Meritage Hospitality Group Inc.
Annual Disclosures

For Fiscal Year Ended December 29, 2019

Part A General Company Information

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

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

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

45 Ottawa Ave SW, Suite 600
Grand Rapids, MI 49503
Telephone: 616.776.2600
Facsimile: 616.776.2776
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 6,348,259 common shares outstanding at December 29, 2019. 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). 500,000 Series B Convertible Preferred Shares were authorized in 2003 and an additional 850,000 were authorized in September 2015. There are 809,067 Series B Convertible Preferred Shares outstanding. The Series B shares are assigned CUSIP No. 59000K408 and trade on the OTC Markets under the symbol "MHGUP". 1,500,000 Series C Convertible Preferred Shares were authorized in 2016, and there were 160,360 shares outstanding. The Series C shares are assigned CUSIP No. 59000K507. 600,000 Series D Convertible Preferred Shares were authorized in December 2017, and there were 310,293 shares outstanding. The Series D shares are assigned CUSIP No. 59000K606. 800,000 Series E Convertible Preferred Shares were authorized in 2018, and there were 238,766 shares outstanding. The Series E shares are assigned CUSIP No. 59000K705.

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

Common Shares: The Company paid $0.03 cash dividends in 2014, $0.06 cash dividends in 2015, $0.07 cash dividends in 2016, $0.10 cash dividends in 2017, $0.15 cash dividends in 2018 and $0.24 cash dividends in 2019. The Company's Board of Directors will consider additional dividends on common shares in the future 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 has 809,067 Series B Convertible Preferred Shares ("Series B Preferred 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. During the first two years after the date of issuance, the Company may, upon 15 days written notice, redeem all or part of the Series B Preferred Shares at a redemption price of $11.00 per Series B Preferred Share plus accrued but unpaid dividends. After two years from the date of issuance, the redemption price is $10.00 per share plus any accrued and unpaid dividends thereafter. 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 has 160,360 Series C Convertible Preferred Shares ("Series C Preferred 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 has 310,293 Series D Convertible Preferred Shares ("Series D Preferred 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. During the first two years from the date of issuance, the Company may, at its option, redeem all or part of the Series D Preferred Shares at a redemption price of $26.00 per Series D 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 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 has 238,766 Series E Convertible Preferred Shares ("Series E Preferred 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. During the first two years from the date of issuance, the Company may, at its option, redeem all or part of the Series E Preferred Shares at a redemption price of $26.00 per Series E 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 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.

The Company does not have specific provisions designed to prevent a change in control. However, there are numerous provisions in various documents (articles of incorporation, bylaws, franchise agreements, loan agreements, equity award agreements, etc.) that could effectively delay or hinder an attempted change in control.

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

	12/29/2019	12/31/2018
Common Shares		
Authorized:	30,000,000 shares	30,000,000 shares
Outstanding:	6,348,259 shares	6,258,575 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. 740	approx. 739
Number of record holders:	approx. 73	approx. 76
Preferred B:		
Authorized:	1,350,000 shares	1,350,000 shares
Outstanding:	809,067 shares	809,067 shares
Freely Tradable (public float):	300,000 shares	300,000 shares
Number of record holders:	44 holders	37 holders
Preferred C		
Authorized:	1,500,000 shares	1,500,000 shares
Outstanding:	160,360 shares	170,360 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:	238,766 shares	0 shares
Number of record holders:	10 holders	0 holders

Item 7 The name and address of the transfer agent.

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

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

Part C Business Information

Item 8 The nature of the issuer's business.

Refer to Forward-Looking Statements following Item 21 of this annual disclosure.

Summary

Meritage operates 331 Wendy's quick-service restaurants. The Company's Wendy's restaurants are a franchisee of Quality Is Our Recipe, LLC, a subsidiary of The Wendy's Company. To simplify the language in this disclosure, Quality Is Our Recipe, LLC will hereafter be referred to as The Wendy's Company. The Company operates Wendy's restaurants in 16 states, which include 10 restaurants in Arkansas, 32 in Connecticut, 55 in Florida, 44 in Georgia, 12 in Indiana, 12 in Massachusetts, 54 in Michigan, seven in Mississippi, three in Missouri, two in North Carolina, 15 in Ohio, 25 in Oklahoma, one in South Carolina, 35 in Tennessee, 11 in Texas and 13 in Virginia. Through its development and acquisition efforts, the Company is one of the nation's largest Wendy's franchisees.

The Company also owns and operates six casual dining restaurants in Michigan, through five brands consisting of two Twisted Rooster locations, one Freighters Eatery & Taproom, one Wheelhouse Kitchen & Cocktails, one Stan Diego Baja Taco Kitchen, and one Morning Belle. All casual dining restaurants were launched by the Company as its own original concept. Twisted Rooster is a casual dining restaurant with a dynamic, family-oriented menu. The emphasis is on fresh products, including local beers, wines and liquors. Freighters Eatery & Taproom has a come-as-you-are atmosphere that is warm and inviting, with locally sourced art reflecting elements of the freighters passing by on the St. Clair river. Wheelhouse Kitchen & Cocktails is a contemporary American bistro featuring a twist on classic American bistro fare with seasonal recipes and artisan cocktails. Stan Diego Baja Taco Kitchen reflects the heart of Southern California cuisine with an a-la-carte taco menu and hand-crafted margaritas. Morning Belle is a garden-themed breakfast, brunch and lunch concept featuring signature dishes, traditional breakfast, and specialty morning cocktails.

