Meritage Hospitality Group Inc.

Consolidated Financial Report
December 29, 2024 and December 31, 2023

Contents

Consolidated Financial Statements

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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 December 29, 2024 and December 31, 2023, 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 December 29, 2024 and December 31, 2023, 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 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, P.C.

Grand Rapids, Michigan
March 7, 2025

Meritage Hospitality Group Inc.

Consolidated Balance Sheets
(in thousands)

	December 29, 2024	December 31, 2023
Assets		
Current Assets		
Cash	$ 20,849	$ 19,434
Receivables	4,111	2,412
Inventories	5,304	5,189
Prepaid expenses and other current assets	6,702	7,101
Total Current Assets	36,966	34,136
Property and Equipment - Net (Note 2)	156,534	152,597
Goodwill	205,239	205,703
Intangible Assets - Net (Note 3)	7,391	7,580
Operating Lease Right-of-Use Assets - Net (Note 4)	388,748	399,156
Other Assets	15,287	17,733
Total Assets *	**$ 810,165**	**$ 816,905**
Liabilities and Equity		
Current Liabilities		
Trade accounts payable	$ 26,878	$ 21,958
Lines of credit	37,181	26,257
Current portion of long-term debt (Note 7)	21,523	20,365
Current portion of operating lease obligations payable (Note 4)	27,175	28,091
Accrued liabilities (Note 6)	23,853	21,773
Total Current Liabilities	136,610	118,444
Unearned Vendor Allowances	2,226	2,301
Operating Lease Obligations Payable - Net of current portion (Note 4)	367,647	376,946
Other Long-term Liabilities	14,283	17,093
Long-term Debt - Net of current portion and financing costs (Note 7)	145,005	164,278
Deferred Income Taxes (Note 9)	15,580	15,803
Total Liabilities *	$ 681,351	$ 694,865
Equity	128,814	122,040
Total Liabilities and Equity	**$ 810,165**	**$ 816,905**

See notes to consolidated financial statements.

* Total assets of the Variable Interest Entity were $26,586 and $21,081 as of December 29, 2024 and December 31, 2023, respectively. Total liabilities were $23,333 and $18,446 as of December 29, 2024 and December 31, 2023, respectively. See Note 14 for balance sheet information about the Variable Interest Entity.

Meritage Hospitality Group Inc.

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

	Fiscal Year Ended December 29, 2024	Fiscal Year Ended December 31, 2023
Food and Beverage Revenue	$ 668,803	$ 672,494
Expenses		
Food and beverage	174,442	184,247
Labor and related	216,828	213,808
Occupancy	90,527	86,806
Advertising (Note 1)	26,955	26,273
Franchise fees	25,845	25,439
Other operating	65,646	62,750
Total Operating Expenses	600,243	599,323
General and administrative	31,012	32,012
Preopening, acquisition and closing	4,993	4,809
Depreciation and amortization	19,210	18,552
Total Expenses	655,458	654,696
Income from Operations	13,345	17,798
Other Expense (Income)		
Interest	13,012	11,939
Other - Net	(8,803)	(1,053)
Total Other Expense	4,209	10,886
Income Before Income Taxes	9,136	6,912
Income Tax Expense (Note 9)	1,117	888
Net Income	**$ 8,019**	**$ 6,024**
Net Income (Loss) Attributable to Noncontrolling Interest in Variable Interest Entity	218	(114)
Net Income Attributable to Controlling Interest	**$ 7,801**	**$ 6,138**
Other Comprehensive Loss - Net of Tax		
Change in interest rate swap valuation (Note 8)	(1,307)	(2,617)
Comprehensive Income	**$ 6,494**	**$ 3,521**
Earnings per share (Note 13)		
Basic	$ 0.84	$ 0.61
Diluted	$ 0.75	$ 0.56
Basic Weighted Average Shares Outstanding	6,604	6,512
Diluted Weighted Average Shares Outstanding	8,520	8,264

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 1, 2023	$ 14	$ 66	$ 29,117	$ 8,959	$ 77,992	$ 1,049	$ 117,197
Net income (loss)	-	-	-	-	6,138	(114)	6,024
Issuance of common stock	-	-	120	-	-	-	120
Issuance of preferred stock	1	-	3,047	-	-	-	3,048
Repurchase of common stock	-	(1)	(177)	-	-	-	(178)
Common stock dividends	-	-	-	-	(1,173)	-	(1,173)
Preferred stock dividends	-	-	-	-	(1,813)	-	(1,813)
Interest rate swap - net of tax	-	-	-	(2,617)	-	-	(2,617)
Company-owned stock	-	-	(148)	-	-	-	(148)
Stock option expense	-	-	1,618	-	-	-	1,618
Contributions	-	-	-	-	-	82	82
Distributions	-	-	-	-	-	(120)	(120)
Balance - December 31, 2023	$ 15	$ 65	$ 33,577	$ 6,342	$ 81,144	$ 897	$ 122,040
Net income	-	-	-	-	7,801	218	8,019
Issuance of common stock	-	1	121	-	-	-	122
Repurchase of common stock	-	-	(319)	-	-	-	(319)
Common stock dividends	-	-	-	-	(396)	-	(396)
Preferred stock dividends	-	-	-	-	(1,898)	-	(1,898)
Interest rate swap - net of tax	-	-	-	(1,307)	-	-	(1,307)
Company-owned stock	-	-	1,331	-	-	-	1,331
Stock option expense	-	-	1,196	-	-	-	1,196
Contributions	-	-	-	-	-	26	26
Balance - December 29, 2024	$ 15	$ 66	$ 35,906	$ 5,035	$ 86,651	$ 1,141	$ 128,814

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows
(in thousands)

	Fiscal Year Ended December 29, 2024	Fiscal Year Ended December 31, 2023
Cash Flows from Operating Activities		
Net income	$ 8,019	$ 6,024
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	19,210	18,552
Amortization of financing costs	688	633
Deferred income taxes (Note 9)	125	305
(Gain) loss on disposal of fixed assets	(3,837)	1,448
(Gain) loss on sale and leaseback transactions (Note 5)	(1,572)	88
Change in company-owned stock (Note 11)	1,331	(148)
Stock option expense (Note 12)	1,196	1,618
Gain on loan forgiveness	(286)	-
Changes in operating assets and liabilities which provided (used) cash, net of acquisitions:		
Receivables	(1,699)	(2,044)
Inventories	(115)	5
Prepaid expenses and other current assets	399	(482)
Other assets	847	(1,261)
Trade accounts payable	(571)	(10,105)
Accrued liabilities	2,273	(4,153)
Unearned vendor allowances	(75)	603
Other long-term liabilities	(2,810)	373
Net cash provided by operating activities	23,123	11,456
Cash Flows from Investing Activities		
Purchase of property and equipment	(39,834)	(44,796)
Purchase of intangible assets	(270)	(559)
Proceeds from sale of assets	7,862	651
Acquisitions (Note 17)	-	(30,125)
Net cash used in investing activities	(32,242)	(74,829)

See notes to consolidated financial statements.

Meritage Hospitality Group Inc.

