reallocated to the remaining participants in accordance with the plan terms.

For a participant to be vested means the participant has earned a non-forfeitable right to the assets of the account. Normally, a participant is fully vested upon attaining their Normal Retirement Age, Dying or becoming totally and permanently disabled. Other than for these reasons, a participant must work five (5) years of service to become fully vested. A year of service for vesting purposes is a calendar year during which the employee works one thousand (1000) or more hours. Years prior to the start of this plan (2004) do not count in this determination.

If a participant has not vested in their account benefit and they terminate employment with Hoss's that participant will forfeit or lose their benefits under the plan. The account value of this participant will be reallocated among the remaining participants

STAGE 4 - DISTRIBUTION

Eligibility

- Participants are eligible for a distribution (receive their benefits) when one of the following occur:
 - Reach Normal Retirement Age (65)
 - Death
 - Total and Permanent Disability
 - Termination of Employment
- A distribution policy will be distributed with your first annual ESOP account statement.

When a fully vested participant leaves the employment of Hoss's they will be eligible to receive a distribution of their plan account. The distribution rules associated with an ESOP are different from the rules for distributions from 401(k) plans or other qualified retirement plans. They are particularly more complicated when the ESOP contains a loan. With this in mind, the ESOP Committee, working in conjunction with our Third Party Administrator, will be preparing a separate "Distribution Policy" which will be provided to each participant with their annual statement for the 2004 plan year. (Please note the 2004 statement will be provided upon completion of the 2004 plan administration. It is anticipated that the administration will be completed in mid-2005.) The Distribution Policy will provide each participant with a clear explanation of the policies and procedures surrounding receiving a distribution from the plan.

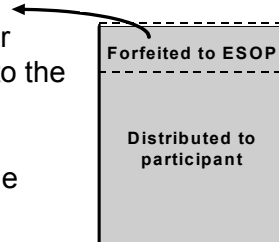
Suffice it to say for now, that each participant eligible to receive a distribution from the plan will receive either a cash distribution or a distribution of the stock in kind. Any distribution of stock will allow for a put option so the participant can force the employer to repurchase the shares and pay the participant the current fair market value of the stock. The employer can elect to pay the value of the stock over a five (5) year period if the amount is greater than \$5,000. If the employer elects to do this the employer will provide the participant with a note guaranteeing the payment at a stated reasonable interest rate.

STAGE 4 - DISTRIBUTION

Termination of Employment

- When a participant terminates employment, the “unvested” portion of his account is forfeited back to the ESOP and allocated to other participants’ accounts.
- The participant will either:
 - Receive the remaining stock in her account, then sell the stock back to the company at the fair market value
 - OR**
 - Receive the cash, fair market value of her account.

Distribution



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STAGE 4 - DISTRIBUTION

Termination of Employment

- The company is legally obligated to buy the stock. The former participant has three choices:
 - Sell the stock immediately.
 - Sell the stock one year after receiving it.
 - Keep the stock.
- For accounts with \$5,000 or less, Hoss's will make a single lump-sum cash payment for the stock.
- For accounts with more than \$5,000, Hoss's will buy back the stock with equal payments (including interest) over a period of five years.

VALUE OF PARTICIPANTS' ACCOUNTS

1 The value of the company is determined.

2 Price per share is calculated.

3 Price per share is multiplied by the number of shares in the account.

It is required that the value of the stock be determined at least once every year (after books have been closed).

Each year the value of a participants account is determined as follows:

1st – the value of the company is determined by an independent appraisal

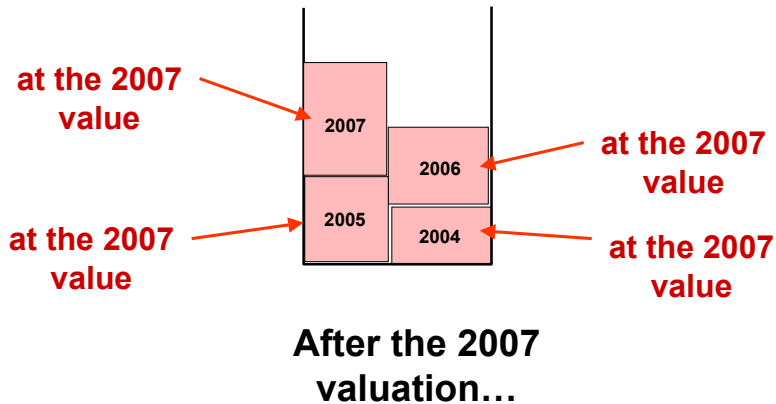
2nd – the price per share of stock is calculated by the appraiser

3rd – the price per share determined by the appraiser is multiplied by the number of shares in each participant's account.

It is a requirement that a valuation of the stock be performed at least once every year by an independent third party appraiser.

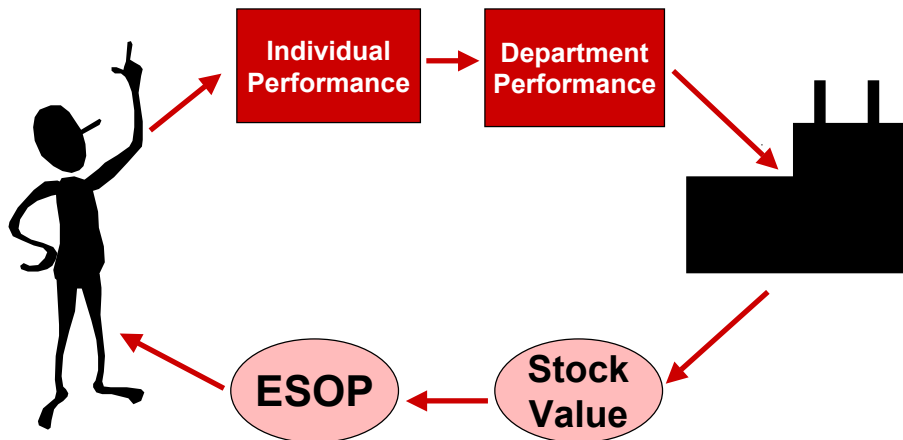
STOCK PRICE AND YOUR ESOP

The new value applies to all of the stock in your account.



Each year the participant is being provided with an allocation of stock that's cost basis is determined in the year of the allocation. However, each valuation provided is applied to all shares no matter when they were purchased. Therefore, stock allocated in the 2004 plan year will increase or decrease in value with each subsequent valuation.

EMPLOYEES RETURN ON EFFORT



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As you can see the ESOP provides employee/owners with the ability to affect their own retirement plan value. No longer is there merely a work for pay set up. Individual and group performance have always had a direct impact on the bottom line for Hoss's and any impact on the bottom line of Hoss's bears itself out in the stock valuation which in turn now will affect an increase or decrease in the value of the participant's account.

To summarize our new plan... the purpose of the plan is to enable you to participate in the growth and prosperity of Hoss's by making you a stockholder. As a stockholder you are an owner of the company. Your efforts, added to the efforts of all other employees, contribute to the profitability and growth of the company and thereby increase the value of Hoss's stock and your benefits. Consequently, the employer contributions will be invested primarily in Company Stock. If the company does well, and the value of Hoss's stock increases, you will share in its improved performance.

We are committed to developing a culture that reflects this new relationship of employee/owner. If you have any questions about this plan or its operation please see your manager, who is fully equipped to provide answers to all your questions.