Meritage has approximately 11,000 employees, of which approximately 1,675 are full-time. The Company was assigned a primary SIC Code of 5812 (Retail-Eating Places). Meritage was incorporated under the laws of the State of Michigan in August 1986. 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, its 98.5% owned subsidiary, RDG-MHG, LLC, ("RDG"), and its variable interest entity (VIE), Restaurant Holdings, LLC ("Restaurant Holdings"), for which the Company is a primary beneficiary. RDG is a 15% partner in TRG-Meritage Bahamas, LLC ("TRG"). All intercompany transactions and balances have been eliminated in consolidation. For convenience, Meritage 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.

Risks and Governmental Regulations

Meritage is subject to numerous uncertainties and risk factors inherent in the food service industry. These include, among others: competition; changes in local and national economic conditions; changes in consumer tastes and eating habits; concerns about the nutritional quality of quick-service or casual dining menu items; concerns about consumption of beef or other menu items due to food-borne diseases; promotions and menu price discounting by competitors; severe weather; changes in travel patterns; road construction; demographic trends; the cost of food, labor, fuel and energy; the availability and cost of suitable restaurant sites; the ability to finance expansion; fluctuating interest rates; insurance costs; the availability of an adequate number of managers and hourly-paid employees; directives issued by its franchisor regarding the Company's Wendy's operations; its franchisor's national marketing and advertising programs; its franchisor's advertised pricing; the general reputation of Meritage's and its franchisor's restaurants; legal claims; security, including cyber security; credit card fraud; information technology incidents and breaches; and the recurring need for renovation and capital improvements. See Forward-Looking Statements following Item 21 of this annual disclosure statement for additional details.

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

Approximately 22% of the Company's casual dining restaurant sales are attributable to the sale of alcoholic beverages. Each casual dining restaurant has licenses from regulatory authorities allowing it to sell liquor, beer and wine. The failure of a restaurant to obtain or retain liquor service licenses could adversely affect the Company's operations. Once a liquor license is obtained, Meritage is subject to "dram-shop" statutes and interpretations which generally provide that a person who is injured by an intoxicated person has the right to recover damages from an establishment that wrongfully served alcoholic beverages to the intoxicated person.

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

Legal Proceedings

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

Stock Split and Other 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.

Wendy's Operations

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

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 also includes chili, baked and french fried potatoes, chicken nuggets, freshly prepared salads, soft drinks, "Frosty" desserts, children's meals and, beginning in the first quarter of 2020, breakfast. 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 typically range from 2,200 to 3,600 square feet with seating capacity for 30 to 130 people. Restaurants are generally open from 10:00 a.m. until midnight. With Wendy's breakfast launch in 2020, restaurants will start to open at 6:30 a.m. Restaurants feature a pick-up drive-through window. Sales to drive-through customers account for approximately 71% of total restaurant sales.

Marketing and Promotion

The franchisor requires at least 4% 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 remainder is used on local advertising. The Company typically spends local advertising dollars in support of radio advertising, print media, social media, local promotions and community goodwill projects.

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 Wendy's 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 months, resulting in increased revenues during those months. Traffic in the southern states typically increases during the early spring months, resulting in increased revenues during those months.

Relationship with Franchisor

Meritage operates its Wendy's 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 Wendy's 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 franchise agreements (including options to renew) range from one to 35 years.

The 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.

Casual Dining Operations

The Company also owns six casual dining restaurants operating under five individual concepts throughout Michigan and are comprised of two Twisted Rooster locations, one Freighters Eatery & Taproom location, one Wheelhouse Kitchen & Cocktails location, one Stan Diego Baja Taco Kitchen location, and one Morning Belle location.

The two Twisted Rooster restaurants located in Belleville and Chesterfield, Michigan are family centric and feature dynamic recipes which include local ingredients, and feature a wide variety of local craft beer, wine and liquors.

Freighters Eatery & Taproom in Port Huron, Michigan is connected to a Hilton DoubleTree hotel and is situated on the St. Clair River providing a unique waterfront dining experience for guests. Freighter's extensive dine-in, banquet, and room service menus feature locally sourced menu options, as well as a wide variety of Michigan-sourced libations.

Wheelhouse Kitchen & Cocktails is located in downtown Grand Rapids, Michigan. The versatility of the restaurant's dining room provides a relaxing space for an intimate dinner and features a seasonally based menu and artisan cocktails. Additionally, the restaurant's large bar and porch make it the perfect place to unwind after work or enjoy a pre-concert cocktail.

Stan Diego, located in Standale, Michigan, has a fresh look designed to resemble a day at the beach with a menu featuring authentic, Southern Californian favorites. The extensive bar program complements the menu with hand crafted margaritas, local beers and bottled cervezas.