Consolidated Statements of Cash Flows
(in thousands)

	Fiscal Year Ended December 29, 2024	Fiscal Year Ended December 31, 2023
Cash Flows from Financing Activities		
Proceeds from long-term debt	7,368	30,064
Principal payments on long-term debt	(25,733)	(14,867)
Proceeds from lines of credit	37,481	26,953
Payments on lines of credit	(10,423)	(1,659)
Proceeds from sale and leaseback transactions (Note 5)	20,592	38,198
Payments on lines of credit related to sale and leaseback transactions (Note 5)	(16,134)	(30,884)
Payments on financing costs	(152)	(336)
Repurchase of common stock	(319)	(178)
Proceeds from issuance of common stock	122	120
Proceeds from issuance of preferred stock	-	3,048
Common stock dividends paid	(396)	(1,173)
Preferred stock dividends paid	(1,898)	(1,813)
Contributions from noncontrolling interest	26	82
Distributions to noncontrolling interest	-	(120)
Net cash provided by financing activities	10,534	47,435
Net Increase (Decrease) in Cash	1,415	(15,938)
Cash - Beginning of period	19,434	35,372
Cash - End of period	$ 20,849	$ 19,434

Supplemental Disclosure of Cash Flow Information

	December 29, 2024	December 31, 2023
Cash paid for:		
Interest	$ 12,445	$ 11,196
Income taxes	$ 497	$ 394
Significant non-cash investing and financing activities:		
Non-cash purchases of property	$ 5,491	$ 3,229
Conversion of property and equipment to asset held for sale	$ 798	$ -
Change in fair value of swap - net of tax (Note 8)	$ (1,307)	$ (2,617)
Operating lease ROU assets and liabilities obtained through acquisition	$ -	$ 24,083

See notes to consolidated financial statements.

Note 1 - Nature of Business and Significant Accounting Policies

Meritage Hospitality Group Inc., Subsidiaries and Affiliate, hereafter referred to as the "Company", conducts its business in the quick-service and casual dining restaurant industries across 15 states. As of December 29, 2024, the Company operated 374 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," and five independent concept restaurants.

The Company operated seven Taco John's quick-service restaurants under franchise agreements with franchisor, Taco John's International, Inc., hereafter referred to as "Taco John's", until September 2024 when the Company permanently closed its locations and exited the franchise system effective November 2024 when all development and franchise agreements with Taco John's were terminated.

Principles of Consolidation - The consolidated financial statements include the accounts of Meritage Hospitality Group Inc., its wholly owned subsidiaries, and its affiliate variable interest entity ("VIE"), Restaurant Holdings, LLC ("Restaurant Holdings"), for which the Company is the 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.

Earnings from Restaurant Holdings are reported as a noncontrolling interest in the accompanying consolidated statements 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 decision maker to allocate resources and assess performance. Resource allocation decisions are made based on the chief operating decision maker's evaluation of total Company operations. Accordingly, the Company views the operating results of its Wendy'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 December 29, 2024 (referred to as fiscal year 2024) and December 31, 2023 (referred to as fiscal year 2023) 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 is immaterial to its 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 $1,442 and $755 as of December 29, 2024 and December 31, 2023, 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 expected credit losses 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 $248 and $618 was capitalized in fiscal year 2024 and 2023, respectively (see Note 2).

Goodwill – The Company allocates the 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 an impairment charge is included in the statement of operations. For fiscal years 2024 and 2023, the tests indicated no goodwill impairment (see Note 17).

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 (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 7).

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 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 a recurring basis 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 its carrying value (Level II).

Long-Term Obligations – The fair value of long-term debt obligations at December 29, 2024 and December 31, 2023 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 on the consolidated balance sheets are required to be measured at fair value on a recurring basis and 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 swaps are provided by a counterparty and are 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.

The Company acts as self-insurer for group health insurance for its employees. The Company has stop-loss coverage through an insurance carrier that covers claims exceeding $175 per person, including dependents, with an aggregate limitation of $4,707. The Company recorded a liability of $197 and $61 for these claims as of December 29, 2024 and December 31, 2023, respectively, which is included in other accrued liabilities on the consolidated balance sheets. This accrual includes a provision for estimated claims incurred and not reported. The self-insured healthcare claims and premiums expensed by the Company were $3,228 and $2,994 for 2024 and 2023, respectively.

Unearned Vendor Allowances - Up-front consideration received from vendors linked to future purchases is initially deferred, then recognized as a reduction in food and beverage expense as the purchases occur over the term of the vendor arrangement. During fiscal years 2024 and 2023, the Company received $10,783 and $10,162, 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 13).

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.

The Company's interest rate swaps are designated 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 (see Note 8).

Stock-Based Compensation - The Company measures compensation expense for 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 12).

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 $26,955 and $26,273 for fiscal years 2024 and 2023, 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 9).

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; however, actual results could differ from those estimates.

(in thousands, except share data)

New Accounting Standards – In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. ASC 326 requires financial assets measured at amortized cost basis to be presented at the net amount expected to be collected. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. The guidance is effective for fiscal years beginning after December 15, 2022. The Company adopted ASU 2016-13 in January 2023. The adoption did not have a material effect on the consolidated financial statements and related disclosures.

Subsequent Events – The consolidated financial statements and related disclosures include evaluation of events up through and including March 7, 2025, the date the consolidated financial statements were issued.

Note 2 - Property and Equipment

Property and equipment are summarized as follows:

	2024	2023
Land and improvements	$ 35,905	$ 29,201
Buildings and improvements	88,885	80,911
Furnishings and equipment	117,313	112,817
Leasehold improvements	23,673	24,099
Construction in progress	11,006	11,875
Total cost	$ 276,782	$ 258,903
Accumulated depreciation	(120,248)	(106,306)
Net property and equipment	$ 156,534	$ 152,597

As of December 29, 2024, the Company estimates costs of $4,324 to complete construction in progress.

Depreciation expense was $18,899 and $18,264 for fiscal years 2024 and 2023, respectively.

The Company owned certain land and buildings classified as assets held for sale within other assets on the consolidated balance sheets. As of December 29, 2024 and December 31, 2023, these held for sale assets were carried at an aggregate fair market value of $798 and $713, respectively.

(in thousands, except share data)

Note 3 – Intangible Assets

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

	2024	2023
Franchise rights and agreement costs	$ 9,106	$ 9,054
Accumulated amortization	(1,715)	(1,474)
Net	$ 7,391	$ 7,580

Amortization expense for franchise rights and agreement costs were $301 and $277 for fiscal years 2024 and 2023, respectively. The weighted average remaining life through the next renewal period is approximately 17 years.

Amortization expense is projected as follows:

2025	$ 297
2026	291
2027	290
2028	288
2029	288
Thereafter	5,937
Total	$ 7,391

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 20 years, some of which include options to renew for 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.

Upon commencement date, operating lease ROU assets and operating lease liabilities are recognized based on the present value of future minimum lease payments over the lease term. 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.

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 rates were 5.2% and 4.9% as of December 29, 2024 and December 31, 2023, respectively.

(in thousands, except share data)

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:

	2024	2023
Operating lease costs:		
Fixed base lease expense - real estate	$ 45,430	$ 43,672
Fixed base lease expense - equipment	2,168	2,034
Variable rent expense	1,611	1,450
Total	$ 49,209	$ 47,156

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

	2024	2023
Cash paid for amounts included in the measurement of lease liabilities	$ 47,337	$ 45,397
Right-of-use assets obtained in exchange for lease obligations	$ 31,588	$ 49,873

The weighted-average remaining lease terms for operating leases were approximately 14 years as of both December 29, 2024 and December 31, 2023, respectively.

