Meritage Hospitality Group Inc.

Consolidated Financial Report
January 1, 2023 and January 2, 2022

Contents

Consolidated Financial Statements

Tel: 616-774-7000
Fax: 616-776-3680
www.bdo.com

200 Ottawa Avenue NW, Suite 300
Grand Rapids, MI 49503

Independent Auditor's Report

Board of Directors
Meritage Hospitality Group Inc., Subsidiaries and Affiliate
Grand Rapids, Michigan

Opinion

We have audited the consolidated financial statements of Meritage Hospitality Group Inc., Subsidiaries and Affiliate (the Company), which comprise the consolidated balance sheets as of January 1, 2023 and January 2, 2022, and the related consolidated statements of operations and comprehensive income, equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of January 1, 2023 and January 2, 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the consolidated financial statements are issued or available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

BDO USA, LLP

Grand Rapids, Michigan
March 8, 2023

Meritage Hospitality Group Inc.

Consolidated Balance Sheets
(in thousands)

	January 1, 2023	January 2, 2022
Assets		
Current Assets		
Cash	$ 35,372	$ 49,951
Receivables	368	1,604
Inventories	4,754	4,408
Prepaid expenses and other current assets	6,619	6,159
Total Current Assets	47,113	62,122
Property and Equipment - Net (Note 2)	161,163	135,566
Goodwill	177,552	174,243
Intangible Assets - Net (Note 3)	6,132	5,209
Operating Lease Right-of-Use Assets - Net (Note 4)	379,343	371,026
Other Assets		
Long-term investments (Note 6)	1,786	1,786
Deposits and other assets	18,229	8,679
Total Assets *	**$ 791,318**	**$ 758,631**
Liabilities and Equity		
Current Liabilities		
Trade accounts payable	$ 28,445	$ 21,738
Lines of credit	31,848	12,526
Current portion of long-term debt (Note 8)	14,041	13,333
Current portion of operating lease obligations payable (Note 4)	25,841	24,466
Accrued liabilities (Note 7)	25,826	29,341
Total Current Liabilities	126,001	101,404
Unearned Vendor Allowances	1,154	1,713
Operating Lease Obligations Payable - Net of current portion (Note 4)	359,318	352,177
Other Long-term Liabilities	16,720	15,550
Long-term Debt - Net of current portion and financing costs (Note 8)	155,107	165,383
Deferred Income Taxes (Note 10)	15,821	13,720
Total Liabilities *	$ 674,121	$ 649,947
Equity	117,197	108,684
Total Liabilities and Equity *	**$ 791,318**	**$ 758,631**

See notes to consolidated financial statements

* Total assets of the Variable Interest Entity were $16,925 and $16,202 as of January 1, 2023 and January 2, 2022, respectively. Total liabilities were $14,509 and $12,280 as of January 1, 2023 and January 2, 2022, respectively. See Note 15 for balance sheet information of the Variable Interest Entity.

Meritage Hospitality Group Inc.

Consolidated Statements of Operations and Comprehensive Income
(in thousands, except per share data)

	Fiscal Year Ended January 1, 2023	Fiscal Year Ended January 2, 2022
Food and Beverage Revenue	$ 626,043	$ 577,127
Expenses		
Food and beverage	172,001	150,774
Labor and related	201,852	183,396
Occupancy	77,942	76,467
Advertising (Note 1)	24,442	22,295
Franchise fees	23,818	21,841
Other operating	56,143	51,761
Total Operating Expenses	556,198	506,534
General and administrative	30,809	32,225
Preopening, acquisition and closing	7,645	3,989
Depreciation and amortization	17,418	16,306
Total Expenses	612,070	559,054
Income from Operations	13,973	18,073
Other Expense (Income)		
Interest - Net	8,156	6,709
Other - Net	(3,858)	(11,934)
Total Other Expense (Income)	4,298	(5,225)
Income Before Income Taxes	9,675	23,298
Income Tax Expense (Note 10)	586	5,096
Consolidated Net Income	**$ 9,089**	**$ 18,202**
Less Consolidated Net Income Attributable to Noncontrolling Interest in Variable Interest Entity	604	757
Consolidated Comprehensive Net Income Attributable to Controlling Interest	**$ 8,485**	**$ 17,445**
Other Comprehensive Income - Net of Tax		
Change in interest rate swap valuation	7,557	1,402
Consolidated Comprehensive Net Income	**$ 16,042**	**$ 18,847**
Earnings per share (Note 14)		
Basic	$ 0.98	$ 2.30
Diluted	$ 0.84	$ 1.81
Basic Weighted Average Shares Outstanding	6,585	6,703
Diluted Weighted Average Shares Outstanding	8,694	9,631

See notes to consolidated financial statements.

Meritage Hospitality Group Inc.

Consolidated Statements of Equity
(in thousands)

	Convertible Preferred Stock	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income	Retained Earnings	Noncontrolling Interest	Total
Balance - January 3, 2021	$ 14	$ 67	$ 36,233	$ -	$ 59,489	$ 2,616	$ 98,419
Net income	-	-	-	-	17,445	757	18,202
Issuance of common stock	-	1	162	-	-	-	163
Repurchase of common stock	-	(2)	(4,420)	-	-	-	(4,422)
Repurchase of preferred stock	-	-	(107)	-	-	-	(107)
Common stock dividends	-	-	-	-	(2,146)	-	(2,146)
Preferred stock dividends	-	-	-	-	(1,655)	-	(1,655)
Interest rate swap - net of tax	-	-	-	1,402	-	-	1,402
Company-owned stock	-	-	(1,958)	-	-	-	(1,958)
Stock option expense	-	-	1,233	-	-	-	1,233
Distributions	-	-	-	-	-	(447)	(447)
Balance - January 2, 2022	$ 14	$ 66	$ 31,143	$ 1,402	$ 73,133	$ 2,926	$ 108,684
Net income	-	-	-	-	8,485	604	9,089
Issuance of common stock	-	1	167	-	-	-	168
Repurchase of common stock	-	(1)	(2,233)	-	-	-	(2,234)
Repurchase of preferred stock	-	-	(16)	-	-	-	(16)
Common stock dividends	-	-	-	-	(1,973)	-	(1,973)
Preferred stock dividends	-	-	-	-	(1,653)	-	(1,653)
Interest rate swap - net of tax	-	-	-	7,557	-	-	7,557
Company-owned stock	-	-	(1,221)	-	-	-	(1,221)
Stock option expense	-	-	1,277	-	-	-	1,277
Distributions	-	-	-	-	-	(2,481)	(2,481)
Balance - January 1, 2023	$ 14	$ 66	$ 29,117	$ 8,959	$ 77,992	$ 1,049	$ 117,197

See notes to consolidated financial statements.

Meritage Hospitality Group Inc.

Consolidated Statements of Cash Flows
(in thousands)

	Fiscal Year Ended	
	January 1, 2023	January 2, 2022
Cash Flows from Operating Activities		
Net Income	$ 9,089	$ 18,202
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	17,418	16,306
Amortization of financing costs	592	567
Deferred income taxes (Note 10)	92	4,059
Loss on disposal of fixed assets	3,597	3,040
Gain on sale and leaseback transactions (Note 5)	(4,178)	(12,338)
Change in fair value of swap (Note 9)	-	(1,036)
Change in company-owned stock (Note 12)	(1,221)	(1,958)
Stock option expense	1,277	1,233
Changes in operating assets and liabilities which provided (used) cash, net of acquisition:		
Receivables	1,236	129
Inventories	(316)	(792)
Prepaid expenses and other current assets	(460)	2,356
Deposits and other assets	677	(1,394)
Trade accounts payable	746	(97)
Accrued liabilities	(3,321)	2,843
Unearned vendor allowances	(650)	(1,159)
Other long-term liabilities	1,170	3,707
Net cash provided by operating activities	25,748	33,668
Cash Flows from Investing Activities		
Purchase of property and equipment	(65,660)	(78,767)
Purchase of intangible assets	(1,108)	(434)
Proceeds from sale of asset	-	842
Acquisitions (Note 18)	(16,474)	-
Net cash (used in) investing activities	(83,242)	(78,359)

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows
(in thousands)

	Fiscal Year Ended January 1, 2023	Fiscal Year Ended January 2, 2022
Cash Flows from Financing Activities		
Proceeds from long-term debt	3,756	181,800
Principal payments on long-term debt	(14,872)	(169,403)
Proceeds from lines of credit	55,659	73,713
Payments on lines of credit	(4,749)	(27,647)
Proceeds from sale and leaseback transactions (Note 5)	41,943	59,163
Payments on lines of credit related to sale and leaseback transactions (Note 5)	(31,589)	(43,580)
Payments for debt issuance costs	-	(3,109)
Repurchase of common stock	(2,234)	(4,422)
Repurchase of preferred stock	(16)	(107)
Proceeds from issuance of common stock	168	163
Common stock dividends paid	(1,973)	(2,146)
Preferred stock dividends paid	(1,653)	(1,655)
Distributions to noncontrolling interest	(1,525)	(447)
Net cash provided by financing activities	42,915	62,323
Net (Decrease) Increase in Cash	(14,579)	17,632
Cash - Beginning of period	49,951	32,319
Cash - End of period	$ 35,372	$ 49,951
Supplemental Disclosure of Cash Flow Information		
Cash paid for:		
Interest	$ 7,963	$ 7,884
Income taxes	$ 814	$ 2,707
Significant non-cash investing and financing activities:		
Conversion of property and equipment to asset held for sale	$ 699	$ 469
Change in fair value of swap - net of tax (Note 9)	$ 7,557	$ 1,402
VIE ownership interest obtained from promissory note	$ (956)	$ -
Non-cash purchases of property and equipment	$ 5,961	$ 4,907

See notes to consolidated financial statements.

Note 1 - Nature of Business and Significant Accounting Policies

Meritage Hospitality Group Inc., Subsidiaries and Affiliate (the "Company") conducts its business in the quick-service and casual dining restaurant industries across 16 states. As of January 1, 2023, the Company operated 349 Wendy's quick-service restaurants under franchise agreements with its franchisor, Quality Is Our Recipe, LLC, hereafter referred to as "The Wendy's Company" or "Wendy's," as well as one Taco John's quick-service restaurant under franchise agreements with its franchisor, Taco John's International, Inc., hereafter referred to as "Taco John's".

Principles of Consolidation - The consolidated financial statements include the accounts of Meritage Hospitality Group Inc., all of its wholly owned subsidiaries, its 98.5% owned subsidiary, RDG-MHG, LLC., ("RDG") a 15% partner in TRG-Meritage Bahamas, LLC., ("TRG") and its variable interest entity ("VIE"), Restaurant Holdings, LLC ("Restaurant Holdings"), for which the Company is a primary beneficiary. The VIE is consolidated because the Company has the power to direct activities that impact the VIE's economic performance, as well as the right to receive benefits or the obligation to absorb losses from the VIE that could potentially be significant.

Earnings from Restaurant Holdings are reported as a noncontrolling interest in the accompanying consolidated statement of operations. All intercompany transactions and balances between the Company, its subsidiaries and Restaurant Holdings have been eliminated in consolidation.

Segment Information – Operating segments are components of an entity for which discrete financial information is available and regularly reviewed by the Chief Operating Officer in order to allocate resources and assess performance. Resource allocation decisions are made based on the Chief Operating Officer's evaluation of total Company operations. Accordingly, the Company views the operating results of its Wendy's, Taco John's and independent concept restaurants as one operating and reportable segment.

Fiscal Period – The Company operates on a 52/53-week fiscal year ending on the Sunday closest to December 31 of each year. Each of the two fiscal years presented ending January 1, 2023 (referred to as fiscal year 2022) and January 2, 2022 (referred to as fiscal year 2021) contained 52 weeks.

Revenue Recognition - Revenues consist of restaurant food and beverage sales and are recorded net of applicable sales taxes and deferred revenue associated with the Wendy's Company app-based loyalty program ("Wendy's Rewards"). Food and beverage revenue is recognized at the time food is delivered to the customer and the performance obligation is satisfied. Payment in cash or credit is accepted at the time of transaction, and there is no variability in the transaction price as discounts and allowances are recognized at the point of sale. Fees paid to third party delivery providers are reported as other operating expenses on the consolidated statements of operations and are immaterial to the consolidated financial statements. The Company's gift card activity is managed by The Wendy's Company and Taco John's International, Inc. and is immaterial to the consolidated financial position.

The Wendy's Rewards program is offered at all the Company's Wendy's restaurants. For every dollar of a qualifying customer purchase by those enrolled in the Wendy's Rewards program, ten rewards points are earned. The Company defers a portion of qualifying revenue until rewards points are redeemed, forfeited or expired within a year of the date earned. Deferred revenue associated with Wendy's Rewards was $656 and $736 as of January 1, 2023 and January 2, 2022, respectively, and is classified in accrued liabilities on the consolidated balance sheets.

Cash - Cash includes cash on hand in the restaurants and cash held in banks. At times, cash balances at financial institutions are in excess of FDIC insurance coverage. The cash balances are maintained at financial institutions with high credit quality ratings, and the Company believes no significant risk of loss exists with respect to those balances.

Receivables - Receivables consist of trade and other receivables. Trade receivables consist of gift cards redeemed at the Company's restaurants and amounts due from unsettled debit and credit card sales. No allowance for doubtful accounts is deemed necessary.

Inventories - Inventories consist of restaurant food items, beverage and beverage supplies, and paper supplies. Inventories are stated at the lower of cost or net realizable value, with cost determined on the first-in, first-out (FIFO) method.

Property and Equipment - Property and equipment is stated at cost. Depreciation is computed principally using the straight-line method based upon estimated useful lives ranging from three to 15 years for furniture and equipment and up to 30 years for buildings. Leasehold improvements are amortized over the shorter of their estimated useful lives or the terms of the various leases. Repairs and maintenance costs that do not add to the value or increase the life of an asset are expensed when incurred. Interest costs on borrowings are capitalized during the construction period of the restaurant. Interest of $300 and $103 was capitalized in fiscal year 2022 and 2021, respectively (see Note 2).