Morning Belle, located in Grand Rapids, Michigan, features a relaxing environment tailored to family and friends and includes breakfast options to exceed all expectations by using the best ingredients for the freshest taste. The restaurant's vibrant, garden-themed decor is designed to make days brighter with any one of the restaurant's signature breakfast or brunch dishes, or crafted morning cocktails.

Menu

The Twisted Rooster menu features classic American fare with dynamic twists at a reasonable price. The menu is guided by fresh, seasonally local ingredients combined with bold flavors for simply twisted results. The Twisted Rooster menu includes steaks, signature sandwiches, fresh fish, pasta plates, Twisted Rooster's signature macaroni and cheese, and fresh-cut salads with signature dressings and homemade desserts. Also offered are a wide variety of alcoholic beverages including beer, wine and cocktails. The restaurants serve lunch, dinner and special menu items including seasonal promotions, daily special selections and a special kid's menu. Twisted Rooster restaurants offer curbside takeout.

The menu at Freighters Eatery & Taproom features an imaginative flare on what might otherwise be considered "typical" American favorites. Like all the Company's casual dining restaurants, Freighters focuses on showcasing the great local products in each of its menu items. Its seasonally changing menus offer a selection of appetizers and specialty entrees and desserts. Even the full-service bar is stocked with locally sourced libations, from craft beers, wines and sodas to small-batch liquors, which are used as a base for various specialty cocktails. It also has a full-service breakfast buffet, available daily. The restaurant serves as a caterer for the adjoining hotel, including room service, and features a variety of corporate and private event catering packages.

The menu at Wheelhouse Kitchen & Cocktails features a contemporary twist on classic American bistro fare with seasonal recipes inspired by the chef's ongoing partnership with local suppliers. The distinctive menu is complemented by a list of artisan cocktails, select wines and Michigan craft brews.

Stan Diego Baja Taco Kitchen features an authentic, a-la-carte style menu with a variety of Southern Californian favorites such as queso fundido, Cali burrito, and a line-up of signature tacos. The extensive bar program complements the menu and features an abundance of tequilas, whiskey and mescal. Its margaritas and craft cocktails utilize top-shelf ingredients, mixed with house-made purees and simple syrup. Teammates are focused on creating a unique dining experience, complete with distinctive food and drinks in an energetic atmosphere.

Morning Belle features breakfast, brunch and lunch options designed to exceed all expectations. Choices include traditional breakfast entrees, lighter options such as salads with fresh cut vegetables and grain bowls, scratch-made pancakes, a kid's menus, and its own glazed donut waffle for the more indulgent palate. The restaurant's extensive specialty beverage menu includes, among other items, a variety of mimosas, spiked cold brews, and pomegranate lemonade.

Restaurant Layout and Operation

Twisted Rooster's buildings are freestanding brick structures with 5,400 to 7,200 square feet. The restaurants accommodate between 190 and 245 guests, including 12 to 20 bar seats. The interior is designed to be fun and energetic, featuring contemporary pieces by local artists. The kitchen is designed to provide flexibility and efficiency as well as allow for continuing menu innovations.

Freighters Eatery & Taproom is unique with its large windows and outdoor patio featuring a stunning waterfront view for its guests. The 11,105 square foot restaurant is connected to a DoubleTree Hilton hotel as well as the Blue Water Convention Center. The restaurant features flat-screen TV's, a 21-seat bar, fireplace lounge for guests to enjoy, and 44 patio seats. The relaxing atmosphere is warm and inviting and features locally sourced art reflecting elements of the freighters passing by.

Wheelhouse Kitchen & Cocktails is a 7,200 square foot site on the ground floor of the Arena Place Office building constructed in 2016. The restaurant accommodates 296 patrons, has a large, 30-seat bar and a porch hosting 48 seats making it the perfect place to unwind after work or enjoy a pre-concert cocktail. The versatility of the dining room provides a relaxing space for an intimate dinner, featuring a menu that appeals to the foodie in all of us.

Stan Diego Baja Taco Kitchen is a 4,700 square foot site on the end cap space of a shopping center. The restaurant accommodates 140 guests and features a large 15-seat cabana bar, a 1973 orange Volkswagen bus, foosball table, and 14-foot garage door to welcome the outside in. Stan Diego's come-as-you-are atmosphere is a destination for guests of every age. Stan Diego staff are friendly, and guests can count on the comfortable atmosphere to help them unwind.

The Company's newest concept, Morning Belle, was rebranded from one of the Company's previous Twisted Roosters in Grand Rapids, Michigan. Morning Belle is a bright, garden-themed breakfast restaurant that is 5,500 square feet and is open from 7:00 a.m. until 2:30 p.m. It has 140 dining seats, a 9-seat bar and a 24-seat outdoor patio. Morning Belle features white brick and shiplap walls, warm cedar accents, vibrant fabrics and fresh plants sure to brighten anyone's day!