(in thousands, except share data)

The future payments due under operating leases as of December 29, 2024 are projected as follows:

2025	$	46,170
2026		44,343
2027		42,305
2028		40,737
2029		39,735
Thereafter		331,014
Total	$	544,304
Less present value discount		(149,482)
Lease liability recognized	$	394,822

Note 5 – Sale and Leasebacks

The Company completed nine and 16 sale and leaseback transactions in fiscal years 2024 and 2023, respectively. Through these transactions, the Company netted proceeds of $20,592 and $38,198, paid down indebtedness of $16,134 and $30,884, and recorded a net gain of $1,572 and a net loss of $88 for fiscal years 2024 and 2023, respectively. Resulting gains and losses were recorded in other income on the consolidated statements of operations.

Note 6 - Accrued Liabilities

The following is a detail of accrued liabilities:

	2024		2023	
Payroll and related payroll taxes	$	14,550	$	12,850
Property taxes		1,197		1,199
Sales tax		3,323		3,270
Self-insurance		869		1,049
Other		3,914		3,405
Total	$	23,853	$	21,773

Other accrued liabilities included approximately $748 and $112 of settlement obligations related to the permanent closure of under-performing restaurants as of December 29, 2024 and December 31, 2023, respectively.

(in thousands, except share data)

Note 7 - Long-Term Debt and Revolving Lines of Credit

Long-term debt consists of the following:

	2024	2023
Mortgage note payable - variable rate, due in monthly installments of $48 plus interest of SOFR plus a margin ranging from 1.85% through 2.50% (effective rate of 6.89% and 7.83% at December 29, 2024 and December 31, 2023, respectively), maturing in April 2027.	$ 13,614	$ 14,174
Term note payable - variable rate, due in monthly installments of $864 plus interest of SOFR plus a margin ranging from 1.85% through 2.50% (effective rate of 6.85% and 7.81% at December 29, 2024 and December 31, 2023, respectively), maturing in April 2027.	87,858	97,943
Term note payable - variable rate, due in monthly installments of $288 plus interest of SOFR plus a margin ranging from 1.85% through 2.50% (effective rate of 6.85% and 7.83% at December 29, 2024 and December 31, 2023, respectively), maturing in April 2027.	35,639	39,006
Term note payable - variable rate, due in monthly installments of $40 plus interest of SOFR plus a margin ranging from 1.85% through 2.50% (effective rate of 6.89% at December 29, 2024), maturing in April 2027.	6,907	-
Term note payable - variable rate, due in monthly installments of $22 plus interest of SOFR plus a margin ranging from 1.85% through 2.50% (effective rate of 7.83% at December 31, 2023). Paid in full in 2024.	-	3,422
Term note payable - variable rate, due in quarterly installments of $63 plus monthly interest payments of SOFR plus 4.11% (effective rate of 8.64% and 9.46% at December 29, 2024 and December 31, 2023, respectively), maturing in May 2025.	1,875	2,125
Term note payable - variable rate, due in monthly installments of $200 including interest payments of SOFR plus 2.10% (effective rate of 6.58% and 7.46% at December 29, 2024 and December 31, 2023, respectively), maturing in May 2028.	15,533	20,359

(in thousands, except share data)

	2024	2023
Term note payable - fixed rate, due in monthly installments totaling $10 (including interest of 4.75%), maturing in January 2033.	601	866
Term note payable - fixed rate, due in monthly installments totaling $23 (including interest of 7.75%), maturing in January 2028.	755	964
Term note payable - fixed rate, due in monthly installments totaling $9 (including interest of 8.50%), maturing in July 2028.	321	395
Term note payable - fixed rate, due in annual installments ranging from $2,000 to $3,000 plus monthly interest only installments totaling $38 (interest of 7.50%), maturing in May 2026.	5,000	7,500
Total	$ 168,103	$ 186,754
Less unamortized financing costs	(1,575)	(2,111)
Less current portion	(21,523)	(20,365)
Long-term portion	$ 145,005	$ 164,278

The total of the above debt matures as follows:

2025	$ 21,523
2026	19,400
2027	115,041
2028	11,677
2029	100
Thereafter	362
Total	$ 168,103

Lines of Credit - 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 December 29, 2024 and December 31, 2023, respectively. The revolving line of credit uses SOFR as the reference rate plus a margin ranging from 1.85% through 2.50%. Outstanding borrowings were $18,281 and $9,881 and had effective interest rates of 6.89% and 7.83% at December 29, 2024 and December 31, 2023, respectively.

Restaurant Holdings has a revolving line of credit agreement with its primary lender that expires March 2025. As of the date of this report, the Company is in negotiations to extend the terms of this agreement. As of December 29, 2024, the line of credit allows for borrowings up to $35,000 less the outstanding balance on the entity’s term note payable of $1,875. The revolving line of credit uses SOFR as the reference rate plus a margin of 4.19%. Outstanding borrowings were $15,692 and $14,149 and had effective interest rates of 8.72% and 9.54% at December 29, 2024 and December 31, 2023, 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 $65,668 and $74,017 as of December 29, 2024 and December 31, 2023, respectively. The flexible development line of credit uses SOFR as the reference rate plus a margin ranging from 1.85% through 2.50%. As of December 29, 2024 and December 31, 2023, outstanding borrowings were $3,208 and $2,227 and had effective interest rates of 6.89% and 7.83%, respectively.

Beginning in 2023, the Company had an additional flexible development line of credit with one of its secondary lenders that expires in May 2028 and allows for borrowings up to $3,500 as of December 29, 2024 and December 31, 2023. The flexible development line of credit uses SOFR as the reference rate plus a margin of 2.10%. As of December 29, 2024 and December 31, 2023, the line had an effective interest rate of 6.58% and 7.46%, respectively and zero borrowings outstanding.

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 December 29, 2024 and December 31, 2023, the Company was in compliance with these covenants.

Note 8 – Interest Rate Swaps

In August 2021, the Company entered into an amortizing interest rate swap agreement to economically manage variability of cash flows associated with its variable rate debt. Both the debt and interest rate swap mature in April 2027. Notional amounts outstanding were $87,858 and $97,943 at December 29, 2024 and December 31, 2023, respectively. Related fair values of the amortizing interest rate swaps were $5,473 and $7,448 at December 29, 2024 and December 31, 2023, respectively.

In September 2024, the Company entered into an additional amortizing interest rate swap agreement in the amount of $36,534 set to mature in April 2027 in conjunction with its existing credit facility. The notional amount outstanding was $35,669 and the related fair value of the amortizing interest rate swap was $320 at December 29, 2024.

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 ("OCI"), a component of equity.

The change in fair value of the swap agreements generated unrealized losses of $1,307 and $2,617 in 2024 and 2023, respectively. Such losses were recognized through other comprehensive income, a component of equity. Based on related debt balances and terms of the swap agreements, the Company anticipates the amount to be reclassified as a component of interest expense in fiscal year 2025 to be immaterial.

(in thousands, except share data)

The Company recognized gains on the interest rate swaps of $4,219 and $4,269 in fiscal years 2024 and 2023, respectively. Gains were reflected as a component of interest expense on the consolidated statement of operations.