Goodwill – In accordance with ASC 805, *Business Combinations*, the Company allocates purchase price of acquisitions to its identifiable assets and liabilities based on the estimated fair values using all available information. For certain valuations, the Company may engage an independent third-party valuation specialist. The excess of purchase price over the amount allocated to assets and liabilities is recorded as goodwill.

The Company reviews goodwill for impairment annually in the fourth quarter or when indications of potential impairment or a triggering event occurs. If the carrying amounts of these assets are deemed to be less than fair value based upon a discounted cash flow analysis and comparison to comparable earnings multiples of peer companies, such assets are reduced to their estimated fair value and a charge is made to operations. For fiscal years 2022 and 2021, the tests indicated no goodwill impairment.

Franchise Rights and Agreement Costs - Franchise rights and agreement costs, capitalized in connection with the Company's Wendy's restaurants, are amortized using the straight-line method over the terms of each individual franchise agreement, including extension options, given the Company's historical pattern and economic incentive to renew. Franchise agreement costs, capitalized in connection with the Company's Taco John's restaurants, are amortized using the straight-line method over the terms of each individual franchise agreement (see Note 3).

Financing Costs - Financing costs are capitalized and amortized using the straight-line method, which approximates the effective interest rate method, over the terms of the various loan agreements. These costs are a reduction in the balance of the related outstanding debt (see Note 8).

Long-Term Investments – Investments in entities in which the Company is not able to exercise significant influence are carried at cost. Impairment losses due to a decline in the value of the investment that is other than temporary are recognized when incurred. Investments are reviewed when impairment indicators are present by comparing carrying value to fair market value, as determined by appraisals, present value of estimated future cash flows or similar third-party transactions. If the carrying value exceeds fair market value, an impairment is recognized for the amount by which the carrying amount of the asset exceeds the fair market value. There were no impairment losses recognized for fiscal years 2022 and 2021.

Fair Value of Financial Instruments – Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability between market participants. Accounting standards require the Company to categorize its financial assets and liabilities into a three-level fair value hierarchy. Based on the nature of inputs used, the three levels of the fair value hierarchy under fair value accounting are described as follows:

Level I – Valuation is based upon quoted prices for identical assets or liabilities in active markets.

Level II – Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level III – Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. The unobservable assumptions reflect the estimates of assumptions that market participants would use in pricing the asset or liability.

The Company's financial instruments, which are not required to be measured at fair value on the consolidated balance sheets, consist of the following:

Short-Term Financial Instruments – The fair values of short-term financial instruments, including cash, receivables, trade accounts payable, and accrued liabilities (Level I) approximate the carrying amounts in the accompanying consolidated financial statements due to the short maturity of such instruments. The Company's revolving line of credit is variable rate, and therefore has a fair value that approximates it's carrying value (Level II).

Long-Term Obligations – The fair value of long-term debt obligations at January 1, 2023 and January 2, 2022 are based on estimated rates currently available to the Company at year-end and debt obligations with similar terms and maturities. Debt obligations carry variable rates of interest and thus approximate fair value. Debt is classified as Level II under the fair value hierarchy.

The Company's financial instruments, which are required to be measured at fair value on the consolidated balance sheets, consist of the following Level II financial instruments:

Interest rate swaps – The Company measures its interest rate swaps at fair value on a recurring basis. The fair value of the swap is provided by a counterparty and is based primarily on inputs such as interest rates and Secured Overnight Financing Rate ("SOFR") yield curves that are observable at commonly quoted intervals and other observable market inputs.

Deferred compensation plan - Investments under the Company's deferred compensation plan are measured and carried at fair value based on the quoted prices in active markets for identical assets, and other observable inputs reflecting market assumptions that market participants would use in pricing.

Self-Insurance – The Company's restaurants in Michigan are self-insured for workers' compensation claims up to a $500 per claim stop-loss level with no maximum aggregate. The Company determines its liability based on estimated loss reserves provided by the Company's third-party claims administrator and on management's knowledge of open claims.

Unearned Vendor Allowances - Up-front consideration received from vendors linked to future purchases is initially deferred, then recognized as earned income as the purchases occur over the term of the vendor arrangement. During fiscal years 2022 and 2021, the Company received $8,279 and $7,522, respectively, in funds that are recognized as a reduction of cost of food and beverage as products are purchased.

Earnings per Share - Basic earnings per common share is computed by dividing net income attributable to controlling interest, after the deduction of preferred stock dividends, by the number of weighted average common shares outstanding and dilutive shares. Diluted earnings per common share is computed on the weighted average common shares outstanding plus dilutive shares using the treasury stock method for stock options, and the if-converted method for convertible preferred shares (see Note 14).

Interest Rate Swaps – The Company has interest rate swap derivatives for the purpose of hedging risks related to the variability of cash flows caused by interest rate fluctuations. Interest rate swaps are measured at fair value on a recurring basis and are recognized in other assets and other long-term liabilities on the accompanying consolidated balance sheets accordingly.

Effective with the Company's refinancing of its existing debt in August 2021, the Company designated its interest rate swaps as a cash flow hedge for financial reporting purposes. Under this designation, changes in fair value are recorded in other comprehensive income, net of tax, until the hedge transaction occurs. The Company classifies the cash flows from derivatives that are accounted for as a cash flow hedge in the same category as the cash flows from the items being hedged.

Prior to the August 2021 refinancing, the interest rate swaps were not designated as a cash flow hedge. As a result, changes in fair value, as well as realized gains and losses, were recognized as a component of interest expense (see Note 9).

Stock-Based Compensation - The Company measures compensation expense for equity awards, including stock options, based on the fair value of the awards on the grant date. Compensation expense for grants is recognized ratably over the vesting period of the awards. Company policy recognizes forfeiture expense as incurred. The Company issues common shares when stock options are exercised (see Note 13).

Advertising Costs - Advertising costs and fees due under the Company's franchise agreements are based primarily on a percentage of monthly food and beverage revenue. These costs are charged to operations as incurred and are included in advertising expense on the consolidated statements of operations. Total advertising expense was $24,442 and $22,295 for fiscal years 2022 and 2021, respectively.

Income Taxes - A current tax liability or asset is recognized for the estimated taxes payable or refundable on tax returns for the year. Deferred tax liabilities or assets are recognized for the estimated future tax effects of temporary differences between financial reporting and tax accounting and are based on the difference between the financial statement and tax basis of assets and liabilities measured by the current tax rate. The deferred tax provision generally represents the net change in deferred tax assets and liabilities during the period including any changes in valuation allowances. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in the results of operations in the period that includes the enactment date. A valuation allowance is established when it is more likely than not that some or all of the deferred tax assets will not be realized. The Company recognizes the tax benefit from an uncertain tax position only if it is more likely than not the tax position will be sustained on examination by the taxing authorities. The Company and its subsidiaries file a consolidated federal income tax return.

Restaurant Holdings is treated as a partnership for federal income tax purposes. Consequently, federal income taxes are not payable or provided for by Restaurant Holdings. Restaurant Holdings' members are taxed individually on their pro-rata ownership share of its earnings which is allocated among the members in accordance with the Restaurant Holdings operating agreement (see Note 10).

Use of Estimates - The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. The Company bases its estimates on historical experience and on various other assumptions believed to be reasonable under the circumstances;

(in thousands, except share data)

however, actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change relate to the assessment of impairment of long-lived assets and goodwill.

New Accounting Standards – In March 2020, the FASB issued ASU No. 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting.* The purpose of ASC 848 is to provide optional guidance to ease the potential effects on financial reporting of the market-wide migration away from Interbank Offered Rates, such as the London Interbank Offered Rate ("LIBOR"), to alternative reference rates, such as the "Secured Overnight Financing Rate ("SOFR"). ASC 848 applies only to transactions that reference a benchmark reference rate expected to be discontinued because of reference rate reform and contains optional expedients and exceptions for applying U.S. GAAP to transactions affected by this reform. The amendments in the ASU are effective for all entities as of March 2020.

In October 2022, the Company amended its credit agreement to transition its reference rate from LIBOR to the SOFR interest rate accordingly. The change from LIBOR to SOFR did not have a material impact on the Company's consolidated financial statements (see Note 8).

Recently issued accounting pronouncements with effective dates after December 31, 2022 are not expected to have a material impact on the consolidated financial statements.

Reclassification – Certain fiscal year 2021 amounts have been reclassified to conform to the fiscal year 2022 presentation.

Note 2 - Property and Equipment

Property and equipment are summarized as follows:

	2022	2021
Land and improvements	$ 34,505	$ 25,107
Buildings and improvements	72,499	61,931
Furnishings and equipment	98,403	89,356
Leasehold improvements	23,230	22,335
Construction in progress	23,660	16,741
Total cost	$ 252,297	$ 215,470
Accumulated depreciation	(91,134)	(79,904)
Net property and equipment	$ 161,163	$ 135,566

As of January 1, 2023, the Company estimates costs of $20,154 to complete construction in progress.

Depreciation expense was $17,190 and $16,095 for fiscal years 2022 and 2021, respectively.

(in thousands, except share data)

The Company owned certain land and buildings classified as assets held for sale within other assets on the consolidated balance sheet. As of January 1, 2023 and January 2, 2022, related assets are carried at an aggregate fair market value of $1,168 and $469, respectively.

Note 3 – Intangible Assets

Intangible assets consist of capitalized franchise rights and agreement costs less accumulated amortization, and are summarized as follows:

	2022	2021
Franchise rights and agreement costs	$ 7,352	$ 6,287
Accumulated amortization	(1,220)	(1,078)
Net	$ 6,132	$ 5,209

Amortization expense for franchise rights and agreement costs were $217 and $198 for fiscal years 2022 and 2021, respectively. The weighted average remaining life through the next renewal period is approximately 14 years for Wendy's and 19 years for Taco John's.

Amortization expense is projected as follows:

2023	$ 234
2024	234
2025	234
2026	234
2027	234
Thereafter	4,962
Total	$ 6,132

Note 4 - Leases

The Company has operating lease agreements for unowned restaurants, the corporate office, and certain equipment. Land and building leases used in operations have remaining lease terms ranging from one to 21 years, some of which include options to renew up to 50 years.

On the consolidated balance sheets, operating leases are included in operating lease right-of-use (“ROU”) assets, operating lease obligations payable, and current portion of operating lease obligations payable. Finance leases, if any, are included in property and equipment, long-term debt, and current portion of long-term debt.

Operating lease ROU assets and operating lease liabilities are recognized based on the present value of future minimum lease payments over the lease term upon commencement date. The Company's lease terms may include options to extend or terminate the lease. The present value of future minimum lease payments includes these options only when it is reasonably certain such options will be exercised.

(in thousands, except share data)

The Company's leases do not provide an implicit rate. In determining present value of future minimum lease payments, the Company utilized an incremental borrowing rate congruent with its primary lending agreement, which is the rate for a fully collateralized, amortizing loan with the same term as the lease. The weighted average effective discount rate was 4.50% and 4.46% as of January 1, 2023 and January 2, 2022, respectively.

Base rent expense includes non-lease components such as taxes, insurance, and maintenance when required under the lease agreements and is classified as occupancy expense in the consolidated statements of operations. The Company elected the practical expedient to not separate non-lease components from the lease components to which they relate. For certain equipment leases, the Company applies a portfolio approach to effectively account for the operating lease ROU assets and liabilities.

Variable rent expense components are expensed as incurred and represent rent escalators of which the majority are contingent upon changes in the Consumer Price Index. Variable rent expense also includes percentage rentals which represent additional rent due under certain leases for which the Company is required to pay a percentage of sales in excess of minimum prescribed amounts.

Rent expense from operating leases were recognized as follows:

	2022	2021
Operating lease costs:		
Fixed base lease expense - real estate	$ 40,089	$ 38,492
Fixed base lease expense - equipment	1,920	1,594
Variable rent expense	1,164	931
Total	$ 43,173	$ 41,017

Throughout fiscal year 2020, the Company negotiated lease payment terms related to the effect of the COVID-19 pandemic which resulted in both deferred rent payments and rent abatements. In accordance with Financial Accounting Standards Board's recent Staff Q&A regarding rent concessions related to the effects of the COVID-19 pandemic, the Company has elected to account for concessions that do not result in a substantial increase in the obligations of the lessee as though enforceable rights and obligations for those concessions existed in the original lease agreements. Accordingly, the Company has elected not to remeasure the related lease liabilities and right-of-use assets. For rent abatements, the Company has recorded negative variable rent expense during the period of relief. There were no abated rent payments in fiscal year 2022. There were $526 of abated rent payments in fiscal year 2021.

For deferred rent payments, the Company has recognized a non-interest bearing payable for lease payments that would have been made based on original terms of the various lease agreements. The payable is reduced when deferred payments are made in accordance with repayment terms. Deferred rent was $199 and $178 as of fiscal year ended January 1, 2023 and January 2, 2022, respectively, and was paid in full during fiscal year 2022. Deferred rents are included in the current portion of operating lease obligations payable on the consolidated balance sheets.

(in thousands, except share data)

Supplemental cash flow information related to operating leases was as follows:

	2022	2021
Cash paid for amounts included in the measurement of lease liabilities	$ 41,952	$ 38,894
Right-of-use assets obtained in exchange for lease obligations	$ 45,320	$ 52,973

The weighted-average remaining lease term for operating leases as of fiscal year ended January 1, 2023 and January 2, 2022 was approximately 15 years.