Marketing and Promotion

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

Raw Materials and Energy

The Company's casual dining 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 casual dining 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 full-service, casual dining 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 Wendy's restaurants are located in close proximity to their principal QSR competitors which 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, and effectiveness of marketing and new product development. The Company also competes within the food service industry and the QSR restaurant sector not only for customers, but also for personnel and suitable real estate sites. The Company believes the competitive position of a Wendy's restaurant is ultimately enhanced by its unique qualities such as the use of fresh ground beef, a diverse menu, its promotional products, food prepared to order with an emphasis on quality, nutrition and taste, pleasant and speedy service and atmosphere. Wendy's continues to implement its reimaging program, which includes innovative exterior and interior restaurant designs, with plans for significantly more new and reimaged restaurants which began in 2015 and continuing beyond. The program also differentiates the Company from its competitors by its emphasis on restaurant employees who provide friendly and engaged customer service.

Casual Dining Restaurant Industry

The Company operates its Twisted Rooster, Freighters, Wheelhouse, Stan Diego, and Morning Belle 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 Wendy's restaurants, the Company's casual dining 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.

The Company remains focused on reimaging its Wendy's. Reimaging costs inclusive of deferred maintenance items range from $215,000 to $750,000 per restaurant. Currently, 50% of the Company's Wendy's restaurant portfolio has been reimaged.

Of the 331 Wendy's restaurants it operates, the Company (i) owns the land and buildings comprising 30 restaurants, (ii) leases the land and buildings comprising 294 restaurants, and (iii) owns the building and leases the land comprising seven restaurants. The remaining lease terms (including options to renew) range from one to 50 years. The structures are approximately between one and 45 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 operates six casual dining restaurants, one that is owned, four that are leased, and one where the building is owned and the land is leased. The remaining term of the building and land leases (including options to renew) are between 19 and 41 years. The remaining term of the land lease (including options to renew) is 19 years. The building owned by the Company is held as collateral for financing.

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

Part D Management Structure and Financial Information

Item 11 The name of the Chief Executive Officer, members of the Board of Directors, as well as control persons.

Board of Director and Officers beneficial ownership percentages as of December 29, 2019 represented per Exchange Act Rule 13d-3(d)(1)(i) are as follows:

Name and Age	Position	Total Shares Beneficially Owned Amount (1)	Percentage
Robert E. Schermer, Jr., 61	Chief Executive Officer	2,280,764	32.0%
Gary A. Rose, 57	President, Chief Operating Officer, and Corporate Secretary	865,058	12.3%
Tracey A. Smith, 45	Vice President, Chief Financial Officer, and Treasurer	117,842	1.8%
Robert E. Schermer, Sr., 84	Chairman of the Board of Directors	1,338,662	19.6%
James P. Bishop, 79	Director	236,487	3.7%
Duane F. Kluting, 70	Director	125,903	2.0%
Joseph L. Maggini, Sr., 80	Director	938,028	14.0%
Peter D. Wierenga, 65	Director	577,894	8.8%
Dirk J. Pruis, 59	Director	8,753	0.1%
All Current Executive Officers and Directors as a Group (9 persons)		6,489,391	71.1%

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

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

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

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

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

James P. Bishop has been a Director of the Company since 1998. He is a retired CPA, and a retired consultant with Seber Tans PLC accounting firm in Kalamazoo, Michigan. Prior to that, Mr. Bishop was the President and majority owner of the Bishop, Flipse & Meyer, P.C. accounting firm in Kalamazoo, Michigan, where he was employed since 1973. Mr. Bishop's business address 3291 Springbrook Ave., Kalamazoo, MI 49004.

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

Joseph L. Maggini, Sr. has been a Director of the Company since 1996. Mr. Maggini was the President and Chairman of the Board of Magic Steel Corporation, a steel service center located in Grand Rapids, Michigan that he founded in 1974.

Peter D. Wierenga has served as a Director of the Company since 2010. He was the Vice President and Director of Godwin Plumbing, Inc., a plumbing and mechanical contractor, from 1987 through 2015. Concurrently, Mr. Wierenga has also been the President and director of Godwin Hardware Stores, a retail hardware company, since 1988.

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 a Professor of Finance and Accounting at Calvin University. Professor Pruis' business address is 3201 Burton Street SE, Grand Rapids, MI 49546.

The non-employee directors are compensated in accordance with the compensatory plans outlined in Item 17 below. In fiscal 2019, each of the non-employee directors received an option grant of 10,000 common shares priced at $17.93 per share (the closing price on the date of the grant). In fiscal 2019, the non-employee directors received compensation for attendance at Board and Committee meetings as follows: Mr. Bishop: $20,455 (paid in 1,179 common shares); Mr. Kluting: $27,718 (paid in 1,546 common shares); Mr. Pruis: $27,718 (paid in 1,546 common shares); Mr. Maggini: $11,684 (paid in 639 common shares); Mr. Schermer, Sr.: $11,684 (paid in 639 common shares); and Mr. Wierenga: $11,684 (paid in 639 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 $261,000 plus an annual car allowance of $10,500. Mr. Rose earned a base salary of $231,000 plus an annual car allowance of $8,400. Mrs. Smith earned a base salary of $182,000. In fiscal 2019, Mr. Schermer, Jr. and Mr. Rose each also received 30,000 stock option grants priced at $17.15 per share (the closing price on the date of the grant). Mrs. Smith received 15,000 and grants priced at $17.15 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 2019 was $562,000 each for Mr. Schermer, Jr. and Mr. Rose. Deferred compensation earned and accrued in fiscal 2019 for Mrs. Smith was $133,000. Bonuses earned and accrued in fiscal 2019 were $1,040,000 for Mr. Schermer, Jr. and Mr. Rose. Bonus earned and accrued in fiscal 2019 for Mrs. Smith was approximately $416,000.