Note 9 – Taxes

Deferred tax assets and liabilities consist of:

	2024	2023
Deferred tax assets:		
Accrued rents	$ 1,670	$ 1,695
General business credit carryforwards	6,437	6,883
Interest expense carryforward	5,491	3,991
Stock based compensation	5,593	5,982
Other	1,590	1,112
Total deferred tax assets	20,781	19,663
Deferred tax liabilities:		
Depreciation, amortization, and basis differences	(35,023)	(33,780)
SWAP agreement OCI	(1,338)	(1,686)
Total deferred tax liabilities	(36,361)	(35,466)
Net deferred tax liabilities	$ (15,580)	$ (15,803)

The Company regularly assesses the realizability of its deferred tax assets and the related need for 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 2040 and 2044.

The income tax provision reconciled to the tax computed at the statutory state and federal rates for the fiscal years ended 2024 and 2023 was as follows:

	2024	2023
Tax expense at statutory rate of 21% applied to income before tax	$ 1,873	$ 1,407
State taxes (net of federal benefit)	380	332
Permanent differences	171	434
Impact of tax credits	(1,494)	(1,584)
Noncontrolling interest	(124)	(58)
Other - net	311	357
Income tax expense	$ 1,117	$ 888

(in thousands, except share data)

The provision for income taxes consists of the following:

	2024	2023
Current income tax expense	992	583
Deferred income tax expense	125	305
Total income tax expense	$ 1,117	$ 888

As of December 29, 2024 and December 31, 2023, the Company did not have any uncertain tax positions that were significant, and there were no significant penalties or interest recognized or accrued during 2024 and 2023.

Note 10 - Equity

The Company has 5,000,000 authorized shares of $0.01 par value preferred stock. As of December 29, 2024 and December 31, 2023, preferred stock was designated as follows:

	2024	2023
Preferred B:		
Authorized:	1,350,000	1,350,000
Outstanding:	805,400	805,400
Treasury:	3,467	3,467
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
Preferred F:		
Authorized:	1,000,000	1,000,000
Outstanding:	130,606	130,606

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. 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 Series F nonvoting convertible preferred stock has a cumulative annual dividend rate of $1.875 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. During the two years from the date of issuance, the Company may (but is not required to) redeem the preferred shares at a price of $26.00 per share plus accrued but unpaid dividends. After two years from the date of issuance, the redemption price is $28.00.

The Company has 30,000,000 authorized shares of $0.01 par value common stock, with 6,627,989 and 6,517,965 shares issued and outstanding as of December 29, 2024 and December 31, 2023, respectively. There were 605,250 and 602,950 treasury shares as of December 29, 2024 and December 31, 2023, respectively. The common shares of the Company are quoted on the OTC Markets under the symbol "MHGU."

The Company's preferred stock ranks senior to the Company's common stock with respect to payment of dividends and distributions upon liquidation or dissolution.

Note 11 - Employee Benefit Plans

The Company maintains 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 $13,553 and $15,633 as of December 29, 2024 and December 31, 2023, respectively. Deferred compensation benefits earned were $947 and $711 in fiscal years ended December 29, 2024 and December 31, 2023, respectively.

The Company has funded the Plan obligation with Company-owned life insurance policies with cash surrender values of $6,696 and $7,549 at December 29, 2024 and December 31, 2023, respectively, and are included in other assets on the consolidated balance sheets. The plan is additionally funded with investments of $5,643 and $6,974 at December 29, 2024 and December 31, 2023, respectively. Of these investments, $5,639 was invested in 339,724 shares of Company Common stock and 39,375 shares of Company Series B Preferred Stock as of December 29, 2024. There was $6,970 invested in 321,321 shares of Company Common stock and 39,375 shares of Company Series B Preferred Stock as of December 31, 2023. 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 month of service and be 21 years of age or older. The 401(k) plan allows employees to contribute a portion of their compensation and, after one year of service, provides for the Company to make discretionary matching contributions. All contributions vest in accordance with a predetermined vesting schedule. Employer contributions to the plan were $438 and $394 for the years ended December 29, 2024 and December 31, 2023, respectively.

Note 12 - Stock Option Plans

The Company maintains management and director share-based compensation plans which are described below. The compensation expenses charged against income for the plans were $1,196 and $1,618 for fiscal years 2024 and 2023, respectively. The total income tax benefit recognized in the consolidated statements of operations for share-based compensation arrangements was $196 and $198 for fiscal years 2024 and 2023, 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 non-discretionary 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.

(in thousands, except share data)

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:

	2024		2023	
	Low	High	Low	High
Risk-free Interest Rates	4.31%	4.43%	3.52%	4.53%
Expected Life	5.67	8.69	5.00	8.66
Expected Volatility	28.95%	33.20%	30.41%	33.17%

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 December 29, 2024 and December 31, 2023 is presented below:

Options	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in Years)
Outstanding at January 1, 2023	1,071,500	$ 16.58	-
Granted	160,000	19.50	-
Exercised	(10,000)	2.75	-
Forfeited or expired	(30,000)	20.21	-
Outstanding at December 31, 2023	1,191,500	17.00	5.0
Outstanding at December 31, 2023	1,191,500	$ 17.00	-
Granted	110,000	18.70	-
Exercised	(112,500)	8.47	-
Forfeited or expired	(172,000)	19.81	-
Outstanding at December 29, 2024	1,017,000	17.65	4.5

The breakdown of outstanding employee stock options as of December 29, 2024 is as follows:

Options	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in Years)
Options excercisable	887,000	$ 17.40	3.9
Nonvested options	130,000	19.39	8.4

(in thousands, except share data)

Total options outstanding represent aggregate intrinsic value of $478 and $3,508 as of December 29, 2024 and December 31, 2023, respectively. There were 112,500 and 10,000 options exercised with intrinsic value of $1,038 and $169 in 2024 and 2023, respectively. The fair value of stock options awarded during 2024 and 2023 was $812 and $1,212, respectively. As of December 29, 2024, total unrecognized compensation expense related to non-vested stock options was $754. This expense will be recognized over approximately 2.2 years.

A summary of option activity under the directors' plans for the years ended December 29, 2024 and December 31, 2023 is presented below:

Options	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in Years)
Outstanding at January 1, 2023	523,333	$ 14.67	-
Granted	60,000	17.25	-
Exercised	(10,000)	3.15	-
Forfeited or expired	-	-	-
Outstanding at December 31, 2023	573,333	15.16	5.3
Outstanding at December 31, 2023	573,333	$ 15.16	-
Granted	40,000	17.64	-
Exercised	(123,333)	9.23	-
Forfeited or expired	-	-	-
Outstanding at December 29, 2024	490,000	16.85	5.5

The breakdown of outstanding director stock options as of December 29, 2024 is as follows:

Options	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in Years)
Options excercisable	412,500	$ 16.63	4.9
Nonvested options	77,500	18.01	8.7

Total options outstanding represent aggregate intrinsic value of $309 and $2,520 as of December 29, 2024 and December 31, 2023, respectively. There were 123,333 and 10,000 options exercised with intrinsic value of $1,138 and $163 in 2024 and 2023, respectively. The fair value of stock options awarded during 2024 and 2023 was $327 and $463, respectively. As of December 29, 2024, total unrecognized compensation expense related to non-vested stock options was $560. This expense will be recognized over approximately 2.4 years.