The future payments due under operating leases as of January 1, 2023 are projected as follows:

2023	$ 42,311
2024	42,100
2025	41,094
2026	37,149
2027	34,682
Thereafter	322,372
Total	$ 519,708
Less present value discount	(134,549)
Lease liability recognized	$ 385,159

Note 5 – Sale and Leasebacks

The Company completed 16 and 25 sale and leaseback transactions of building and land in fiscal years 2022 and 2021, respectively. Through these transactions, the Company netted proceeds of $41,943 and $59,163, paid down indebtedness of $31,589 and $43,580, and recorded net gains of $4,178 and $12,338 for fiscal years 2022 and 2021, respectively. Such gains were recorded in other income on the consolidated statements of operations.

Note 6 - Long-Term Investments

Long-term investments consist of the following:

	2022	2021
Investment in TRG	$ 538	$ 538
Priority interest in TRG	1,248	1,248
Total Long-term Investments	$ 1,786	$ 1,786

RDG holds a 15.0% investment in TRG and approximately 13 acres of ocean-front real estate held for future development. The interest receivable in TRG has a priority preferred return upon liquidation of 16.0%, compounded quarterly.

(in thousands, except share data)

Note 7 - Accrued Liabilities

The following is a detail of accrued liabilities:

	2022	2021
Payroll and related payroll taxes	$ 14,207	$ 20,091
Property taxes	1,391	1,629
Sales tax	3,329	3,231
Self-insurance	870	1,543
Other	6,029	2,847
Total	$ 25,826	$ 29,341

For fiscal year ended January 1, 2023, other accrued liabilities included approximately $2,800 of settlement obligations related to the permanent closure of under-performing restaurants.

Note 8 - Long-Term Debt and Revolving Lines of Credit

Effective August 5, 2021, the Company refinanced its existing debt with its current primary lender to a $302,800 credit facility with a maturity date of April 2027. The new credit facility includes $181,800 in long-term debt, $15,000 in revolving short-term debt, and $106,000 of available credit lines.

In October 2022, the Company amended its credit agreement to transition the reference rate from LIBOR to SOFR. As of November 2022, SOFR is the reference rate in effect for all outstanding variable interest rate loans. Accordingly, effective rates as of January 2, 2022 represent LIBOR.

Long-term debt consists of the following:

	2022	2021
Mortgage note payable - variable rate, due in monthly installments of $44 plus interest of SOFR plus a margin ranging from 1.85% through 2.50% (effective rate of 6.83% and 4.53% at January 1, 2023 and January 2, 2022, respectively), maturing in April 2027.	$ 14,712	$ 15,230
Term note payable - variable rate, due in monthly installments of $797 plus interest of SOFR plus a margin ranging from 1.85% through 2.50% (effective rate of 6.79% and 2.45% at January 1, 2023 and January 2, 2022, respectively), maturing in April 2027.	107,632	116,940

(in thousands, except share data)

	2022	2021
Term note payable - variable rate, due in monthly installments of $266 plus interest of SOFR plus a margin ranging from 1.85% through 2.50% (effective rate of 6.83% and 2.48% at January 1, 2023 and January 2, 2022, respectively), maturing in April 2027.	42,241	45,348
Term note payable - variable rate, due in quarterly installments of $63 plus monthly interest payments of SOFR plus 4.11% (effective rate of 8.47% and 4.10% at January 1, 2023 and January 2, 2022, respectively), maturing in May 2024.	2,375	4,200
Term note payable - variable rate, due in monthly installments of $21 plus interest of SOFR plus a margin ranging from 1.85% through 2.50% (effective rate of 6.83% at January 1, 2023), maturing in April 2027.	3,673	-
Term note payable - fixed rate, due in monthly installments totaling $10 (including interest of 4.75%), maturing in July 2032.	925	-
Total	$ 171,558	$ 181,718
Less unamortized financing costs	(2,410)	(3,002)
Less current portion	(14,041)	(13,333)
Long-term portion	$ 155,107	$ 165,383

The total of the above debt matures as follows:

2023	$ 14,041
2024	16,481
2025	14,961
2026	15,641
2027	109,939
Thereafter	495
Total	$ 171,558

The Company has a revolving line of credit agreement with its primary lender that expires in April 2027 and allows for borrowings up to $35,000 as of January 1, 2023 and January 2, 2022, respectively. Outstanding borrowings were $22,198 and $3,153 and had effective interest rates of 6.83% and 2.48% at January 1, 2023 and January 2, 2022, respectively.

Restaurant Holdings has a revolving line of credit agreement with its primary lender that expires September 2023. As of January 1, 2023, the line of credit allows for borrowings up to $57,500 less the outstanding balance on the entity's term note payable of $2,375. The line of credit allowed for borrowings up to $30,000 as of January 2, 2022. Outstanding borrowings were $9,650 and $5,617 and had effective interest rates of 8.55% and 4.60% at January 1, 2023 and January 2, 2022, respectively.

The Company has a flexible development line of credit with its primary lender that expires in April 2027 and allows for borrowings up to $76,244 as of both January 1, 2023 and January 1, 2022. Outstanding borrowings were $0 and $3,756 and had effective interest rates of 6.83% and 2.48% at January 1, 2023 and January 2, 2022, respectively.

Substantially all property and equipment owned by the Company is pledged as collateral for the Company's long-term debt and lines of credit.

Loan covenants of the Company's various loan agreements include requirements for the maintenance of certain financial ratios. As of January 1, 2023 and January 2, 2022, the Company was in compliance with these covenants.

Note 9 – Interest Rate Swaps

The Company has entered into amortizing interest rate swap agreements to economically manage variability of cash flows associated with its variable rate debt. Both the debt and interest rate swap mature in April 2027. Effective with the Company's refinancing of its existing debt in August 2021, the existing interest rate swaps were consolidated and replaced with one agreement. Accordingly, notional amounts outstanding were $107,632 and $116,940 at January 1, 2023 and January 2, 2022, respectively. Related fair values of the amortizing interest rate swaps were $10,388 and $823 at January 1, 2023 and January 2, 2022, respectively.

In conjunction with the refinancing, the Company designated its interest rate swaps as a cash flow hedge of variable rate interest payments related to its term loan payable. Under this designation, changes in fair value of the interest rate swaps are recognized through other comprehensive income, a component of equity.

For fiscal year 2021, the change in fair value of the swap agreement through the date of the Company's refinancing generated realized gains of $1,036. Such gains which were recognized as a component of interest expense. Following the date of refinancing, the change in fair value of the swap generated unrealized gains of $1,402 recognized through other comprehensive income, a component of equity.

As a result of the change in fair value during fiscal year 2022, unrealized gains of $7,557 were recognized through other comprehensive income, a component of equity.

A realized gain of $551 and loss of $1,413 in fiscal years 2022 and 2021, respectively were recognized on the interest rate swaps and reflected as a component of interest expense. Based on related debt balances, the Company anticipates the amount to be realized in fiscal year 2023 to be immaterial.

(in thousands, except share data)

Note 10 - Taxes

Deferred tax assets and liabilities consist of:

	2022	2021
Deferred tax assets:		
Accrued rents	$ 1,617	$ 1,545
General business credit	5,635	4,829
Payroll taxes deferred under CARES Act	-	792
Interest expense carryforward	1,712	-
Stock based compensation	5,453	3,149
Other	1,809	2,518
Total deferred tax assets	16,226	12,833
Deferred tax liabilities:		
Depreciation, amortization, and basis differences	(30,038)	(26,553)
SWAP agreement OCI	(2,009)	-
Total deferred tax liabilities	(32,047)	(26,553)
Net deferred tax liabilities	$ (15,821)	$ (13,720)

The Company regularly assesses the realizability of its deferred tax assets and the related need for, and amount of, a valuation allowance. Management considers many factors in determining the likelihood of future realization of the deferred tax assets including recent cumulative earnings and loss experience, future reversals of existing temporary differences, and carryforwards.

The general business credits listed above expire between 2039 and 2042.

(in thousands, except share data)

The income tax provision reconciled to the tax computed at the statutory state and federal rates for the years ended January 1, 2023 and January 2, 2022 was as follows:

	2022	2021
Tax expense at statutory rate of 21% applied to income before taxes	$ 2,072	$ 4,927
State taxes (net of federal benefit)	326	1,855
Permanent differences	264	249
Impact of tax credits	(1,657)	(1,705)
Noncontrolling interest	(206)	(159)
Impact of NOL Carryback to years with higher tax rates	-	(300)
Other - net	(213)	229
	$ 586	$ 5,096

The provision for income taxes consists of the following:

	2022	2021
Current expense	$ 494	$ 1,036
Deferred expense	92	4,060
Total income tax expense	$ 586	$ 5,096

As of January 1, 2023 and January 2, 2022, the Company's unrecognized tax benefits were not significant. There were no significant penalties or interest recognized or accrued during 2022 and 2021.

Note 11 - Equity

The Company has 5,000,000 authorized shares of $0.01 par value preferred stock. As of January 1, 2023 and January 2, 2022, preferred stock was designated as follows:

	2022	2021
Preferred B:		
Authorized:	1,350,000	1,350,000
Outstanding:	805,400	805,900
Preferred C:		
Authorized:	200,000	200,000
Outstanding:	160,360	160,360
Preferred D:		
Authorized:	600,000	600,000
Outstanding:	310,293	310,293
Preferred E:		
Authorized:	800,000	800,000
Outstanding:	128,744	128,744

The Series B nonvoting convertible preferred stock has a cumulative annual dividend rate of $0.80 per share. After one year from the date of issuance, shares are convertible by the shareholder into common shares at $5.57 per share and have a liquidation value of $10.00 per share. The Company may (but is not required to) redeem the preferred shares at a price of $10.00 per share plus accrued but unpaid dividends. There were 3,467 and 2,967 treasury shares as of January 1, 2023 and January 2, 2022, respectively. The Series B Preferred shares of the Company are quoted on the OTC Markets under the symbol "MHGUP."

The Series C nonvoting convertible preferred stock has a cumulative annual dividend rate of $1.50 per share. After one year from the date of issuance, shares are convertible by the shareholders into common shares at $13.50 per share and have a liquidation value of $25.00 per share. The Company may (but is not required to) redeem the preferred shares at a price of $28.00 per share plus accrued but unpaid dividends.

The Series D nonvoting convertible preferred stock has a cumulative annual dividend rate of $1.75 per share. After one year from the date of issuance, shares are convertible by the shareholders into common shares at $24.00 per share and have a liquidation value of $25.00 per share. The Company may (but is not required to) redeem the preferred shares at a price of $28.00 per share plus accrued but unpaid dividends.

The Series E nonvoting convertible preferred stock has a cumulative annual dividend rate of $1.75 per share. After one year from the date of issuance, shares are convertible by the shareholders into common shares at $21.00 per share and have a liquidation value of $25.00 per share. The Company may (but is not required to) redeem the preferred shares at a price of $28.00 per share plus accrued but unpaid dividends.

The Company has 30,000,000 authorized shares of $0.01 par value common stock, with 6,503,924 and 6,545,089 shares issued and outstanding as of January 1, 2023 and January 2, 2022, respectively. There were 594,840 and 482,256 treasury shares as of January 1, 2023 and January 2, 2022, respectively. The common shares of the Company are quoted on the OTC Markets under the symbol "MHGU."

Note 12 - Employee Benefit Plans

The Company has a deferred compensation plan (the "Plan") for the benefit of certain employees. Plan investments are participant directed, and vest in accordance with a predetermined vesting schedule. The Plan provides for the payment of benefits for a period of up to 10 years. Other long-term obligations related to deferred compensation under the Plan were $14,016 and $13,526 as of January 1, 2023 and January 2, 2022, respectively. Deferred compensation benefit earned was $1,178 and $2,356 in fiscal years ended January 1, 2023 and January 2, 2022, respectively.

The Company has funded the Plan obligation with Company-owned life insurance policies with cash surrender values of $6,484 and $7,160 at January 1, 2023 and January 2, 2022, respectively, and are included in other assets on the consolidated balance sheets. The plan is additionally funded with investments of $6,827 and $5,606 at January 1, 2023 and January 2, 2022, respectively. Of these investments, $6,822 was invested in

276,674 shares of Company Common stock and 39,375 shares of Company Series B Preferred Stock as of January 1, 2023. There was $5,601 invested in 195,602 shares of Company Common stock and 39,375 shares of Company Series B preferred Stock as of January 2, 2022. Investments in Company-owned stock are recorded as a reduction in equity on the consolidated balance sheets.

The Company sponsors a 401(k) plan for the benefit of substantially all employees. To be eligible for plan participation, employees must have completed one year of service and be 21 years of age or older. The 401(k) plan allows employees to contribute a portion of their compensation and provides for the Company to make a discretionary matching contribution that vests in accordance with a predetermined vesting schedule. Employer contributions to the plan were $399 and $371 for the years ended January 1, 2023 and January 2, 2022, respectively.

Note 13 - Stock Option Plans

The Company has management and director share-based compensation plans which are described below. The compensation expenses charged against income for the plans were $1,278 and $1,233 for fiscal years 2022 and 2021, respectively. The total income tax benefit recognized in the consolidated statements of operations for share-based compensation arrangements was $166 and $161 for fiscal year 2022 and 2021, respectively.

The employee equity incentive plans provide for the discretionary grant of options. The current plan authorizes 2,000,000 shares of common stock to be granted for options that may be issued under the plan. The Board of Directors has the discretion to designate an option to be an incentive share option or a non-qualified share option. The plans provide that the exercise price is not less than the fair market value of the common stock at the date of grant. Options granted under the plans become exercisable pursuant to a vesting schedule adopted by the Board of Directors which administer the plans. Options have a term of 10 years and vest ratably over three years from the grant date.

The directors' share option plans provide for the nondiscretionary grant of options to non-employee directors of the Company. The current plan allows for the grant of options for a maximum of 1,000,000 shares at option prices equal to the last closing sales price of the common stock on the date of grant. The plan provides that each non-employee director is granted options to purchase 10,000 shares on the date such person becomes a non-employee director and on the date of each annual shareholders' meeting thereafter. Additional options may be granted by the Board of Directors, from time to time, on such terms and conditions as it determines appropriate. Options granted under the plan have a term of 10 years and vest ratably over three years from the date of grant.