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 common shares.

Related Party Transactions

Robert E. Schermer, Jr. is a co-managing member of a real estate development company of which one of the Company's casual dining restaurants is a tenant.

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., Gary A. Rose, Joseph L. Maggini Sr. and Peter D. Wierenga are each 22.5% owners in the Company's variable interest entity, Restaurant Holdings, for which the Company is a primary beneficiary.

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, 2019, separately posted on the OTC Markets website (www.otcmarkets.com/otcqx/home) for Meritage and incorporated by reference in this Annual Report. The audited consolidated financial statements include the following reports:

(1) balance sheet;
(2) statement of operations;
(3) statement of equity;
(4) statement of cash flows;
(5) notes to financial statements; and
(6) audit opinion letter.

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 reports:

(1) balance sheet;
(2) statement of operations;
(3) statement of equity;
(4) statement of cash flows;
(5) notes to financial statements; and
(6) audit opinion letter.

Item 14 Beneficial Owners.

Other than certain Meritage directors and officers as identified in Item 11 above, no other shareholders are believed by the Company to beneficially own 5% or more of the Company's outstanding common shares.

Item 15 The name, address, telephone number, and email address of each of the following outside providers that advise the issuer on matters relating to the operations, business development and disclosure:

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

Auditors: BDO USA LLP
License #: 1102003448 (State of Michigan)
c/o Tony Lawrence
200 Ottawa Avenue NW
Suite 300
Grand Rapids, MI 49503
(616) 774-7000
ALawrence@bdo.com

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

Item 16 Management's Discussion and Analysis or Plan of Operations.

Refer to Forward-Looking Statements following Item 21 of this annual disclosure statement.

Overview

Meritage operates in the quick-service and casual dining restaurant industries. The Company has experienced significant growth through acquisitions, newly built locations, reimaging campaigns, and investment in casual dining segments. The Company has committed significant capital resources to the Wendy's brand initiatives, including a recent commitment to build 40 new restaurants under a development agreement with Wendy's. In addition, the Company continues to evaluate acquisition opportunities in the Wendy's system, as well as other growth opportunities in the restaurant industry. Since 2009, the Company has acquired 264 Wendy's restaurants through 26 separate transactions. In the third quarter of 2019, the Company opened a new family dining brunch concept, Morning Belle, and announced its plans to expand and grow within this segment.

At December 29, 2019, the Company operated 331 Wendy's quick-service restaurants under franchise agreements with The Wendy's Company and six independently created casual dining restaurants. Of the Wendy's quick-service restaurants, 10 are operating in Arkansas, 32 in Connecticut, 55 in Florida, 44 in Georgia, 12 in Indiana, 12 in Massachusetts, 54 in Michigan, seven in Mississippi, three in Missouri, two in North Carolina, 15 in Ohio, 25 in Oklahoma, one in South Carolina, 35 in Tennessee, 11 in Texas and 13 in Virginia. All six casual dining restaurants are located in Michigan.

A schedule of Company restaurants follows:

	Wendy's	Casual Dining	Total Restaurants
Restaurants as of December 31, 2017	249	6	255
Acquired restaurants	56	-	56
Newly opened restaurants	10	-	10
Closed restaurants	-4	-	-4
Restaurants as of December 30, 2018	311	6	317
Acquired restaurants	10	-	10
Newly opened restaurants	14	-	14
Closed restaurants	-4	-	-4
Restaurants as of December 29, 2019	331	6	337

Results of Operations

Results of operations are summarized below:

	2019 (000's)		2018 (000's)	
Food and Beverage Revenue	$ 467,547	100.0%	$ 435,298	100.0%
Costs and Expenses				
Cost of food and beverage	124,903	26.7%	116,383	26.7%
Labor and related expenses	137,644	29.4%	124,908	28.7%
Advertising expenses	18,202	3.9%	18,413	4.2%
Occupancy expenses	65,995	14.1%	59,197	13.6%
Franchise fee expenses	17,593	3.8%	16,140	3.7%
Other operating expenses	40,551	8.7%	37,869	8.7%
Total Operating Expenses	404,888	86.6%	372,910	85.7%
General and administrative expenses	23,392	5.0%	21,152	4.9%
Preopening, acquisition and closing expenses	4,022	0.9%	3,868	0.9%
Depreciation and amortization	14,077	3.0%	11,955	2.7%
Total Costs and Expenses	446,380	95.5%	409,885	94.2%
Income from Operations	21,167	4.5%	25,413	5.8%
Other Expense (Income)				
Interest expense	12,336	2.6%	9,669	2.2%
Other income	(7,632)	-1.6%	(785)	-0.2%
Total Other Expense	4,704	1.0%	8,884	2.0%
Income Before Income Taxes	16,463	3.5%	16,529	3.8%
Income Tax Expense	3,589	0.8%	3,371	0.8%
Consolidated Net Income	$ 12,875	2.8%	$ 13,158	3.0%
Less Consolidated Net Income Attributable to Noncontrolling Interest in Variable Interest Entity	818	0.2	150	0.0
Consolidated Net Income Attributable to Controlling Interest	$ 12,056	2.6%	$ 13,008	3.0%

Food and Beverage Revenue

The Company reported revenues of $467.5 million in fiscal 2019 compared to revenues of $435.3 million in fiscal 2018, representing an increase of 7.4%. Total Company “same store sales” (i.e., food and beverage revenue for stores in full operation on a per period basis for both fiscal years) increased by 1.0% in 2019 over prior year’s sales.