(in thousands, except share data)

Note 13 – Earnings per Share

Earnings per share as of December 29, 2024 and December 31, 2023 was calculated as follows:

	2024	2023
Income attributable to controlling interest	$ 7,801	$ 6,138
Less: Preferred stock dividends	(2,270)	(2,186)
Income available to common shareholders	$ 5,531	$ 3,952
Weighted average basic shares outstanding	6,604	6,512
Basic EPS	$ 0.84	$ 0.61
Income available to common shareholders	$ 5,531	$ 3,952
Add: Dividends on dilutive preferred stock	885	645
Income available to common shareholders	$ 6,416	$ 4,597
Weighted average basic shares outstanding plus assumed conversions	8,520	8,264
Diluted EPS	$ 0.75	$ 0.56

Note 14 – Information About Variable Interest Entity

Restaurant Holdings was formed to provide a source of capital to fund and facilitate real estate transactions where the Company has potential economic benefits in future sale and leaseback transactions. 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. This variable interest entity ("VIE") is owned by related parties and not directly by the Company.

Restaurant Holdings leverages a revolving credit facility with a bank other than the Company's senior lender that allows for borrowings up to $35,000 less the outstanding balance on the entity's term note payable of $1,875. The facility is secured by its interest in the associated real estate and personal guarantees of owners.

(in thousands, except share data)

Included in the consolidated balance sheets as of December 29, 2024 and December 31, 2023 are the following amounts related to Restaurant Holdings, before eliminating entries:

	2024	2023
Assets:		
Current assets	$ 1,296	$ 386
Property and equipment - net	19,206	14,982
Other assets	798	713
Investment in MHGI preferred stock	5,000	5,000
Investment in MHGI common stock	286	-
Total Assets	$ 26,586	$ 21,081
Liabilities:		
Current liabilities	$ 5,165	$ 1,305
Current portion of long-term debt	1,875	2,144
Revolving line of credit	15,692	14,149
Long-term debt	601	848
Total Liabilities	23,333	18,446
Equity - Noncontrolling interest	3,253	2,635
Total Liabilities and Equity	$ 26,586	$ 21,081

Note 15 - 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 approximately 39.5% owners in the Company's VIE for which the Company is a primary beneficiary (see Note 1).

The Company repurchased 9,110 common stock shares during fiscal year 2023 from certain Board members at the then current market price.

Note 16 - Guarantees, Commitments, and Contingencies

The Company is involved in certain legal proceedings which the Company believes will be incidental to its business, including claims regarding E. coli. Any potential liability of the Company with respect to these legal actions or an individual claim, in the aggregate, is not expected to be material to the consolidated financial statements. The Company maintains various types of insurance standard to the industry that 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, as well as agreed-upon improvements to acquired facilities.

Through these agreements, the Company committed to develop 52 new restaurants by November 30, 2025 and to reimage 100% of its portfolio by December 31, 2028. Pursuant to these agreements, the Company is entitled to receive significant economic incentives which include royalty and national marketing fee relief. As of December 29, 2024, the Company has reimaged approximately 75% of its portfolio and has completed 39 of the new restaurant development commitments. Based on current costs, the Company estimates it will invest approximately $111,000 to fulfill the remaining commitments.

Note 17 – Acquisitions and Dispositions

Acquisition - In 2023, the Company acquired the business and equipment of 25 Wendy’s restaurants. The Company assumed existing lease agreements for all locations with the restaurants’ building owners, as well as franchise agreements for all locations with the Company’s franchisor, The Wendy’s Company.

The acquisition was financed with $21,000 of new debt and $9,125 of cash on hand. The transaction resulted in the recording of $28,151 of goodwill, $1,382 of equipment and leasehold improvements, $440 of inventory, $24,083 in operating lease ROU assets, $24,083 in operating lease ROU liabilities, $625 of franchise costs, $625 in franchise rights and $1,098 of other current liabilities. Revenue in fiscal year 2023 included $27,648 from locations acquired.

The Company expensed $437 of acquisition costs in fiscal year 2023 related to the acquisition.

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 consummated during fiscal year 2023, 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.

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.

Dispositions - The Company operated seven Taco John’s quick-service restaurants until September 2024 when the Company permanently closed its locations and exited the franchise system effective November 2024, when all development and franchise agreements with Taco John’s were terminated. Net costs of $362 associated with these closures were recorded to preopening, acquisition and closing expense on the consolidated statement of operations and comprehensive income. The Company anticipates any additional disposition costs incurred to be immaterial.

Additionally in 2024, the Company sold the business and equipment of a market that included three Wendy’s restaurants. Through this transaction, the Company netted proceeds of $6,149, paid down indebtedness of $3,500, recorded a net gain of $5,100, and disposed of related goodwill totaling $464. The resulting gain was recorded in other income on the consolidated statements of operations.

Meritage Hospitality Group Inc.

Incorporated in Michigan
45 Ottawa Ave SW, Suite 600
Grand Rapids, MI 49503

Telephone: 616.776.2600
Corporate Website: www.meritagehospitality.com
Company Email: rschermer@mhgi.net

SIC Code: 5812

Annual Report

For the period ending December 29, 2024
(the "Reporting Period")

The number of shares outstanding of our Common Stock is 6,627,989 as of December 29, 2024.

The number of shares outstanding of our Common Stock was 6,517,965 as of December 31, 2023.

Indicate by check mark whether the company is a shell company (as defined in Rule 405 of the Securities Act of 1933 and Rule 12b-2 of the Exchange Act of 1934):

Yes: ☐ No: ☑

Indicate by check mark whether the company's shell status has changed since the previous reporting period:

Yes: ☐ No: ☑

Indicate by check mark whether a Change in Control[4] of the company has occurred over this reporting period:

Yes: ☐ No: ☑

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[4] "Change in Control" shall mean any events resulting in:

(i) Any "person" (as such term is used in Sections 13(d) and 14(d) of the Exchange Act) becoming the "beneficial owner" (as defined in Rule 13d-3 of the Exchange Act), directly or indirectly, of securities of the Company representing fifty percent (50%) or more of the total voting power represented by the Company's then outstanding voting securities;

(ii) The consummation of the sale or disposition by the Company of all or substantially all of the Company's assets;

(iii) A change in the composition of the Board occurring within a two (2)-year period, as a result of which fewer than a majority of the directors are directors immediately prior to such change; or

(iv) The consummation of a merger or consolidation of the Company with any other corporation, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or its parent) at least fifty percent (50%) of the total voting power represented by the voting securities of the Company or such surviving entity or its parent outstanding immediately after such merger or consolidation.

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 and address(es) of the issuer's principal place of business.

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 6,627,989 common shares outstanding at December 29, 2024. 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	-
Series F Convertible Preferred Shares	59000K804	-

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

Common Shares: The Company most recently paid cash dividends per share of $0.06 in 2024. 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 128,744 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.

Series F Convertible Preferred Shares: The Company authorized 1,000,000 Series F Convertible Preferred Shares ("Series F Preferred Shares") in 2023 and has 130,606 shares outstanding. The Series F Preferred Shares have an annual dividend rate of $1.875 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 F 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. During the first two years from the date of issuance, the Company may, at its option, redeem all or part of the Series F Preferred Shares at a redemption price of $26.00 per Series F Preferred Share plus accrued but unpaid dividends. After two years from the date of issuance, the redemption price is $28.00 per share plus any accrued and unpaid dividends to the redemption date. Upon any dissolution or winding up, the holder of each Series F Preferred Share will be entitled to receive a liquidation value of $25.00 per Series F 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 F Preferred Shares, voting as a class with each Series F 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.