The fair value of each option award is estimated on the date of grant using the Black Scholes option valuation model that uses the following weighted average assumptions, ignoring dividends: risk-free interest rates of 1.71% to 4.31% and 0.71% to 0.84% in fiscal years 2022 and 2021, respectively; expected life of 5.46 to 8.55 years and 5.20 to 8.77 years in fiscal years 2022 and 2021, respectively; and expected volatility of

(in thousands, except share data)

30.36% to 33.42% and 32.60% to 32.72% in fiscal years 2022 and 2021, respectively. Expected volatilities are based on historical volatility of the Company's weekly stock price. The Company uses historical data to estimate option exercise and employee termination when determining the expected life within the valuation model. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

A summary of option activity under the employee plans for the years ended January 1, 2023 and January 2, 2022 is presented below:

Options	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in Years)
Outstanding at January 3, 2021	905,700	$ 13.84	-
Granted	140,000	20.00	-
Exercised	(77,200)	2.45	-
Forfeited or expired	(5,000)	20.00	-
Outstanding at January 2, 2022	963,500	15.62	6.0
Outstanding at January 2, 2022	963,500	$ 15.62	-
Granted	145,000	21.49	-
Exercised	(22,000)	3.55	-
Forfeited or expired	(15,000)	20.99	-
Outstanding at January 1, 2023	1,071,500	16.58	5.6

The breakdown of outstanding employee stock options as of January 1, 2023 is as follows:

Options	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in Years)
Options excercisable	871,500	$ 15.63	5.0
Nonvested options	200,000	20.75	8.4

Total options outstanding represent aggregate intrinsic value of $3,535 and $5,269 as of January 1, 2023 and January 2, 2022, respectively. There were 22,000 and 77,200 options exercised with intrinsic value of $364 and $1,356 in 2022 and 2021, respectively. The fair value of stock options awarded during 2022 and 2021 was $1,049 and $855, respectively. As of January 1, 2023, total unrecognized compensation expense related to non-vested stock options was $1,039. This expense will be recognized over approximately 2.2 years.

(in thousands, except share data)

A summary of option activity under the directors' plans for the years ended January 1, 2023 and January 2, 2022 is presented below:

Options	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in Years)
Outstanding at January 3, 2021	490,000	$ 11.22	-
Granted	60,000	21.75	-
Exercised	(46,667)	8.19	-
Forfeited or expired	-	-	-
Outstanding at January 2, 2022	503,333	12.75	5.5
Outstanding at January 2, 2022	503,333	$ 12.75	-
Granted	70,000	19.93	-
Exercised	(50,000)	2.69	-
Forfeited or expired	-	-	-
Outstanding at January 1, 2023	523,333	14.67	5.6

The breakdown of outstanding director stock options as of January 1, 2023 is as follows:

Options	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in Years)
Options excercisable	393,333	$ 13.03	4.5
Nonvested options	130,000	19.65	8.9

Total options outstanding represent aggregate intrinsic value of $2,497 and $4,065 as of January 1, 2023 and January 2, 2022, respectively. There were 50,000 and 46,667 options exercised with intrinsic value of $922 and $326 in 2022 and 2021, respectively. The fair value of stock options awarded during 2022 and 2021 was $605 and $514, respectively. As of January 1, 2023, total unrecognized compensation expense related to non-vested stock options was $799. This expense will be recognized over approximately 2.8 years.

(in thousands, except share data)

Note 14 – Earnings per Share

Earnings per share as of January 1, 2023 and January 2, 2022 was calculated as follows:

	2022	2021
Income attributable to controlling interest	$ 8,485	$ 17,445
Less: Preferred stock dividends	(2,026)	(2,027)
Income available to common shareholders	$ 6,459	$ 15,418
Weighted average basic shares outstanding	6,585	6,703
Basic EPS	$ 0.98	$ 2.30
Income available to common shareholders	$ 6,459	$ 15,418
Add: Dividends on dilutive preferred stock	885	2,027
Income available to common shareholders	$ 7,344	$ 17,445
Weighted average basic shares outstanding plus assumed conversions	8,694	9,631
Diluted EPS	$ 0.84	$ 1.81

Note 15 – Information About Variable Interest Entity

Restaurant Holdings was formed to facilitate real estate transactions where the Company has potential economic benefits in future sale and leaseback transactions. This variable interest entity ("VIE") is owned by related parties and not directly by the Company. Restaurant Holdings is consolidated due to the Company's power to direct activities that impact its economic performance, as well as the right to receive benefits or the obligation to absorb losses from Restaurant Holdings that could potentially be significant.

The purpose of Restaurant Holdings is to provide a source of capital to fund the purchase of restaurant real estate and, when sold, provide potential upside to the Company. Upon acquisition of real estate, Restaurant Holdings leases such real estate to the Company and utilizes rent revenue to pay the interest expense on its bank debt. The Company's senior credit facility requires the Company to finance acquisitions of real estate with a minimum of 25% of the purchase price in equity. The Company believes this requirement is dilutive to its long-term real estate strategy.

Restaurant Holdings leverages a revolving credit facility with a bank other than the Company's senior lender that allows for borrowings up to $55,125 secured by its interest in the real estate and personal guarantees of owners. As of January 1, 2023 and January 2, 2022, Restaurant Holdings had bank debt obligations totaling $12,025 and $9,818, respectively. Restaurant Holdings additionally entered into a note payable resulting from the purchase of ownership interest in 2022. As of January 1, 2023, the note had an outstanding balance of $925, for total debt obligations of $12,950.

(in thousands, except share data)

Included in the consolidated balance sheets as of January 1, 2023 and January 2, 2022 are the following amounts related to Restaurant Holdings, before eliminating entries:

	2022	2021
Assets:		
Current assets	$ 1,450	$ 4,694
Property and Equipment - net	9,307	6,039
Other assets	1,168	469
Investment in MHGI preferred stock	5,000	5,000
Total Assets	$ 16,925	$ 16,202
Liabilities:		
Current liabilities	$ 1,559	$ 2,464
Current portion of long-term debt	328	400
Revolving line of credit	9,650	5,618
Long-term debt	2,972	3,798
Total Liabilities	$ 14,509	$ 12,280
Equity - Noncontrolling interest	2,416	3,922
Total Liabilities and Equity	$ 16,925	$ 16,202

Note 16 - Related Party Transactions

The Company's CEO has provided personal guarantees to The Wendy's Company to facilitate the granting of certain Wendy's franchise agreements.

The Company's CEO and President are each 39.5% owners in the Company's VIE for which the Company is a primary beneficiary (see Note 1).

The Company's CEO and President were each 50.0% owners of a related party entity that leased real property to one of the Company's independent concept restaurants. During fiscal year 2022, the real property was sold to a third party and the related party relationship terminated.

During fiscal year 2021, the Company repurchased 159,523 common stock shares from certain Board members at market price.

Note 17 - Guarantees, Commitments, and Contingencies

The Company is involved in certain routine legal proceedings which are incidental to its business. All these proceedings arose in the ordinary course of the Company's business and, in the opinion of the Company, any potential liability of the Company with respect to these legal actions will not, in the aggregate, be material to the Company's consolidated financial statements. The Company maintains various types of insurance standard to the industry which would cover most liabilities incurred by actions brought against the Company.

As part of the Company's ongoing franchise relationship with The Wendy's Company, the Company entered into agreements which contain certain restaurant reimaging and development requirements. Through these agreements, the Company committed to reimage 100% of its portfolio by December 31, 2024 and to develop 51 new restaurants by November 30, 2025. Pursuant to these agreements, the Company is entitled to receive significant economic incentives which include royalty and national marketing fee relief. The Company has reimaged approximately 70% of its portfolio and has completed 29 of the new restaurant development commitments. The Company estimates that it will invest approximately $90,575 to fulfill the remaining commitments of these agreements.

The Company additionally is required to complete certain agreed-upon improvements to facilities. As January 1, 2023, these capital improvements have remaining estimated costs of $512.

Effective August 2021, the Company entered into a development agreement with its newest franchisor, Taco John's. Subject to certain terms and conditions, the Company committed to build 50 new Taco John's restaurants by March 31, 2026 with options to develop an additional 150 restaurants thereafter. Based on current costs, the Company estimates it will invest approximately $120,000 in the initial 50 store roll-out.

Note 18 – Acquisition

On July 13, 2022, the Company acquired the business and equipment of six Wendy's restaurants. The Company acquired the real estate associated with five of the locations. The Company entered into new lease agreements for certain acquired locations with the restaurants' building owners and franchise agreements for all locations with the Company's franchisor, The Wendy's Company.

In accordance with ASC 805-10-50-2, the Company deemed it impracticable to disclose sufficient and materially accurate pro forma revenue and net income related to the acquisition transacted during fiscal year 2022, as the determination of pro forma adjustments requires assumptions about the sellers' intent in the prior period that cannot be independently substantiated and requires significant estimates for which it is impossible to distinguish objective information about those estimates.

The acquisition was financed with $12,520 of debt and $3,954 of cash on hand. The transaction resulted in the recording of $3,309 of goodwill, $12,833 of land and building, $300 of equipment and leasehold improvements, $30 of inventory, $29 of franchise costs, $69 in franchise rights and $96 of other current liabilities. Revenue in fiscal year 2022 included $5,024 from locations acquired.

The Company expensed $306 of acquisition costs in fiscal year 2022 related to the acquisition.

Goodwill arising from the acquisitions consists largely of synergies and economies of scale expected from combining the operations of the new locations with the Company. All the goodwill is expected to be deductible for tax purposes.

Note 19 – Subsequent Events

The consolidated financial statements and related disclosures include evaluation of events up through and including March 8, 2023, the date the consolidated financial statements were issued.

Subsequent to fiscal year 2022, the Company entered into a definitive purchase agreement to acquire a group of Wendy’s restaurants located in the Company’s existing markets. The transaction is subject to customary due diligence and standard approvals and is anticipated to be completed in the second quarter of 2023.

Meritage Hospitality Group Inc.
Annual Disclosures

For Fiscal Year Ended January 1, 2023

Part A General Company Information

Item 1 The exact name of the issuer and its predecessor (if any).

The name of the Company is Meritage Hospitality Group Inc. (the "Company" or "Meritage").

Item 2 The address of the issuer's principal executive offices.

45 Ottawa Ave SW, Suite 600
Grand Rapids, MI 49503
Telephone: 616.776.2600
Facsimile: 616.328-6925
Web: www.meritagehospitality.com

Item 3 The jurisdiction and date of the issuer's incorporation or organization.

The Company was incorporated under the laws of the State of Michigan in August 1986.

Part B Share Structure

Item 4 The exact title and class of securities outstanding.

The Company's Articles of Incorporation authorize 30,000,000 common shares (Par Value Per Share $0.01). There were 6,503,924 common shares outstanding at January 1, 2023. The shares are assigned CUSIP No. 59000K309 and are quoted on the OTC Markets under the symbol "MHGU".

The Company's Articles of Incorporation authorize 5,000,000 preferred shares (Par Value Per Share $0.01). Preferred shares are summarized as follows:

Title	CUSIP No.	OTC Markets Trade Symbol
Series B Convertible Preferred Shares	59000K408	MHGUP
Series C Convertible Preferred Shares	59000K507	-
Series D Convertible Preferred Shares	59000K606	-
Series E Convertible Preferred Shares	59000K705	-

Item 5 Par or stated value and description of the security.

Common Shares: The Company most recently paid cash dividends per share of $0.30 in 2022, $0.32 in 2021, $0.14 in 2020, and $0.24 in 2019. The Company's Board of Directors regularly considers payment of additional dividends on common shares but has not adopted a dividend policy. State law and certain of the Company's governance documents and loan agreements may limit the Company's ability to declare cash dividends.

Series B Convertible Preferred Shares: The Company authorized 500,000 Series B Convertible Preferred Shares ("Series B Preferred Shares") in 2003, an additional 850,000 shares in 2015, and has 805,400 shares outstanding. The Series B Preferred Shares have an annual dividend rate of $0.80 per share. The right to payment of dividends is cumulative. The dividend is payable in equal quarterly installments on the first day of each January, April, July and October to holders of record as of the 15th day of the preceding month. The holders may convert their Series B Preferred Shares into common shares at a conversion price of $5.57 per common share. The conversion rate is subject to adjustment in the event of stock splits, stock dividends, combinations, reclassifications and similar occurrences. The Company may, upon 15 days written notice, redeem all or part of the Series B Preferred Shares at a redemption price of $10.00 per Series B Preferred Share plus accrued but unpaid dividends. Upon any dissolution or winding up, the holder of each Series B Preferred Share will be entitled to receive a liquidation value of $10.00 per Series B Preferred Share plus all accrued but unpaid dividends after the payment of all indebtedness of the Company and before any distributions to holders of common shares. No voting rights are provided except as required by law and with the exception that, if at any time the Company fails to make six quarterly dividend payments, the holders of the Series B Preferred Shares, voting as a class with each Series B Preferred Share having one vote, would be entitled to elect two directors to the Board, which members would remain on the Board as long as any dividend payment arrearages remain outstanding.