The Company’s Wendy’s restaurants reported sales of $456.1 million in fiscal 2019, an increase of 7.9% over the prior year’s sales of $422.7 million. The increase directly corresponds with a full first quarter of sales from the 56 Wendy’s restaurants acquired in early 2018, increased sales from newly built and reimaged locations, and to a lesser extent, ten Wendy’s restaurants acquired in the second half of 2019.

The Company's Wendy's restaurants experienced a "same store sales" increase of 1.1% in 2019 over prior year's sales.

The Company's casual dining restaurants reported sales of $11.4 million, a decrease of 9.5% from prior year sales of $12.6 million. The significant decrease is a result of a closed location for rebranding. The Company's casual dining restaurants experienced a "same store sales" decrease of 5.1% from prior year. The Company recently rebranded one of its Twisted Rooster locations to a new concept, Morning Belle. Morning Belle is a garden-themed, sit-down breakfast restaurant tailored to the rapidly growing family dining space. Since its opening late in the third quarter of 2019, the restaurant has exceeded initial projections.

Cost of Food and Beverages

The cost of food and beverage as a percentage of revenue remained consistent for fiscal year 2019 when compared to the prior year. Despite an 8.25% increase in average cost of beef in 2019 over the prior year, the cost of food and beverage remained stable as a result of strategic price increases deployed across all markets.

Labor and Related Expenses

Labor and related expenses increased to 29.4% from 28.7% of revenue for fiscal 2019 when compared to 2018. The increase primarily represents a 3.5% increase in average minimum wage when compared to the prior year, as well as a 1.2% increase in average wage strategically deployed to meet increased market competition.

Occupancy Expenses

Occupancy expenses increased to 14.1% from 13.6% of revenue for fiscal 2019 when compared to the 2018. The increase primarily results from the removal of the amortization of deferred gain rent components due to the change in accounting principle over leases.

Other Operating Expenses

Other operating expenses as a percentage of revenue remained consistent for fiscal year 2019 when compared to the prior year.

General and Administrative Expenses

General and administrative expenses as a percentage of revenue remained consistent for fiscal year 2019 when compared to the prior year.

Preopening, Acquisition and Closing Expenses

Preopening and acquisition expenses primarily represent costs associated with acquisitions and numerous reimaging efforts.

Closing expenses represent actual and estimated costs related to the closure of under-performing restaurants. Closing and disposition expenses are expected to be an ongoing cost due to continuing efforts to improve the Company's overall restaurant portfolio.

Depreciation and Amortization

The increase in the amount of depreciation and amortization expense was due to significantly increased asset purchases in 2019 and 2018, primarily as a result of acquisitions, reimaging efforts, and new restaurant construction.

Interest Expense

The increase in the amount of interest expense was primarily due to the change in fair value of the Company's interest rate swap agreements. In addition, financings associated with acquisitions and the Company's annual reimaging program also contributed to the overall increase. The increase was offset by a decline in the effective interest rate on variable debt over prior year.

Interest expense is summarized below:

	2019 (000's)	2018 (000's)
Interest expense (income) - swap	$ 1,634	$ (857)
Interest expense	10,702	10,526
Total interest expense	$ 12,336	$ 9,669

Other Income

Other income was primarily related to gains on real estate transactions completed throughout the year.

Income Tax Expense

Income tax expense is summarized as follows:

	2019 (000's)	2018 (000's)
Federal income tax expense	$ 448	$ 545
State and local income tax expense	1,286	945
Change in deferred income taxes	1,855	1,881
Income tax expense	$ 3,589	$ 3,371

The Company had net deferred tax liabilities totaling approximately $8,342,000 and $1,570,000 at December 29, 2019 and December 30, 2018, respectively.

The Company's federal income tax expense was reduced by tax credits of $1,692,000 and $1,585,000 in 2019 and 2018, respectively.

Financial Condition

Management monitors short- and long-term cash needs and currently believes that with its ongoing operations and current cash balances, the Company has sufficient capital to meet its ongoing obligations. Loan covenants of the Company's various loan agreements include requirements for the maintenance of certain financial ratios. At December 29, 2019 and December 30, 2018, the Company was in compliance with these covenants.

Off-Balance Sheet Arrangements

There were no off-balance sheet arrangements as of December 29, 2019.

Part E Issuance History

Item 17 List of securities offerings and shares issued for services in the past two years.