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

	2024	2023
Common Shares		
Authorized:	30,000,000 shares	30,000,000 shares
Outstanding:	6,627,989 shares	6,517,965 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. 625	approx. 655
Number of record holders:	approx. 60	approx. 56
Preferred B:		
Authorized:	1,350,000 shares	1,350,000 shares
Outstanding:	805,400 shares	805,400 shares
Freely Tradable (public float):	300,000 shares	300,000 shares
Number of record holders:	18 holders	18 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
Preferred F		
Authorized:	1,000,000 shares	1,000,000 shares
Outstanding:	130,606 shares	130,606 shares
Number of record holders:	7 holders	7 holders

Item 7 The name and address of the transfer agent.

Equiniti Trust Company, LLC
48 Wall Street, 23rd floor
New York, NY 10043
Phone: (800) 468-9716

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

<u>Part C</u> <u>Business Information</u>

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 2,700 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, Uncommon Hospitality Group 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. 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 December 29, 2024 and December 31, 2023 contained 52 weeks.

Meritage operates 374 Wendy's quick-service restaurants as a franchisee of Quality Is Our Recipe, LLC, a subsidiary of The Wendy's Company. Quality Is Our Recipe, LLC will hereafter be referred to as "The Wendy's Company". The Company operates Wendy's restaurants in 15 states, which include eight restaurants in Arkansas, 32 in Connecticut, 58 in Florida, 51 in Georgia, 13 in Indiana, 13 in Massachusetts, 58 in Michigan, eight in Mississippi, three in Missouri, 22 in North Carolina, 15 in Ohio, 28 in Oklahoma, 34 in Tennessee, 16 in Texas and 15 in Virginia. Through its development and acquisition efforts, the Company is one of the nation's largest Wendy's franchisees.

The Company also operates independent restaurants under three concepts throughout Michigan which include three Morning Belle restaurants, one Stan's Tacos restaurant, and one Blue Porch Bar & Grill restaurant. 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.

The Company operated seven Taco John's quick-service restaurants under franchise agreements with Taco John's International, Inc. until September 2024 when the Company permanently closed all seven of its locations and exited the Taco John's system. Effective November 2024, all development and franchise agreements with Taco John's were terminated. The Company believes exiting the underperforming locations was in its best long term financial interest.

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 its 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, profitability of its franchisor's menu pricing, advertised pricing, national marketing, advertising, and digital programs; the general reputation of Meritage's and its franchisor's restaurants; legal claims and proceedings; 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 approvals were not obtained. 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 11% 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 Company is also subject to the Federal Americans with Disabilities Act which 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 environmental regulations.

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

Legal Proceedings

The Company is involved in certain legal proceedings which the Company believes will be incidental to its business, including claims regarding E. coli. The most significant ongoing legal action filed represents a multistate outbreak of E. coli during 2022 in which many of the impacted individuals reported having eaten at a Wendy's restaurant. The Company and franchisor cooperated accordingly with the CDC's investigation and, as a precautionary measure, removed any potential associated product from its restaurants. Subsequently, the CDC announced the outbreak was over and that the specific source of the outbreak had not been confirmed. Any potential liabilities of the Company with respect to these legal actions or an individual claim, in the aggregate, are not expected to be material to the consolidated financial statements. The Company maintains various types of insurance standard to the industry that would cover most liabilities incurred by actions 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, Tennessee, Texas, and Virginia.

The Company operated Taco John's quick-service restaurants in Michigan and Ohio until September 2024 when the Company permanently closed all seven of its locations.

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® Cream Cold Brew. Each Wendy's restaurant features soft drink products supplied by the Coca-Cola Company and its respective affiliates. The franchisor maintains significant discretion over the menu items offered in the Company's restaurants.

Restaurant Layout and Operation

The Company's Wendy's restaurants range from 1,500 to 4,100 square feet with seating capacity for approximately 30 to 130 people. Restaurants are generally open from 6:30 a.m. until midnight, with limited exceptions. Restaurants feature a pick-up drive-through window. Sales to drive-through customers account for approximately 70% of total 2024 restaurant sales.

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.

Raw Materials and Energy

The Company's restaurants comply with uniform recipe and ingredient specifications provided by the franchisor. Food and beverage inventories and restaurant supplies are purchased from independent vendors that are approved by the 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 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 franchisor, The Wendy's Company. 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 35 years.

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.

Independent Concept Operations

The Company owns five independent restaurants under three concepts throughout Michigan which include three Morning Belle restaurants, one Stan's Tacos, and one Blue Porch Bar & Grill.

The Company's three Morning Belle restaurants are located in Grand Rapids, Michigan. All restaurants feature a garden themed environment tailored to family and friends and include a variety of breakfast options. 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. The concept won Grand Rapids Magazine's "Best Brunch" in 2024.

The Company's Stan's Tacos restaurant is located in Standale, Michigan. The restaurants' upbeat décor aims to feature a unique, tailored menu which includes a variety of made-to-order tacos and specialty margaritas.

Blue Porch Bar & Grill, located in Grand Haven, Michigan, is the Company's newest concept. Its fresh look is designed to be laid back and welcoming with a menu featuring a variety of pub style favorites. The extensive bar features a wide variety of local craft beer, wine and cocktails.

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, lattes and lemonades.

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. The location accommodates approximately 140 guests and exhibits a come-as-you-are atmosphere for guests of every age. The restaurant features specialty margaritas and made-to-order tacos using only the freshest ingredients.

Blue Porch Bar & Grill can accommodate approximately 100 guests in its 2,100 square foot facility with a 700 square foot heated porch that can be used year-round. The restaurant boasts the largest TV wall in town for sports or other programming as well as the "Wall of Heat," a giant rack of approximately 100 hot sauces with various spice levels. The Blue Porch Bar & Grill menu was created with affordability in mind and features exciting lunch and dinner options which include delicious smash burgers, brats and hot dogs, sandwiches, sticky fried ribs, braised beef, and lighter options such as salads and roasted rice bowl. The restaurant features a full bar and extensive cocktail list.

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 campaigns include participation in local events and support of local media outlets. 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 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, 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.

Casual Dining Restaurant Industry

The Company operates its Morning Belle, Stan's Tacos, and Blue Porch Bar & Grill 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 374 Wendy's restaurants it operates, the Company (i) owns the land and buildings comprising 20 restaurants, (ii) leases the land and buildings comprising 344 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 50 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 restaurants. Reimaging costs inclusive of deferred maintenance items range from $400,000 to $600,000 per restaurant. Currently, 75% of the Company's Wendy's restaurant portfolio has been reimaged.

Of the Company's five independent restaurants, the Company (i) leases the land and buildings comprising four restaurants, and (ii) 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 13 and 47 years. The remaining term of the land lease (including options to renew) is 14 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 June 2026 with three 5-year renewal options.

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Part D Management Structure and Financial Information

Item 11 Company Insiders (Officers, Directors, and Control Persons).