Series C Convertible Preferred Shares: The Company authorized 1,500,000 Series C Convertible Preferred Shares ("Series C Preferred Shares") in 2016, subsequently reduced to 200,000 in 2020, and has 160,360 shares outstanding. The Series C Preferred Shares have an annual dividend rate of $1.50 per share. The right to payment of dividends is cumulative. The dividend is payable in equal quarterly installments on the first day of each January, April, July and October to holders of record as of the 15th day of the preceding month. In one year from the date of issuance, the holders may convert their Series C Preferred Shares into common shares at a conversion price of $13.50 per common share. The conversion rate is subject to adjustments for subdivisions and splits of common shares. The Company may, at its option, redeem all or part of the Series C Preferred Shares at a redemption price of $28.00 per Series C Preferred Share plus accrued but unpaid dividends. Upon any dissolution or winding up, the holder of each Series C Preferred Share will be entitled to receive a liquidation value of $25.00 per Series C Preferred Share plus all accrued but unpaid dividends after the payment of all indebtedness of the Company and before any distributions to holders of common shares. No voting rights are provided except as required by law and with the exception that, if at any time the Company fails to make six quarterly dividend payments, the holders of the Series C Preferred Shares, voting as a class with each Series C Preferred Share having one vote, would be entitled to elect two directors to the Board, which members would remain on the Board as long as any dividend payment arrearages remain outstanding.

Series D Convertible Preferred Shares: The Company authorized 600,000 Series D Convertible Preferred Shares ("Series D Preferred Shares") in 2017 and has 310,293 shares outstanding. The Series D Preferred Shares have an annual dividend rate of $1.75 per share. The right to payment of dividends is cumulative. The dividend is payable in equal quarterly installments on the first day of each January, April, July and October to holders of record as of the 15th day of the preceding month. In one year from date of issuance, the holders may convert their Series D Preferred Shares into common shares at a conversion price of $24.00 per common share. The conversion rate is subject to adjustments for subdivisions and splits of common shares. The Company may, at its option, redeem all or part of the Series D Preferred Shares at a redemption price of $28.00 per Series D Preferred Share plus accrued but unpaid dividends. Upon any dissolution or winding up, the holder of each Series D Preferred Share will be entitled to receive a liquidation value of $25.00 per Series D Preferred Share plus all accrued but unpaid dividends after the payment of all indebtedness of the Company and before any distributions to holders of common shares. No voting rights are provided except as required by law and with the exception that, if at any time the Company fails to make six quarterly dividend payments, the holders of the Series D Preferred Shares, voting as a class with each Series D Preferred Share having one vote, would be entitled to elect two directors to the Board, which members would remain on the Board as long as any dividend payment arrearages remain outstanding.

Series E Convertible Preferred Shares: The Company authorized 800,000 Series E Convertible Preferred Shares ("Series E Preferred Shares") in 2018 and has 128,741 shares outstanding. The Series E Preferred Shares have an annual dividend rate of $1.75 per share. The right to payment of dividends is cumulative. The dividend is payable in equal quarterly installments on the first day of each January, April, July and October to holders of record as of the 15th day of the preceding month. In one year from date of issuance, the holders may convert their Series E Preferred Shares into common shares at a conversion price of $21.00 per common share. The conversion rate is subject to adjustments for subdivisions and splits of common shares. The Company may, at its option, redeem all or part of the Series E Preferred Shares at a redemption price of $28.00 per Series E Preferred Share plus accrued but unpaid dividends. Upon any dissolution or winding up, the holder of each Series E Preferred Share will be entitled to receive a liquidation value of $25.00 per Series E Preferred Share plus all accrued but unpaid dividends after the payment of all indebtedness of the Company and before any distributions to holders of common shares. No voting rights are provided except as required by law and with the exception that, if at any time the Company fails to make six quarterly dividend payments, the holders of the Series E Preferred Shares, voting as a class with each Series E Preferred Share having one vote, would be entitled to elect two directors to the Board, which members would remain on the Board as long as any dividend payment arrearages remain outstanding.

While the Company's Charter documents do not have specific provisions designed to prevent a change in control, provisions in several documents (including the Company's articles of incorporation, bylaws, franchise agreements, loan agreements, equity award agreements, etc.) and certain provisions in the Michigan Business Corporate Act could effectively delay or hinder an attempted change in control.

The rest of this page is intentionally left blank.

Item 6 The number of shares or total amount of the securities outstanding for each class of securities authorized.

	2022	2021
Common Shares		
Authorized:	30,000,000 shares	30,000,000 shares
Outstanding:	6,503,924 shares	6,545,089 shares
Freely Tradable (public float):	approx. 3,000,000 shs.	approx. 3,000,000 shs.
Number of beneficial holders owning at least 100 shares:	approx. 684	approx. 723
Number of record holders:	approx. 56	approx. 59
Preferred B:		
Authorized:	1,350,000 shares	1,350,000 shares
Outstanding:	805,400 shares	805,900 shares
Freely Tradable (public float):	300,000 shares	300,000 shares
Number of record holders:	18 holders	22 holders
Preferred C		
Authorized:	200,000 shares	200,000 shares
Outstanding:	160,360 shares	160,360 shares
Number of record holders:	7 holders	7 holders
Preferred D		
Authorized:	600,000 shares	600,000 shares
Outstanding:	310,293 shares	310,293 shares
Number of record holders:	24 holders	24 holders
Preferred E		
Authorized:	800,000 shares	800,000 shares
Outstanding:	128,744 shares	128,744 shares
Number of record holders:	13 holders	13 holders

Item 7 The name and address of the transfer agent.

American Stock Transfer and Trust Company, LLC (an Equiniti Company)
6201 15th Avenue
Brooklyn, NY 11219
Phone: (718) 921-8200

American Stock Transfer and Trust Company, LLC ("AST") is registered under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). AST's procedures and transactions are regulated and audited by the Securities and Exchange Commission ("SEC").

Part C Business Information

Item 8 The nature of the issuer's business.

Summary

Meritage was incorporated under the laws of the State of Michigan in August 1986 and was assigned a primary SIC Code of 5812 (Retail-Eating Places). Meritage has approximately 11,000 employees, of which approximately 2,600 are full-time. The Company's consolidated financial statements include the accounts of Meritage Hospitality Group Inc. and all of its wholly-owned subsidiaries and affiliate, consisting of MHG Food Service Inc., OCM Development, LLC, WM Limited Partnership-1998, Wen South, LLC, Wen Georgia LLC, Wen Carolina's LLC, Wen Virginia LLC, Wen Ohio LLC, Wen Oklahoma LLC, Wen Tennessee LLC, Inspired by Opportunity LLC, We Love Tacos LLC, its 98.5% owned subsidiary, RDG-MHG, LLC, ("RDG"), and its variable interest entity (VIE), Restaurant Holdings, LLC ("Restaurant Holdings"), for which the Company is a primary beneficiary. RDG is a 15% partner in TRG-Meritage Bahamas, LLC ("TRG"). All intercompany transactions and balances have been eliminated in consolidation. For convenience, Meritage is not a shell company, and its subsidiaries and affiliate are collectively referred to as "Meritage" or "the Company" throughout this report.

The Company operates on a 52/53-week fiscal year ending on the Sunday closest to December 31 of each year. Each of the two fiscal years presented ended January 1, 2023 and January 2, 2022 contained 52 weeks.

Meritage operates 349 Wendy's quick-service restaurants. The Company's Wendy's restaurants are a franchisee of Quality Is Our Recipe, LLC, a subsidiary of The Wendy's Company. To simplify the language in this disclosure, Quality Is Our Recipe, LLC will hereafter be referred to as The Wendy's Company. The Company operates Wendy's restaurants in 16 states, which include eight restaurants in Arkansas, 32 in Connecticut, 59 in Florida, 50 in Georgia, 12 in Indiana, 13 in Massachusetts, 55 in Michigan, seven in Mississippi, three in Missouri, two in North Carolina, 15 in Ohio, 28 in Oklahoma, one in South Carolina, 34 in Tennessee, 17 in Texas and 13 in Virginia. Through its development and acquisition efforts, the Company is one of the nation's largest Wendy's franchisees.

As part of the Company's continued growth initiatives, the Company entered into an Area Development Agreement effective August 18, 2021 with its newest quick-service franchisor, Taco John's. Subject to certain terms and conditions, the Company committed to build 50 new Taco John's restaurants by March 31, 2026, with options to develop an additional 150 restaurants thereafter. The Company opened its first Taco John's restaurant in December 2022, located in Michigan.

The Company also owns six independent restaurants operating under two concepts throughout Michigan which include three Morning Belle restaurants and three Stan's Tacos. All restaurants were launched as the Company's own original concepts, each with a unique environment and offerings tailored to consumer preferences. The Company continues to actively focus on future development and long-term growth of its Morning Belle brand.

Risks and Governmental Regulations

Meritage is subject to numerous uncertainties and risk factors inherent in the food service industry. These include, among others: competition; changes in local and national economic conditions; changes in consumer tastes and eating habits; concerns about the nutritional quality of quick-service or casual dining menu items; concerns about consumption of beef or other menu items due to food-borne diseases; promotions and menu price discounting by competitors; severe weather; changes in travel patterns; road construction; demographic trends; the cost of food, labor, fuel and energy; the availability and cost of suitable restaurant sites; the ability to finance expansion; fluctuating interest rates; insurance costs; the availability of an adequate number of managers and hourly-paid employees; directives issued by its franchisor regarding the Company's quick-service operations; its franchisor's national marketing and advertising programs; its franchisor's advertised pricing; the general reputation of Meritage's and its franchisor's restaurants; legal claims; security, including cyber security; credit card fraud; information technology incidents and breaches; and the recurring need for renovation and capital improvements. Meritage is subject to risks and uncertainties related to the development of pandemics.

The Company is also subject to various federal, state and local laws and governmental regulations relating to, among other things: zoning; restaurant operations; public health certification regarding the preparation and sale of food; alcoholic beverage control; discharge of materials into the environment; sanitation; and minimum wage laws. The Company believes its operations would be adversely affected if these permits or other applicable permits or approvals were not obtained or renewed or were terminated. While the Company has no reason to anticipate that this may occur, it can give no assurances in this regard. In addition, changes regarding minimum wage laws or other laws governing the Company's relationship with its employees (e.g., overtime wages and tips, health care coverage, employment of minors, citizenship/immigration requirements, working conditions, etc.) could have an adverse effect on the Company's operations.

Approximately 14% of the Company's independent concept restaurant sales are attributable to the sale of alcoholic beverages. Each restaurant has licenses from regulatory authorities allowing it to sell liquor, beer and wine. The failure of a restaurant to obtain or retain liquor service licenses could adversely affect the Company's operations. Once a liquor license is obtained, Meritage is subject to "dram-shop" statutes and interpretations which generally provide that a person who is injured by an intoxicated person has the right to recover damages from an establishment that wrongfully served alcoholic beverages to the intoxicated person.

The Federal Americans with Disabilities Act prohibits discrimination on the basis of disability in public accommodations and employment. The Company's restaurants are designed to be accessible to the disabled and are in substantial compliance with all current applicable regulations relating to restaurant accommodations for the disabled. The development and construction of additional restaurants will be subject to compliance with applicable zoning, land use and environment regulations.

See *Forward-Looking Statements* following Item 20 of this annual disclosure statement for additional details.

Legal Proceedings

The Company is involved in various routine legal proceedings that are incidental to its business. All of these proceedings arose in the ordinary course of the Company's business and, in the opinion of the Company, any potential liability of the Company with respect to these legal proceedings will not, in the aggregate, be material to the Company's consolidated financial statements. The Company maintains various types of insurance policies standard to the industry that, subject to deductibles, are expected to insure over many claims and legal proceedings brought against the Company.

Listing Developments

The Company has fewer than 300 record common shareholders, with shares listed on the OTC Markets under the symbol "MHGU." The listing is under the OTCQX premium listing service intended to set apart a select group of issuers that the OTC Markets deem worthy of heightened consideration by investors. The OTCQX is designed to meet the needs of small to medium-sized, publicly traded U.S. companies.

The Company's Series B Preferred Shares are listed on the OTC Markets using the OTCQX premium listing service under the symbol "MHGUP".

Item 9 The nature of products or services offered.

Quick-Service Operations

The Company operates Wendy's quick-service restaurants in Arkansas, Connecticut, Florida, Georgia, Indiana, Massachusetts, Michigan, Mississippi, Missouri, North Carolina, Ohio, Oklahoma, South Carolina, Tennessee, Texas, and Virginia. The Company's Taco John's quick-service restaurant operates in Michigan.

Menu

Each Wendy's restaurant offers a diverse menu of food items featuring hamburgers and chicken sandwiches, all of which are prepared to order with the customer's choice of condiments. The Wendy's menu additionally includes chili, baked and french-fried potatoes, chicken nuggets, freshly prepared salads, soft drinks, "Frosty" desserts and children's meals. Wendy's breakfast menu features a variety of breakfast sandwiches and specialty coffees, including the Frosty-ccino. Each Wendy's restaurant features soft drink products supplied by the Coca Cola Company and its respective affiliates.

Taco John's menu features a variety of made to order items, including meat and potato burritos, stuffed grilled tacos, quesadillas, signature Potato Olés®, and crave worthy fried chicken tacos. Taco John's also offers signature specials like Taco Tuesday® and the everyday value menu. The breakfast menu brings a variety of breakfast burritos, scramblers, cold brew coffees, and signature Mexican donut bites to start the day. Soft drink products are supplied by PepsiCo and its respective affiliates.

Both franchisors maintain significant discretion over the menu items offered in the Company's restaurants.

Restaurant Layout and Operation

The Company's Wendy's restaurants range from 2,200 to 3,600 square feet with seating capacity for approximately 30 to 130 people. Restaurants are generally open from 6:30 a.m. until midnight, with the exception of restaurants that do not offer Wendy's breakfast and therefore open at 10:00 a.m. Restaurants feature a pick-up drive-through window. Sales to drive-through customers account for approximately 77% of total 2022 restaurant sales.

The Company's Taco John's restaurants average 2,100 square feet. The restaurants feature a pick-up window for drive-through service, as well as dine-in seating capacity for approximately 40 people. Hours of operations are 6:30 a.m. until 11:00 p.m.

Marketing and Promotion

The Wendy's Company as a franchisor requires at least 4.0% of the Company's restaurant sales be contributed to an advertising and marketing fund, 3.5% of which is used to benefit all Wendy's restaurants in national advertising programs. The Wendy's National Advertising Program uses these funds to develop advertising and sales promotion materials and concepts to be implemented nationally. The remaining 0.5% is used on local advertising.