Common Shares Issued: Fiscal Years 2018 and 2019:

Transaction	Date	Shares Issued
Director Comp – 1st Quarter 2018	04/01/2018	963
Director Comp – 2nd Quarter 2018	07/01/2018	1,051
Director Comp – 3rd Quarter 2018	09/30/2018	1,100
Director Comp – 4th Quarter 2018	12/30/2018	1,497
Director Comp – 1st Quarter 2019	03/31/2019	1,533
Director Comp – 2nd Quarter 2019	06/30/2019	1,449
Director Comp – 3rd Quarter 2019	09/29/2019	1,737
Director Comp – 4th Quarter 2019	12/29/2019	1,469

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 $2,420 for attendance at meetings of the Board of Directors and $4,840 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.

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

2002 Management Equity Incentive Plan ("2002 Incentive Plan"), 2008 Management Equity Incentive Plan ("2008 Incentive Plan") and 2017 Management Equity Incentive Plan ("2017 Incentive Plan"). The 2002 Incentive Plan authorized up to 1,000,000 common shares for use in the 2002 Incentive Plan. The 2008 Incentive Plan authorized up to 750,000 common shares for use in the 2008 Incentive Plan. The 2017 Incentive Plan was adopted by the Board of Directors in May 2017 and authorized up to 1,000,000 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 18 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 19 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 20 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, 2019:

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 12/31/18-01/27/19	0	---	---	290,716
Month #2 01/28/19-02/03/19	0	---	---	290,716
Month #3 02/04/19-03/31/19	0	---	---	290,716
Month #4 04/01/19-04/28/19	0	---	---	290,716
Month #5 04/29/19-06/02/19	0	---	---	290,716
Month #6 06/03/19-06/30/19	0	---	---	290,716
Month #7 07/01/19-07/28/19	0	---	---	290,716
Month #8 07/29/19-09/01/19	10,000	$18.31	---	280,716
Month #9 09/02/19-09/29/19	0	---	---	280,716
Month #10 09/30/19-10/27/19	0	---	---	280,716
Month #11 10/28/19-12/01/19	0	---	---	280,716
Month #12 12/02/19-12/29/19	0	---	---	280,716

(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. There is no expiration date relating to this program, and the Board is permitted to rescind the program at any time. Additionally, in February 2010, the Board authorized the repurchase, subject to capital availability, of up to 100,000 preferred shares of Meritage.

Item 21 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 4, 2020

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 4, 2020

Tracey A. Smith
Chief Financial Officer

FORWARD-LOOKING STATEMENTS

Certain statements contained in this report that are not historical facts constitute forward-looking statements. These may be identified by words such as "estimates," "anticipates," "hopes," "projects," "plans," "expects," "believes," "should," and similar expressions, and by the context in which they are used. Such statements are based only upon current expectations of the Company. 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 action which Meritage intends to pursue to achieve its strategic objectives, constitute forward-looking information. Implementation of these strategies and achievement of such financial performance are subject to numerous conditions, uncertainties and risk factors, which could cause actual performance to differ materially from the forward-looking statements. These include, without limitation: competition; changes in the national or local economy; changes in consumer preferences, tastes and eating habits; concerns about the nutritional quality of our restaurant menu items; concerns about consumption of beef or other menu items due to diseases or other food safety issues; promotions and price discounting by competitors; severe weather; changes in travel patterns; road construction; demographic trends; failure to manage social media trends; the cost of food, labor and energy; supply chain interruptions; the availability and cost of suitable restaurant sites; the ability to finance expansion; interest rates; insurance costs; the availability of adequate managers and hourly-paid employees; risks associated with leasing real property; directives issued by the franchisor regarding operations and menu pricing; the general reputation of Meritage's and its franchisors' restaurants; the relationship between Meritage and its franchisors; legal claims; security, including cyber security and information technology security; credit card fraud; Meritage's ability to consummate acquisitions or, if consummated, to successfully integrate acquired businesses into Meritage's operations; and the recurring need for renovation and capital improvements. Meritage is also subject to extensive 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. Because Meritage's operations are concentrated in certain areas of Arkansas, Connecticut, Florida, Georgia, Indiana, Massachusetts, Michigan, Mississippi, Missouri, North Carolina, Ohio, Oklahoma, South Carolina, Tennessee, Texas and Virginia, significant economic changes in these states, or in the local economies where our restaurants are located, could adversely affect our operations. Additionally, with Meritage's expansion, the Company could be adversely affected by tropical storms, hurricanes, or tornadoes. The Company's news releases and public reports are not intended to constitute an offer to sell or a solicitation of an offer to buy any securities of the Company or otherwise engage in a transaction with the Company.

Meritage Hospitality Group Inc., Subsidiaries and Affiliate

Consolidated Financial Report
December 29, 2019 and December 30, 2018

Contents

Consolidated Financial Statements

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

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

Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of Meritage Hospitality Group Inc. and Subsidiaries and Affiliate, which comprise the consolidated balance sheet as of December 29, 2019, and the related statements of operations, equity, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Change in Accounting Principle

As discussed in Note 1 to the consolidated financial statements, in 2019, the Company changed its method of accounting for leases in accordance with ASC 842 guidance. Our opinion is not modified with respect to this matter.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Meritage Hospitality Group Inc. and Subsidiaries and Affiliate as of December 29, 2019, and the results of their operations and their cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The 2018 consolidated financial statements of Meritage Hospitality Group Inc. and Subsidiaries and Affiliate were audited by other auditors, whose report dated March 1, 2019 expressed an unmodified opinion on those statements.