The table below identifies the Company's Executive Officers, members of the Board of Directors, and control persons and provides information on their beneficial ownership of Company securities as of December 29, 2024 in accordance with Securities Exchange Act of 1934 Rule 13d-3(d)(1)(i):

Name and Age	Position	Total Shares Beneficially Owned Amount (1)	Total Shares Beneficially Owned Percentage
Robert E. Schermer, Jr., 66	Chief Executive Officer	2,578,926	33.9%
Gary A. Rose, 62	President and Chief Operating Officer	1,152,684	15.6%
Tracey A. Smith, 50	Vice President, Chief Financial Officer, Treasurer and Secretary	189,765	2.8%
Duane F. Kluting, 75	Director	153,282	2.3%
Dirk J. Pruis, 64	Director	70,829	1.1%
Chris A. Armbruster, 63	Director	38,170	0.6%
John W. Inwright, 68	Director	16,329	0.2%
Robert E. Schermer, Sr., 89	Principal Shareholder	1,347,399	18.9%
Peter D. Wierenga, 70	Principal Shareholder	560,437	8.3%
Joseph L. Maggini, Sr., 85	Principal Shareholder	401,043	5.8%
All current Executive Officers, Directors, and Principal Shareholders/Control Persons (10 persons)		6,508,864	68.2%

(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, Series E Convertible Preferred Shares, and Series F 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 followed by work with private equity firms including KKR and American Industrial Partners. 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.

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.

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. 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. In April 2021, Mr. Armbruster co-founded Creed Unco and has been consulting with that group ever since. 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 to 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 2024, each of the non-employee directors received an option grant of 10,000 common shares priced at $17.64 per share (the closing price on the date of the grant). In fiscal 2024, the non-employee directors received compensation for attendance at Board and Committee meetings as follows: Mr. Kluting: $43,244 (paid in 2,535 common shares and $2,125 in cash); Mr. Pruis: $48,798 (paid in 2,535 common shares and $7,679 in cash); Mr. Wierenga: $3,384 (paid in 188 common shares); Mr. Armbruster: $14,728 (paid in 845 common shares and $1,021 in cash); and Mr. Inwright: $10,325 (paid in 645 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 $365,000 plus an annual car allowance of $10,500. Mr. Rose earned a base salary of $323,000 plus an annual car allowance of $8,400. Mrs. Smith earned a base salary of $270,000. In fiscal 2024, Mr. Schermer, Jr. and Mr. Rose each also received 30,000 stock option grants priced at $18.70 per share (the closing price on the date of the grant). Mrs. Smith received 15,000 grants priced at $18.70 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 2024 was $331,000 each for Mr. Schermer, Jr. and Mr. Rose. Deferred compensation earned and accrued in fiscal 2024 for Mrs. Smith was $102,000. Bonuses earned and accrued in fiscal 2024 were $662,000 each for Mr. Schermer, Jr. and Mr. Rose. Bonus earned and accrued in fiscal 2024 for Mrs. Smith was $306,000.

Control Persons

Robert E. Schermer, Sr. was Chairman of the Board of Directors from 1996 through May 2023. Mr. Schermer's business address is 45 Ottawa SW, Suite 600, Grand Rapids, MI 49503.

Peter D. Wierenga was a Director of the Company from 2010 through May 2024. Mr. Wierenga's business address is 3319 Antigua Drive, Punta Gorda, FL 33950.

Joseph L. Maggini, Sr. was a Director of the Company from 1996 through May 2024. Mr. Maggini's business address is 3326 Vine Street SW, Grandville, MI 49418.

Other than certain Meritage officers, directors, and principal shareholders 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.

Disclosure of 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, LLC, of which the Company is a primary beneficiary.

During the prior year, the Company repurchased 9,110 shares of Company common stock from certain Board members at market price.

Disclosure of 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 December 29, 2024, 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 sheets;
(2) statements of operations and comprehensive income;
(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 and comprehensive income;
(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 P.C.
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 P.C. 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 operated a total of 379 quick-service and casual dining restaurants as of December 29, 2024. 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 52 new restaurants by November 30, 2025 under a development agreement with Wendy's. As of December 29, 2024, the Company has completed 39 of the new restaurant commitments. Additionally, since 2009, the Company has acquired 295 Wendy's restaurants through 28 separate transactions making it one of the largest franchisees in the Wendy's system. The Company continues to evaluate acquisition, development, and other growth opportunities in the restaurant industry.

As of December 29, 2024, the Company operated 374 Wendy's quick-service restaurants under franchise agreements with The Wendy's Company. Of the Wendy's restaurants, eight are located in Arkansas, 32 in Connecticut, 58 in Florida, 51 in Georgia, 13 in Indiana, 13 in Massachusetts, 58 in Michigan, eight in Mississippi, three in Missouri, 22 in North Carolina, 15 in Ohio, 28 in Oklahoma, 34 in Tennessee, 16 in Texas and 15 in Virginia.

The Company operated seven Taco John's quick-service restaurants under franchise agreements with Taco John's International, Inc. until September 2024 when the Company permanently closed all seven of its locations and exited the Taco John's system. Effective November 2024, all development and franchise agreements with Taco John's were terminated. The Company believes exiting the underperforming locations was in its best long term financial interest.

The Company additionally operates five independent restaurants under its three concepts, Morning Belle, Stan's Tacos, and Blue Porch Bar & Grill. All five restaurants are located in Michigan.

A schedule of Company restaurants is as follows:

	Wendy's	Taco John's	Independent Concepts	Total Restaurants
Restaurants as of January 1, 2023	349	1	6	356
Acquired restaurants	25	-	-	25
Newly opened restaurants	7	5	-	12
Closed restaurants	(5)	-	-	(5)
Restaurants as of December 31, 2023	376	6	6	388
Newly opened restaurants	5	1	-	6
Closed restaurants	(4)	(7)	(1)	(12)
Sold restaurants	(3)	-	-	(3)
Restaurants as of December 29, 2024	374	-	5	379

Results of Operations

Results of operations are summarized below:

	2024 (in thousands)		2023 (in thousands)	
Food and Beverage Revenue	$ 668,803	100.0%	$ 672,494	100.0%
Expenses				
Food and beverage	174,442	26.1%	184,247	27.4%
Labor and related	216,828	32.4%	213,808	31.8%
Occupancy	90,527	13.5%	86,806	12.9%
Advertising	26,955	4.0%	26,273	3.9%
Franchise fees	25,845	3.9%	25,439	3.8%
Other operating	65,646	9.8%	62,750	9.3%
Total Operating Expenses	600,243	89.7%	599,323	89.1%
General and administrative	31,012	4.6%	32,012	4.8%
Preopening, acquisition and closing	4,993	0.7%	4,809	0.7%
Depreciation and amortization	19,210	2.9%	18,552	2.8%
Total Expenses	655,458	97.9%	654,696	97.4%
Income from Operations	13,345	2.1%	17,798	2.6%
Other Expense (Income)				
Interest	13,012	1.9%	11,939	1.8%
Other - Net	(8,803)	(1.3%)	(1,053)	(0.2%)
Total Other Expense	4,209	0.6%	10,886	1.6%
Income Before Income Taxes	9,136	1.5%	6,912	1.0%
Income Tax Expense	1,117	0.2%	888	0.1%
Net Income	$ 8,019	1.3%	$ 6,024	0.9%
Net Income (Loss) Attributable to Noncontrolling Interest in Variable Interest Entity	218	0.0%	(114)	0.0%
Net Income Attributable to Controlling Interest	$ 7,801	1.3%	$ 6,138	0.9%
Other Comprehensive Loss - Net of Tax				
Change in interest rate swap valuation	(1,307)	(0.2%)	(2,617)	(0.4%)
Comprehensive Income	$ 6,494	1.1%	$ 3,521	0.5%

Food and Beverage Revenue

The Company reported revenues of $668.8 million in fiscal 2024, a decrease of 0.5% over prior year's revenues of $672.5 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) decreased by 3.3% in 2024 over prior year's sales.