Taco John's International, Inc. as a franchisor requires 4.0% of the Company's restaurants sales to be contributed to an advertising and marketing fund for national, regional and/or local media placement, of which 2.85% is used on local advertising.

The Company typically spends local advertising dollars in support of radio advertising, print media, social media, local promotions and community goodwill projects. In addition, digital marketing discounts provided through in-app purchases further represent the Company's overall investment in marketing.

Raw Materials and Energy

The Company's restaurants comply with uniform recipe and ingredient specifications provided by each franchisor. Food and beverage inventories and restaurant supplies are purchased from independent vendors that are approved by the related franchisor. The Company has not experienced any significant shortages of food, equipment, fixtures or other products that are necessary to restaurant operations. While no such shortages are anticipated at this time, the Company believes that alternate suppliers are available if any shortage were to occur.

The Company's principal sources of energy for its quick-services restaurant operations are electricity and natural gas. The supply of energy available to the Company has been sufficient to maintain normal operations.

Seasonality

The Company's business is subject to various seasonal fluctuations. Midwest and East Coast traffic typically increases during the summer, resulting in increased revenues during those months. Traffic in the southern states typically increases during the early spring, resulting in increased revenues during those months.

Relationship with Franchisor

Meritage operates its quick-service restaurants pursuant to various agreements (including one franchise agreement for each restaurant) with its franchisors, The Wendy's Company and Taco John's International, Inc. These agreements grant privileges to the Company such as the right to utilize trademarks, service marks, designs, and other proprietary rights in connection with the operation of its restaurants. These agreements also impose requirements on the Company regarding the preparation and quality of food products, the level of service, capital improvements, and general operating procedures. The remaining terms of the Company's Wendy's franchise agreements (including options to renew) range from one to 34 years. Taco John's franchise agreements have a 20-year base term with three, ten-year options to renew.

Wendy's franchise agreements provide, among other things, that a change in the operational control of the Wendy's operating entity, or the removal of a guarantor of the franchise agreements, cannot occur without the prior consent of the franchisor. In addition, any proposed sale of a Wendy's restaurant, ownership interests or franchise rights therein is subject to the consent of, and a right of first refusal by, the franchisor. These agreements also grant the franchisor wide discretion over many aspects of the restaurant operations, and often require the consent of the franchisor to carry out certain operational transactions pertaining to the Wendy's restaurants. If Meritage needs the consent of its franchisor to proceed with its business plans and such consent is not obtained, Meritage will not be able to proceed with its plans which, in turn, could adversely affect Meritage's growth strategy. If Meritage were to proceed without the franchisor's consent when required, the franchisor could terminate the franchise agreements or exercise its right to purchase the Wendy's restaurants.

In addition to monthly fees, Meritage is required to pay the franchisor a technical assistance fee upon the opening of a new Wendy's restaurant. Meritage is permitted to develop new Wendy's restaurants subject to the expandability criteria and site standards of the franchisor. While the franchise agreements are in place, Meritage is prohibited from acquiring or developing any "Competing Business" as defined in the Wendy's Franchise Agreement within its designated market area ("DMA"), or outside of them if the restaurant sells hamburgers, chicken sandwiches or products similar to the franchisor, and is located within a three-mile radius of another Wendy's restaurant. For two years after the expiration or termination of the franchise agreements, Meritage is prohibited from participating in any quick-service restaurant business that sells hamburgers, chicken sandwiches or products similar to the franchisor, and is located within its DMA.

The reputation of Meritage's restaurants is largely dependent on the reputation of the entire Wendy's restaurant chain, which in turn is dependent upon the management and financial condition of The Wendy's Company and the performance of Wendy's restaurants operated by other Wendy's franchisees. Should the Wendy's Company be unable to compete effectively with similar restaurant chains in the future, Meritage would be materially and adversely affected. Furthermore, many of the attributes which lead to the success of Wendy's operations are factors over which Meritage has no control, such as national marketing, introduction of new products, quality assurance and other operational systems. Meritage cannot conduct its Wendy's operations without its affiliation with its franchisor. Any termination of the franchise agreements would have a material adverse effect on Meritage's financial condition and results of operations.

Taco John's franchise agreements provide, among other things, that any proposed sale of a Taco John's restaurant, ownership interests or franchise rights therein is subject to the consent of, and a right of first refusal by, the franchisor. These agreements also grant the franchisor wide discretion over many aspects of the restaurant operations, and often require the consent of the franchisor to carry out certain operational transactions pertaining to the Taco John's restaurants. If Meritage needs the consent of its franchisor to proceed with its business plans and such consent is not obtained, Meritage will not be able to proceed with its plans which, in turn, could adversely affect Meritage's growth strategy. If Meritage were to proceed without the franchisor's consent when required, the franchisor could terminate the franchise agreements or exercise its right to purchase the Taco John's restaurants.

Meritage is permitted to develop new Taco John's restaurants subject to the standards and approval of the franchisor. While the franchise agreements are in place, Meritage is prohibited from performing services for or have any direct or indirect interest in any "Competitive Business" as defined in the Taco John's Franchise Agreement within its Protected Territory, or outside of them if the restaurant offers or sells Mexican food as more than 15.0% of its menu items.

Independent Concept Operations

The Company owns six independent restaurants operating under two concepts throughout Michigan which include three Morning Belle restaurants and three Stan's Tacos.

Morning Belle restaurants are located in Grand Rapids, Michigan, and are the Company's newest concept. The restaurants feature a relaxing, garden themed environment tailored to family and friends and includes breakfast options using the best ingredients for the freshest taste. The restaurants' vibrant decor is designed to make days brighter with any one of the restaurants' crafted morning cocktails, or signature breakfast, brunch or lunch dishes.

Stan's Tacos restaurants are located in Standale, Grand Rapids, and Grand Haven, Michigan. The restaurants' upbeat décor aims to reflect a summer patio and features a unique, tailored menu which includes a variety of made-to-order tacos and specialty margaritas. In connection with the Company's focus on capitalizing brand presence and performance of its two primary concepts, the Grand Haven Stan's Tacos location was closed for rebranding subsequent to year end.

Restaurant Menu, Layout and Operation

Morning Belle is a bright, garden-themed breakfast restaurant that ranges from 2,400 to 5,500 square feet and features between 90 and 140 dining seats. The restaurants' décor includes white brick and shiplap walls, warm cedar accents, greenery, and vibrant fabrics. Morning Belle's menu features breakfast, brunch and lunch options which include traditional breakfast entrees, scratch-made pancakes, a kids menu, lighter options such as salads with fresh cut vegetables and grain bowls, and its own glazed donut waffle for the more indulgent palate. The concept's extensive specialty beverage menu includes, among other items, a variety of mimosas, spiked cold brews, and pomegranate lemonade.

Stan's Tacos' Standale location is a 4,700 square foot site on the end cap space of a shopping center. The restaurant features a large cabana bar as well as a 14-foot garage door to welcome the outside in. Located in the heart of downtown, Stan's Tacos' Grand Rapids location is 6,000 square feet and includes both full-service dining, as well as a grab-and-go station. All locations accommodate approximately 115-140 guests and exhibit a come-as-you-are atmosphere for guests of every age. The restaurants feature specialty margaritas and made-to-order tacos using only the freshest ingredients.

Marketing and Promotion

The advertising and promotional efforts for the Company's independent concepts are aimed at building brand loyalty and emphasizing the distinctiveness of each location's food, service, atmosphere and commitment to supporting the local economy. Their "grassroots" campaigns include community involvement, participation in local events and support of local media outlets among other initiatives. Social media, digital and mobile marketing also play a large role in their advertising strategy, as the online conversation and consumer review systems grow larger.

Raw Materials and Energy

The Company's independent concepts comply with internal recipe and ingredient specifications. Food and beverage inventories and restaurant supplies are purchased from third party suppliers. The Company has not experienced any significant shortages of food or other products that are necessary to restaurant operations. While no such shortages are anticipated at this time, the Company believes that alternate suppliers are available if any shortage were to occur.

The Company's principal sources of energy for its independent concept restaurants are electricity and natural gas. The supply of energy available to the Company has been sufficient to maintain normal operations.

Competition and Industry Conditions

Meritage operates restaurants within the quick-service restaurant ("QSR") industry and the casual dining restaurant industry.

Quick-Service Restaurant Industry

Meritage operates its Wendy's and Taco John's restaurants within the quick-service restaurant ("QSR") industry. The QSR industry is characterized by customers who are looking for quick, convenient and value-oriented meals that are ordered, paid for and picked up at a cash register. Within the quick-service industry, the hamburger segment comprises approximately half of the market and is dominated by Wendy's, McDonald's, and Burger King. Pizza, chicken, breakfast, Mexican, Asian and other sandwich market segments comprise a significant portion of the remainder of the QSR industry.

Most of the Company's quick-service restaurants are located in close proximity to principal competitors which are highly competitive on the basis of price and value perception, service, location, food quality, menu variety, speed of service, attractiveness of facilities, and effectiveness of marketing and new product development. The Company also competes within the food service industry and the QSR restaurant sector not only for customers, but also for personnel and suitable real estate sites.

The Company believes the competitive position of a Wendy's restaurant is ultimately enhanced by its unique qualities such as the use of fresh ground beef, a diverse menu, its promotional products, food prepared to order with an emphasis on quality, nutrition and taste, pleasant and speedy services, and atmosphere. Wendy's continues to implement its reimaging program, which includes innovative exterior and interior restaurant designs, with plans for significantly more new and reimaged restaurants which began in 2014 and continuing beyond. The program also differentiates the Company from its competitors by its emphasis on restaurant employees who provide friendly and engaged customer service.

Casual Dining Restaurant Industry

The Company operates its Morning Belle and Stan's Tacos restaurants within the casual dining industry. The casual dining restaurant industry services customers interested in high-quality, value-oriented, full-service meals with wait staff taking orders and available throughout the meal.

As with its quick-service restaurants, the Company's independent concept restaurants are located in close proximity to their principal casual dining restaurant competitors who are highly competitive on the basis of price and value perception, service, location, food quality, menu variety, quality and speed of service, attractiveness of facilities, effectiveness of marketing and new product development.

Item 10 The nature and extent of the issuer's facilities.

Each Wendy's restaurant is built to the franchisor's specifications for exterior style and interior decor. Typical freestanding restaurants are one-story brick buildings with parking for 15 to 70 vehicles. The restaurants have a food preparation area, a dining room with seating capacity for 30 to 130 guests, and a pick-up window for drive-through service. Of the 349 Wendy's restaurants it operates, the Company (i) owns the land and buildings comprising 22 restaurants, (ii) leases the land and buildings comprising 317 restaurants, and (iii) owns the building and leases the land comprising 10 restaurants. The remaining lease terms (including options to renew) range from one to 50 years. The structures are between one and 48 years old. Meritage has performed major remodels on a number of its older Wendy's restaurants in the last several years. The land and buildings owned by the Company are held as collateral for financing.

The Company remains focused on reimaging its Wendy's. Reimaging costs inclusive of deferred maintenance items range from $400,000 to $700,000 per restaurant. Currently, 70% of the Company's Wendy's restaurant portfolio has been reimaged.

Taco John's restaurants are typically a 2,100 square foot, freestanding building with parking for roughly 30 vehicles. Similar to Wendy's, there is a food preparation area, a dining room with seating capacity for 40 guests, and a pick-up window for drive-through service. For the one operating Taco John's restaurant, the Company owns the land and building. The land and buildings owned by the Company are held as collateral for financing.

Of the six independent restaurants it operates, the Company (i) leases the land and buildings comprising five restaurants, and (iii) owns the building and leases the land for one restaurant. The remaining term of the building and land leases (including options to renew) are between 16 and 49 years. The remaining term of the land lease (including options to renew) is 16 years.

The Company leases office space at 45 Ottawa SW Suite 600, Grand Rapids, Michigan, which serves as the registered office and principal place of business of the Company. The lease term runs through July 2026 with three 5-year renewal options.

Part D Management Structure and Financial Information

Item 11 The name of Company Officers, members of the Board of Directors, and control persons.

The table below identifies the Company's Executive Officers and members of the Board of Directors and provides information on their beneficial ownership of Company securities as of January 1, 2023 in accordance with Securities Exchange Act of 1934 Rule 13d-3(d)(1)(i):

		Total Shares Beneficially Owned	
Name and Age	**Position**	**Amount (1)**	**Percentage**
Robert E. Schermer, Jr., 64	Chief Executive Officer	2,428,487	33.0%
Gary A. Rose, 60	President, Chief Operating Officer, and Corporate Secretary	1,033,253	14.4%
Tracey A. Smith, 48	Vice President, Chief Financial Officer, and Treasurer	167,265	2.5%
Robert E. Schermer, Sr., 87	Chairman of the Board of Directors	1,370,507	19.6%
Duane F. Kluting, 73	Director	135,564	2.1%
Joseph L. Maggini, Sr., 83	Director	218,136	3.3%
Peter D. Wierenga, 68	Director	613,055	9.1%
Dirk J. Pruis, 62	Director	42,241	0.6%
Chris A. Armbruster, 61	Director	11,641	0.2%
John W. Inwright, 66	Director	-	-
All Current Executive Officers and Directors as a Group (10 persons)		6,020,149	67.1%

(1) Represents beneficial ownership of Company common stock including options presently exercisable or exercisable within 60 days, as well as shares of common stock underlying Series B Convertible Preferred Shares, Series C Convertible Preferred Shares, Series D Convertible Preferred Shares, and Series E Convertible Preferred Shares.

Robert E. Schermer, Jr. has been a Director of the Company since 1996. He has been Chief Executive Officer of the Company since 1998. Mr. Schermer served as President of the Company from October 1998 through May 2016. Mr. Schermer’s business address is 45 Ottawa SW, Suite 600, Grand Rapids, MI 49503.

Gary A. Rose has been President since May 2016 and Chief Operating Officer since 2006. He was Vice President, Chief Financial Officer and Treasurer of the Company from 2005 through May 2016. He was Secretary from 2008 through May 2017. Mr. Rose is a CPA and spent six years with Deloitte & Touche in Grand Rapids, MI. Mr. Rose’s business address is 45 Ottawa SW, Suite 600, Grand Rapids, MI 49503.

Tracey A. Smith has been Vice President, Chief Financial Officer and Treasurer since May 2016. She has been Secretary since May 2017. She was Director of Finance from 2012 through May 2016 and Controller from 2008 through 2011. Mrs. Smith’s business address is 45 Ottawa SW, Suite 600, Grand Rapids, MI 49503.

Robert E. Schermer, Sr. has been Chairman of the Board of Directors since 1996. Mr. Schermer, Sr. is currently retired. From 1990 through 2005, he was Senior Vice President and a Managing Director of Robert W. Baird & Co. Incorporated, an investment banking and securities brokerage firm headquartered in Milwaukee, WI. Mr. Schermer’s business address is 45 Ottawa SW, Suite 600, Grand Rapids, MI 49503.

Duane F. Kluting has been a Director of the Company since 2005. Mr. Kluting is currently retired. From 1992 through 2003, Mr. Kluting served as Vice President, Chief Financial Officer and Corporate Secretary of X-Rite, Incorporated, a developer and manufacturer of color measurement instrumentation and software used in graphic arts, retail and industrial applications. Mr. Kluting’s business address is 2525 Keyton Ct NW, Grand Rapids, MI 49504.

Joseph L. Maggini, Sr. has been a Director of the Company since 1996. Mr. Maggini was the President and Chairman of the Board of Magic Steel Corporation, a steel service center located in Grand Rapids, Michigan that he founded in 1974. After 40 years, Mr. Maggini sold his company in June of 2019 and is no longer affiliated with Magic Steel Sales. Mr. Maggini’s business address is 3326 Vine Street SW, Grandville, MI 49418.

Peter D. Wierenga has been a Director of the Company since 2010. He is currently retired. He was the Vice President and Director of Godwin Plumbing, Inc., a plumbing and mechanical contractor, from 1987 through 2015. Concurrently, Mr. Wierenga was the President and director of Godwin Hardware Stores, a retail hardware company, since 1988. Mr. Wierenga’s business address is 3319 Antigua Drive, Punta Gorda, FL 33950.

Dirk J. Pruis has served as a Director of the Company since 2018. Mr. Pruis began his career as a CPA at Touche Ross. Between 1993 and 2014 he held various leadership positions at Goldman Sachs and its subsidiaries, most recently a Managing Director and Chief of Staff in the Operations Division. Mr. Pruis is currently the Vice President for Finance and CFO at Calvin University as well as an Associate Professor and Director of the Financial Planning Program there. Mr. Pruis’ business address is 3201 Burton Street SE, Grand Rapids, MI 49546.

Chris A. Armbruster has served as Director of the Company since 2020. Mr. Armbruster worked for Taco Bell Corporation from 1991 through 2013 where he held several leadership positions in finance involving acquisitions and divestitures, financial planning, and development. He spent the last six years at Taco Bell as Vice President of Development and Franchise Finance. Between 2015 and 2018 he served as Vice

President of Development for the Wendy's Company. Mr. Armbruster's business address is 6969 Red Bank Road, Galena, OH 43021.

John Inwright has served as Director of the Company since 2022. Mr. Inwright is retired and now serves as a board member and advisor to a variety of businesses. Through 2005, he held several leadership positions at Unified Foodservice Purchase Co-op, a Yum! Brands Co-op. Between 2005 to 2007 he served as Chief Procurement Officer for US Foods, and then as Executive Vice President and General Manager for Nice-Pack Products, Inc, a global expert providing infection control products and prevention methods for the foodservice and healthcare industries from 2007 - 2009. Most recently, he served as President & CEO of Wendy's Quality Supply Chain Co-op until 2021. He also served on the Board of the Dave Thomas Foundation for Adoption for 10-years. Mr. Inwright's business address is 810 Greenwillow Way, Louisville KY 40223.

The non-employee directors are compensated in accordance with the compensatory plans outlined in Item 16 below. In fiscal 2022, each of the non-employee directors received an option grant of 10,000 common shares priced at $20.00 per share (the closing price on the date of the grant). In fiscal 2022, the non-employee directors received compensation for attendance at Board and Committee meetings as follows: Mr. Kluting: $37,805 (paid in 1,913 common shares); Mr. Pruis: $37,805 (paid in 1,913 common shares); Mr. Maggini: $12,588 (paid in 637 common shares); Mr. Schermer, Sr.: $12,588 (paid in 637 common shares); Mr. Wierenga: $12,588 (paid in 637 common shares); and Mr. Armbruster: $12,588 (paid in 637 common shares).

The Board of Directors establishes and oversees the Company's executive officer compensation policies and incentive awards. Mr. Schermer, Jr. earned a base salary of $347,000 plus an annual car allowance of $10,500. Mr. Rose earned a base salary of $307,000 plus an annual car allowance of $8,400. Mrs. Smith earned a base salary of $242,000. In fiscal 2022, Mr. Schermer, Jr. and Mr. Rose each also received 30,000 stock option grants priced at $21.49 per share (the closing price on the date of the grant). Mrs. Smith received 15,000 grants priced at $21.49 per share (the closing price on the date of the grant). The Company also has a deferred compensation program and a bonus program in place for executive officers. Deferred compensation earned and accrued in fiscal 2022 was $398,000 each for Mr. Schermer, Jr. and Mr. Rose. Deferred compensation earned and accrued in fiscal 2022 for Mrs. Smith was $94,000. Bonuses earned and accrued in fiscal 2022 were $736,000 each for Mr. Schermer, Jr. and Mr. Rose. Bonus earned and accrued in fiscal 2022 for Mrs. Smith was $295,000.

Beneficial Owners

Other than certain Meritage directors and officers as identified above, no other shareholders are believed by the Company to beneficially own 5% or more of the Company's outstanding common shares.

Legal/Disciplinary History

None.

Disclosure of Family Relationships

Robert E. Schermer, Sr. is the father of Robert E. Schermer, Jr. In addition, Mr. Schermer, Jr. is the sole owner of Terra Libre, LLC, a Michigan limited liability company that owns 521,921 shares of MHGU common stock.

Related Party Transactions

Robert E. Schermer, Jr. has provided personal guarantees to The Wendy's Company for the Wendy's franchise agreements, as well as personal guarantees to certain vendors.

Robert E. Schermer, Jr. and Gary A. Rose are 39.52% and 39.55% owners, respectively, in the Company's variable interest entity, Restaurant Holdings, for which the Company is a primary beneficiary.

During the prior year, the Company repurchased 159,523 shares of Company common stock from certain Board members at market price.

Conflicts of Interest

None.

Item 12 Financial information for the issuer's most recent fiscal period.

See audited consolidated financial statements for fiscal year ended January 1, 2023, separately posted on the OTC Markets website (www.otcmarkets.com/otcqx/home) for Meritage and incorporated by reference in this Annual Report. The audited consolidated financial statements include the following reports:

(1) balance sheet;
(2) statements of operations;
(3) statements of equity;
(4) statements of cash flows;
(5) notes to financial statements; and
(6) report of independent auditor

Item 13 Similar financial information for such part of the preceding two fiscal years as the issuer or its predecessor has been in existence.

See audited financial statements for the Company's preceding two fiscal years separately posted on the OTC Markets website (www.otcmarkets.com/otcqx/home) for Meritage and incorporated by reference in this Annual Report. Each year's audited consolidated financial statements include the following comparative reports:

(1) balance sheets;
(2) statements of operations;
(3) statements of equity;
(4) statements of cash flows;
(5) notes to financial statements; and
(6) report of independent auditor

Item 14 The name, address, telephone number, and email address of each of the following outside providers that advise the issuer on matters relating to the operations, business development and disclosure:

Legal Counsel: Keating Muething & Klekamp PLL
c/o F. Mark Reuter, Esq.
One East Fourth Street, Suite 1400
Cincinnati, OH 45202-3752
(513) 579-6400
mreuter@kmklaw.com

Auditors: BDO USA LLP
License #: 1101026824 (State of Michigan)
c/o Lyle VanKlompenberg
200 Ottawa Avenue NW, Suite 300
Grand Rapids, MI 49503
(616) 774-7000
lvanklompenberg@bdo.com

BDO USA LLP conducted an audit of the consolidated financial statements of Meritage in accordance with generally accepted auditing standards.

Item 15 Management's Discussion and Analysis or Plan of Operations.

Refer to Forward-Looking Statements following Item 20 of this annual disclosure statement.

Overview

Meritage operates in the quick-service and casual dining restaurant industries. The Company has experienced significant growth through acquisitions, newly built locations, reimaging campaigns, and investment in independent concept restaurants.

The Company has committed significant capital resources to the Wendy's brand initiatives, including a commitment to build 51 new restaurants by November 30, 2025 under a development agreement with Wendy's. As of the date of this report, the Company has completed approximately 29 of the new restaurant commitments. Additionally, since 2009, the Company has acquired 270 Wendy's restaurants through 27 separate transactions making it one of the largest franchisees in the Wendy's system. As part of its long-term growth strategy, the Company continues to evaluate acquisition opportunities in the Wendy's system, as well as other growth opportunities in the restaurant industry.

In connection with the Company's continued growth initiatives, the Company entered into an Area Development Agreement effective August 18, 2021 with its newest quick-service franchisor, Taco John's. Subject to certain terms and conditions, the Company committed to build 50 new Taco John's restaurants by March 31, 2026, with options to develop an additional 150 restaurants thereafter. Based on current costs, the Company estimates it will invest approximately $120 million in the initial 50 store roll-out and anticipates it will be eligible to receive significant economic incentives subject to fulfilling its development schedule under the Area Development Agreement.

As of January 1, 2023, the Company operated 349 Wendy's quick-service restaurants under franchise agreements with The Wendy's Company. Of the Wendy's restaurants, eight restaurants are located in Arkansas, 32 in Connecticut, 59 in Florida, 50 in Georgia, 12 in Indiana, 13 in Massachusetts, 55 in Michigan, seven in Mississippi, three in Missouri, two in North Carolina, 15 in Ohio, 28 in Oklahoma, one in South Carolina, 34 in Tennessee, 17 in Texas and 13 in Virginia.

The Company opened its first Taco John's quick-service restaurant in December 2022, located in Michigan. The Company also operated six independent restaurants operating under two concepts. All six independent concept restaurants are located in Michigan.

A schedule of Company restaurants follows:

	Wendy's	Taco John's	Independent Concepts	Total Restaurants
Restaurants as of January 3, 2021	333	-	7	340
Newly opened restaurants	8	-	1	9
Closed restaurants	(4)	-	-	(4)
Restaurants as of January 2, 2022	337	-	8	345
Acquired restaurants	6	-	-	6
Newly opened restaurants	15	1	1	17
Closed restaurants	(9)	-	-	(9)
Sold restaurants	-	-	(3)	(3)
Restaurants as of January 1, 2023	349	1	6	356

The rest of this page is intentionally left blank.

Results of Operations

Results of operations are summarized below:

	2022		2021	
Food and Beverage Revenue	$ 626,043	100.0%	$ 577,127	100.0%
Expenses				
Food and beverage	172,001	27.5%	150,774	26.1%
Labor and related	201,852	32.2%	183,396	31.8%
Occupancy	77,942	12.4%	76,467	13.2%
Advertising	24,442	3.9%	22,295	3.9%
Franchise fees	23,818	3.8%	21,841	3.8%
Other operating	56,143	9.0%	51,761	9.0%
Total Operating Expenses	556,198	88.8%	506,534	87.8%
General and administrative	30,809	4.9%	32,225	5.6%
Preopening, acquisition and closing	7,645	1.2%	3,989	0.7%
Depreciation and amortization	17,418	2.8%	16,306	2.8%
Total Expenses	612,070	97.7%	559,054	96.9%
Income from Operations	13,973	2.3%	18,073	3.1%
Other Expense (Income)				
Interest - Net	8,156	1.3%	6,709	1.2%
Other - Net	(3,858)	(0.6%)	(11,934)	(2.1%)
Total Other Expense (Income)	4,298	0.7%	(5,225)	(0.9%)
Income Before Income Taxes	9,675	1.6%	23,298	4.0%
Income Tax Expense	586	0.1%	5,096	0.9%
Consolidated Net Income	$ 9,089	1.5%	$ 18,202	3.1%
Less Consolidated Net Income Attributable to Noncontrolling Interest in Variable Interest Entity	604	0.1%	757	0.1%
Consolidated Comprehensive Net Income Attributable to Controlling Interest	$ 8,485	1.4%	$ 17,445	3.0%
Other Comprehensive Income - Net of Tax				
Change in interest rate swap valuation	7,557	1.2%	1,402	0.2%
Consolidated Comprehensive Net Income	$ 16,042	2.6%	$ 18,847	3.2%

Food and Beverage Revenue

The Company reported revenues of $626.0 million in fiscal 2022, an increase of 8.5% over prior year's revenues of $577.1 million. Total Company "same store sales" (i.e., food and beverage revenue for stores in full operation on a per period basis for both fiscal years) increased by 6.3% in 2022 over prior year's sales.

The Company's Wendy's restaurants reported sales of $618.8 million in fiscal 2022, an increase of 9.0% over the prior year's sales of $567.8 million. The Company's Wendy's restaurants experienced a "same store sales" increase of 6.2% over prior year's sales. The sales increase is primarily the result of significant price increases deployed over the last year, as well as a net addition of restaurants achieved through acquisition and new build efforts.