The Company's Wendy's restaurants reported sales of $660.3 million in fiscal 2024, a decrease of 0.4% over the prior year's sales of $663.0 million, and a "same store sales" decrease of 3.4% over prior year's sales. The decrease reflects a general decline in transactions throughout the Wendy's system and QSR industry.

The Company's Taco John's restaurants reported sales of $3.5 million in fiscal 2024, a decrease of 19.0% over the prior year's sales of $4.3 million. In September 2024, the Company permanently closed all seven of its Taco John's locations and exited the franchise system. Effective November 2024, all development and franchise agreements with Taco John's were terminated.

The Company's independent concept restaurants reported sales of $5.0 million, a decrease of 3.9% from prior year's sales of $5.2 million. The decrease is due to the closure of one of the Company's restaurants in the first quarter of 2024. Independent concept restaurants experienced a "same store sales" increase of 0.5% from prior year's sales.

Cost of Food and Beverages

The cost of food and beverage decreased to 26.1% of revenue for fiscal 2024 from 27.4% of revenue for fiscal 2023. The decrease represents food cost as a percent of revenue being favorably impacted by a change to the Company's value pricing strategy, which was implemented in response to increased commodity prices, including an increase of 9.8% in the average cost of beef for fiscal 2024 compared to fiscal 2023.

Labor and Related Expenses

Labor and related expenses increased to 32.4% of revenue for fiscal 2024 from 31.8% of revenue for fiscal 2023. The increase represents the impact of maintaining minimum staffing levels during periods of reduced sales, the impact of certain Wendy's promotions on its transaction-based labor guide, and to a lesser extent, rising average wage.

Occupancy Expenses

Occupancy expenses increased to 13.5% of revenue for fiscal 2024 from 12.9% of revenue for fiscal 2023. The increase as a percent of sales reflects the impact of certain fixed costs on reduced sales when compared to the prior year, such as rent and property tax.

Other Operating Expenses

Other operating expenses increased to 9.8% of revenue for fiscal 2024 from 9.3% of revenue for fiscal 2023. The increase primarily represents the negative impact of discount values associated with certain Wendy's promotions, such as "$1 any size soft drinks", "$1 Dave's Single", and various other digital based promotions.

General and Administrative Expenses

General and administrative expenses decreased to 4.6% of revenue for fiscal 2024 from 4.8% of revenue for fiscal 2023. The decrease primarily represents a net reduction in overhead costs associated with optimizing the organizational structure to strategically align with evolving Company priorities.

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 position the Company's portfolio for stronger earnings growth going forward.

Closing expenses in 2024 additionally included non-recurring net costs related to the permanent closure of the Company's seven Taco John's locations. The Company anticipates any additional disposition costs incurred to be immaterial.

Depreciation and Amortization

The increase in the amount of depreciation and amortization expense when compared to the prior year represents the cumulative impact of asset additions from new restaurant construction and reimaging efforts, as well as a full year of depreciation on locations acquired in 2023.

Interest Expense

The increase in interest expense is due to additional interest on new debt associated with the acquisition of 25 Wendy's restaurants in the second quarter of 2023, as well as a slight increase in the Company's effective interest rate on its variable debt for the first half of 2024. To proactively mitigate future interest rate fluctuations, the Company entered into a new $36.5 million swap agreement with favorable interest rates on its existing debt in the third quarter of 2024.

Other Income

Other income generally includes the gain or loss on real estate transactions completed throughout the year as well as stock option expense. The increase in other income represents improved profitability on real estate transactions in 2024 when compared to fiscal 2023. Exclusive to 2024, other income additionally included the Company's gain on the sale of a market containing three Wendy's restaurants. The sale of these locations was part of the Company's ongoing system optimization plan to consolidate operations to its core markets.

Income Tax Expense

Income tax expense is summarized as follows:

	2024 (in thousands)	2023 (in thousands)
Federal income tax expense	$ 678	$ 219
State and local income tax expense	314	364
Change in deferred income taxes	125	305
Income tax expense	$ 1,117	$ 888

The Company had net deferred tax liabilities totaling approximately $15.6 million and $15.8 million as of December 29, 2024 and December 31, 2023, respectively.

The Company's federal income tax expense was reduced by tax credits of $1.5 million and $1.6 million in fiscal years 2024 and 2023, respectively.

Financial Condition

While recent trends exhibit a general decline in transactions across the QSR industry, management believes this current cycle will improve over time. The QSR industry remains an attractive and affordable option and management anticipates increased demand as consumers seek affordable alternatives to dining out or cooking at home. The Company is encouraged by Wendy's current strategic operating plan which includes a focus on branding and product innovation, and management is confident about the industry and the Company's ability to withstand current operational and financial conditions. Loan covenants of the Company's various loan agreements include requirements for the maintenance of certain financial ratios. At December 29, 2024 and December 31, 2023, the Company was in compliance with these covenants.

Off-Balance Sheet Arrangements

There were no off-balance sheet arrangements as of December 29, 2024.

Part E Issuance History

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

Common Shares Issued for services in: Fiscal Years 2023 and 2024:

Transaction	Date	Shares Issued
Director Comp – 1st Quarter 2023	04/02/2023	1,359
Director Comp – 2nd Quarter 2023	07/02/2023	1,304
Director Comp – 3rd Quarter 2023	10/01/2023	1,762
Director Comp – 4th Quarter 2023	12/31/2023	1,748
Director Comp – 1st Quarter 2024	03/31/2024	1,692
Director Comp – 2nd Quarter 2024	06/30/2024	1,400
Director Comp – 3rd Quarter 2024	09/29/2024	1,726
Director Comp – 4th Quarter 2024	12/29/2024	1,930

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 $3,470 for attendance at meetings of the Board of Directors and $6,935 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 and amended in May 2014 to extend the Plan's term to May 2024. 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 Directors' Plan will terminate pursuant to its terms in May 2024. The 2018 Directors' 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.

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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 December 29, 2024:

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 01/01/24-01/28/24	---	---	---	947,050
Month #2 01/29/24-02/03/24	---	---	---	947,050
Month #3 02/04/24-03/31/24	---	---	---	947,050
Month #4 04/01/24-04/28/24	---	---	---	947,050
Month #5 04/29/24-06/02/24	---	---	---	947,050
Month #6 06/03/24-06/30/24	---	---	---	947,050
Month #7 07/01/24-07/28/24	---	---	---	947,050
Month #8 07/29/24-09/01/24	---	---	---	947,050
Month #9 09/02/24-09/29/24	---	---	---	947,050
Month #10 09/30/24-10/27/24	---	---	---	947,050
Month #11 10/28/24-12/01/24	---	---	---	947,050
Month #12 12/02/24-12/29/24	2,300	$14.50	---	944,750

(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.

(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 2024, there were no preferred shares repurchased. As of fiscal year ended December 29, 2024, there were 96,533 shares that may yet be purchased under this program.

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 7, 2025

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 7, 2025

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; related impact on the QSR industry; 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, 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, menu pricing, advertised pricing, national marketing, advertising, digital programs, and capital commitments; the general reputation of Meritage's and its franchisors' restaurants; the relationships between Meritage and its franchisors; legal claims and proceedings, including claims that may result in judgments against the Company requiring the payment of damages or other financial obligations; 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, Tennessee, Texas and Virginia.