The Company's first Taco John's restaurant opened in December 2022, and reported nominal sales in fiscal 2022.

The Company's independent concept restaurants reported sales of $7.1 million, a decrease of 23.2% from prior year sales of $9.3 million. The decrease is primarily a result of the sale of three of the Company's restaurants in the first half of 2022. Independent concept restaurants experienced a "same store sales" increase of 26.2% from prior year's sales. The sales increase reflects the impact of both closed and limited operations in 2021 due to the COVID-19 pandemic.

Cost of Food and Beverages

The cost of food and beverage increased to 27.5% of revenue for fiscal 2022 from 26.1% of revenue in fiscal 2021. The increase primarily represents industry-wide inflationary increases, including a 19.7% increase in the average cost of beef and a 21.4% increase in the average cost of chicken in fiscal 2022 compared to fiscal 2021. In response to the ongoing impact of inflation and evolving market conditions, the Company has deployed significant and strategic price increases.

Labor and Related Expenses

Labor and related expenses increased to 32.2% of revenue for fiscal 2022 from 31.8% of revenue in fiscal 2021. The increase was driven by the inflationary wage environment, reduced available staff, and continued market pressures sustained throughout 2022, partially offset by the cumulative impact of strategic price increases deployed over the last year.

Occupancy Expenses

Occupancy expenses decreased to 12.4% of revenue for fiscal 2022 from 13.2% of revenue for fiscal 2021. The decrease represents the dilutive impact of fixed costs from increased sales over the prior year, offset by a slight increase in certain utilities, such as natural gas.

General and Administrative Expenses

General and administrative expenses decreased to 4.9% of revenue for fiscal 2022 from 5.6% of revenue for fiscal 2021. The decrease is primarily due to decreased incentive compensation accruals which are based on financial performance.

Preopening, Acquisition and Closing Expenses

Preopening and acquisition expenses generally represent costs associated with opening new locations, concepts, or product lines in addition to restaurant reimaging and acquisitions.

Closing expenses generally represent actual and estimated costs related to the closure of under-performing restaurants which are limited in quantity and subject to standard approvals by the franchisor, the Wendy's Company. These strategic closures are expected to be ongoing in a continued effort to improve the Company's portfolio position for stronger earnings growth going forward.

During 2022, the Company closed an above average quantity of restaurants located in sub-optimal trade areas.

Depreciation and Amortization

Depreciation and amortization as a percent of revenue remained consistent when compared to the prior year.

Interest Expense

The increase in the amount of interest expense is primarily due to an increase in the effective interest rate on variable debt over the prior year. The increase is partially offset by favorable fixed interest rates obtained on the swap agreement in the Company's August 2021 refinancing. Effective with the refinancing, the Company implemented a change in accounting principle to recognize the change in fair value of its swap agreements through other comprehensive income, a component of equity. As a result of the change in fair value in fiscal 2022, the Company recognized unrealized gains of $7,557, net of tax, through other comprehensive income that would have otherwise been recognized as a component of interest expense.

Interest expense is summarized below:

	2022	2021
Interest (income) - swap	$ -	$ (1,036)
Interest expense	8,156	7,745
Total interest expense	$ 8,156	$ 6,709

Other Expense (Income)

Other Expense (Income) generally represents gains on real estate transactions completed throughout the year, which are partially offset by stock option expense. The decrease in income is due to the quantity of sale and leaseback transactions completed when compared to the prior year, partially offset by the gain on sale of three independent concept restaurants in the first half of 2022.

Income Tax Expense

Income tax expense is summarized as follows:

		2022		2021
Federal income tax expense (benefit)	$	220	$	(51)
State and local income tax expense		269		1,087
Change in deferred income taxes		97		4,060
Total Income tax expense	$	586	$	5,096

The Company had net deferred tax liabilities totaling approximately $15.8 million and $13.7 million at January 1, 2023 and January 2, 2022, respectively.

The Company's federal income tax expense was reduced by tax credits of $1.7 million in both 2022 and 2021.

Financial Condition

Management monitors short and long-term cash needs and currently believes that with its ongoing operations and current cash balances, the Company has sufficient capital to meet its ongoing operational obligations. Loan covenants of the Company's various loan agreements include requirements for the maintenance of certain financial ratios. At January 1, 2023 and January 2, 2022, the Company was in compliance with these covenants.

Off-Balance Sheet Arrangements

There were no off-balance sheet arrangements as of January 1, 2023.

Part E Issuance History

Item 16 List of securities offerings and shares issued for services in the past two years.

Common Shares Issued: Fiscal Years 2021 and 2022:

Transaction	Date	Shares Issued
Director Comp – 1st Quarter 2021	04/04/2021	1,292
Director Comp – 2nd Quarter 2021	07/04/2021	1,212
Director Comp – 3rd Quarter 2021	10/03/2021	1,342
Director Comp – 4th Quarter 2021	01/02/2022	1,380
Director Comp – 1st Quarter 2022	04/03/2022	1,472
Director Comp – 2nd Quarter 2022	07/03/2022	1,510
Director Comp – 3rd Quarter 2022	10/02/2022	1,622
Director Comp – 4th Quarter 2022	01/01/2023	1,770

Management Compensation Plans

2017 Directors' Compensation Plan ("2017 Plan"). The 2017 Plan was adopted by the Board of Directors in May 2017. Pursuant to the Plan, all non-employee directors currently receive a fee of $3,300 for attendance at meetings of the Board of Directors and $6,600 for attendance at meetings of the audit committee of the Board. Compensation is paid quarterly in arrears in the form of cash or Company common shares which are priced at the average fair market value during the five trading days prior to the end of the fiscal quarter. A director who is also an employee of Meritage is not separately compensated for serving as a director. This Plan will terminate pursuant to its terms on January 1, 2027.

2008 Directors' Share Equity Plan ("2008 Directors' Plan"), and 2018 Directors' Share Equity Plan ("2018 Directors' Plan"). The 2008 Directors' Plan was adopted by the Board of Directors in March 2008. The 2018 Directors' Plan was adopted by the Board of Directors in March 2018. Under the terms of the 2018 Directors' Plan, non-employee directors are granted an option to purchase 10,000 common shares upon initial election to the Board, and another option to purchase 10,000 common shares upon each subsequent election. The Plan allows for discretionary issuance of additional shares, pending Board approval. The 2008 Incentive Plan will terminate pursuant to its terms in May 2024. The 2018 Incentive Plan will terminate pursuant to its terms in May 2028.

2002 Management Equity Incentive Plan ("2002 Incentive Plan"), 2008 Management Equity Incentive Plan ("2008 Incentive Plan") and 2017 Management Equity Incentive Plan ("2017 Incentive Plan"). The 2002 Incentive Plan authorized up to 1,000,000 common shares for use in the 2002 Incentive Plan. The 2008 Incentive Plan authorized up to 750,000 common shares for use in the 2008 Incentive Plan. The 2017 Incentive Plan was adopted by the Board of Directors in May 2017 and authorized up to 2,000,000 common shares for use in the 2017 Incentive Plan. The purpose of these Plans is to (i) further the long-term growth of Meritage by offering competitive incentive compensation related to long-term performance goals to employees who are largely responsible for planning and directing such growth, (ii) reinforce the commonality of interest between Meritage's shareholders and its employees and (iii) aid in attracting and retaining employees of outstanding abilities and specialized skills. These Plans allow for the award of (i) incentive and non-qualified stock options, (ii) stock appreciation rights which may be issued in tandem with stock options or as freestanding rights, (iii) restricted and unrestricted stock, (iv) performance shares conditioned upon meeting performance criteria, and (v) other awards based in whole or in part by reference to, or otherwise based on, securities of Meritage. The 2002 Incentive Plan terminated pursuant to its terms in May 2012. The 2008 Incentive Plan terminated in May 2018 pursuant to its terms. The 2017 Incentive Plan will terminate pursuant to its terms in May 2027.

Part F Exhibits

Item 17 Material Contracts.

Material contracts are separately posted on the OTC Markets website for Meritage and can be accessed at www.otcmarkets.com/otcqx/home or can be found in previous Forms 10-K and other SEC EDGAR filings which can be accessed on the SEC website at www.sec.gov. In addition, the following material contracts are included with this Annual Report:

None.

Item 18 Articles of Incorporation and Bylaws.

The Articles of Incorporation and Bylaws of the Company are separately posted on the OTC Markets website and can be accessed at www.otcmarkets.com/otcqx/home.

The rest of this page is intentionally left blank.

Item 19 Purchases of Equity Securities by the Issuer and Affiliated Purchasers.

The following table summarizes Meritage's purchases of its common shares, par value $0.01 per share, for the fiscal year ended January 1, 2023:

Company's Purchase of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid per Share	Shares Purchased as Part of Publicly Announced Programs	Shares That May Yet Be Purchased Under the Program (1)
Month #1 01/03/22-01/30/22	---	---	---	67,744
Month #2 01/31/22-02/06/22	---	---	---	67,744
Month #3 02/07/22-04/03/22	---	---	---	67,744
Month #4 04/04/22-05/01/22	2,000	$20.99	---	65,744
Month #5 05/02/22-06/05/22	2,500	$20.00	---	1,063,244
Month #6 06/06/22-07/03/22	1,500	$19.75	---	1,061,744
Month #7 07/04/22-07/31/22	---	---	---	1,061,744
Month #8 08/01/22-09/04/22	---	---	---	1,061,744
Month #9 09/05/22-10/02/22	---	---	---	1,061,744
Month #10 10/03/22-10/30/22	---	---	---	1,061,744
Month #11 10/31/22-11/04/22	---	---	---	1,061,744
Month #12 12/05/22-01/01/23	105,584	$20.00	---	956,160

(1) The Board of Directors authorized the Company to repurchase from time to time, subject to capital availability, up to 550,000 shares of Meritage's common stock through open market transactions or otherwise. In May 2022, the Board authorized an additional 1,000,000 shares for repurchase, subject to capital availability. There is no expiration date relating to this program, and the Board is permitted to rescind the program at any time. Additionally, in February 2010, the Board authorized the repurchase, subject to capital availability, of up to 100,000 preferred shares of Meritage.

(2) The Board of Directors authorized the Company to repurchase from time to time, subject to capital availability, up to 100,000 shares of Meritage's preferred stock. There is no expiration date relating to this program, and the Board is permitted to rescind the program at any time. During fiscal 2022, the Company purchased 500 preferred shares at an average price of $32.28. Net of this transaction, there were 96,533 shares that may yet be purchased under this program as of fiscal year ended January 1, 2023.

Item 20 Issuer's Certifications.

I, Robert E. Schermer, Jr., Chief Executive Officer, certify that:

1. I have reviewed this annual disclosure statement of Meritage Hospitality Group Inc.;

2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and

3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

March 8, 2023

Robert E. Schermer, Jr.
Chief Executive Officer

I, Tracey A. Smith, Chief Financial Officer, certify that:

1. I have reviewed this annual disclosure statement of Meritage Hospitality Group Inc.

2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and

3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

March 8, 2023

Tracey A. Smith
Chief Financial Officer

FORWARD-LOOKING STATEMENTS

Certain statements contained in the reports we submit to the OTC, including this report, that are not historical facts constitute forward-looking statements. These statements may be identified by words such as "estimates," "anticipates," "hopes," "projects," "plans," "expects," "believes," "should," "would," and similar expressions (including the negative versions), and by the context in which they are used. Such statements are based only upon Meritage's current expectations. Any forward-looking statement speaks only as of the date made. Reliance should not be placed on forward-looking statements because they involve known and unknown risks, uncertainties and other factors which may cause actual results, performance, or achievements to differ materially from those expressed or implied. Meritage undertakes no obligation to update any forward-looking statements to reflect events or circumstances after the date on which they are made.

Statements concerning expected financial performance, business strategies and actions which Meritage intends to pursue to achieve its strategic objectives, constitute forward-looking statements. Implementation of strategies and achievement of financial performance are subject to numerous conditions, uncertainties, and risk factors, which could cause actual performance to differ materially from the forward-looking statements. These include, without limitation: competition; changes in the national or local economy; changes in consumer preferences, tastes and eating habits; concerns about the nutritional quality of our restaurant menu items; concerns about the nutritional quality of our restaurant menu items; economic recessions, disruptions to or reductions in business operations, liquidity, prospects or supply chains due to pandemics, epidemics, widespread health emergencies, or outbreaks of infectious diseases such as the coronavirus disease COVID-19, its variants and developments related to these types of events; concerns about the consumption of beef or other menu items due to diseases or other food safety issues, including, without limitation, E. coli bacteria; promotions and price discounting by competitors; severe weather and natural disasters including, without limitation, tropical storms, hurricanes, or tornadoes; changes in travel patterns; road construction; demographic trends; failure to manage social media trends; inflation, including related increases in the cost of food, labor and energy; supply chain interruptions; the availability and cost of suitable restaurant sites; the ability to finance expansion; interest rates; insurance costs; the availability of adequate managers and hourly-paid employees; risks associated with leasing real property; directives issued by the franchisor regarding operations and menu pricing; the general reputation of Meritage's and its franchisors' restaurants; the relationships between Meritage and its franchisors; legal claims; security, including cyber security and information technology security; credit card fraud; Meritage's ability to consummate acquisitions or, if consummated, to successfully integrate acquired businesses into Meritage's operations; Meritage's execution of growth initiatives; the recurring need for restaurant renovation and capital improvements; government regulations relating to, among other things, zoning, public health, sanitation, alcoholic beverage control, environment, food preparation, minimum and overtime wages and tips, employment of minors, citizenship requirements, working conditions, other labor and employment matters, and the operation of its restaurants; economic changes in the state and local economies where our restaurants are located including, without limitation, Arkansas, Connecticut, Florida, Georgia, Indiana, Massachusetts, Michigan, Mississippi, Missouri, North Carolina, Ohio, Oklahoma, South Carolina, Tennessee, Texas and Virginia.