BDO USA, LLP

March 4, 2020

Meritage Hospitality Group Inc., Subsidiaries and Affiliate

Consolidated Balance Sheets

	December 29, 2019	December 30, 2018
Assets		
Current Assets		
Cash	$ 16,941,537	$ 13,317,385
Receivables	1,215,106	1,560,252
Inventories	3,516,818	3,288,455
Prepaid expenses and other current assets	3,487,381	2,402,881
Total Current Assets	25,160,842	20,568,973
Property and Equipment - Net (Note 4)	151,846,096	112,665,678
Goodwill (Note 5)	174,243,332	164,012,155
Intangible Assets (Note 6)	4,286,938	3,624,482
Operating Lease Right-of-Use Assets - Net (Note 7)	315,350,503	-
Other Assets		
Notes receivable (Note 9)	-	248,215
Long-term investments (Note 10)	1,786,345	5,476,851
Deposits and other assets	4,862,992	4,259,078
Total Assets	**$ 677,537,048**	**$ 310,855,432**
Liabilities and Equity		
Current Liabilities		
Trade accounts payable	$ 21,649,977	$ 16,357,139
Lines of credit (Note 12)	38,935,283	15,121,891
Current portion of long-term debt (Note 12)	19,369,700	17,272,359
Current portion of operating lease obligations payable (Note 7)	19,800,360	-
Accrued liabilities	17,882,071	15,609,712
Total Current Liabilities	117,637,391	64,361,101
Unearned Vendor Allowances (Note 1)	2,151,614	2,462,227
Operating Lease Obligations Payable (Note 7)	300,212,810	-
Accrued Rent (Note 7)	-	3,982,793
Other Long-Term Liabilities	8,388,883	4,781,753
Long-Term Debt - Net of current portion (Note 12)	157,726,961	156,164,201
Deferred Income Taxes (Note 13)	8,341,499	1,569,996
Deferred Gain - Sale and leaseback transactions (Note 8)	-	20,140,198
Equity (Note 3)	83,077,890	57,393,163
Total Liabilities and Equity	**$ 677,537,048**	**$ 310,855,432**

See notes to consolidated financial statements.

Meritage Hospitality Group Inc., Subsidiaries and Affiliate

Consolidated Statements of Operations

	Fiscal Year Ended December 29, 2019	Fiscal Year Ended December 30, 2018
Food and Beverage Revenue	$ 467,547,010	$ 435,298,027
Costs and Expenses		
Cost of food and beverage	124,903,260	116,383,144
Labor and related expenses	137,643,777	124,908,246
Advertising expenses	18,201,889	18,412,999
Occupancy expenses	65,994,778	59,197,340
Franchise fee expenses	17,593,432	16,140,070
Other operating expenses	40,551,275	37,868,582
Total Operating Expenses	404,888,411	372,910,381
General and administrative expenses	23,391,953	21,152,094
Preopening, acquisition and closing expenses	4,022,059	3,868,364
Depreciation and amortization	14,077,164	11,954,654
Total Costs and Expenses	446,379,587	409,885,493
Income From Operations	21,167,423	25,412,534
Other Expense (Income)		
Interest expense	12,336,205	9,668,751
Other income	(7,632,087)	(784,942)
Total Other Expense	4,704,118	8,883,809
Income Before Income Taxes	16,463,305	16,528,725
Income Tax Expense	3,588,674	3,370,922
Consolidated Net Income	**$ 12,874,631**	**$ 13,157,803**
Less Consolidated Net Income Attributable to Noncontrolling Interest in Variable Interest Entity	818,204	149,588
Consolidated Net Income Attributable to Controlling Interest	**$ 12,056,427**	**$ 13,008,215**
Earnings per share (Note 16)		
Basic	$ 1.62	$ 1.87
Diluted	1.27	1.44
Basic Weighted Average Shares Outstanding	6,308,855	6,218,305
Diluted Weighted Average Shares Outstanding	9,032,790	9,060,513

See notes to consolidated financial statements.

Meritage Hospitality Group Inc., Subsidiaries and Affiliate

Consolidated Statements of Equity

	Convertible Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Noncontrolling Interest	Total
Balance - December 31, 2017	$ 9,893	$ 61,528	$ 23,759,615	$ 14,413,999	$ 223,508	$ 38,468,543
Net income	-	-	-	13,008,215	149,588	13,157,803
Issuance of 87,990 shares of common stock	-	880	164,218	-	-	165,098
Issuance of 310,293 shares of preferred stock	3,103	-	7,282,654	-	-	7,285,757
Preferred stock conversion	(99)	178	(133)	-	-	(54)
Common stock dividends	-	-	-	(934,622)	-	(934,622)
Preferred stock dividends	-	-	-	(1,405,180)	-	(1,405,180)
Company-owned stock	-	-	(259,065)	-	-	(259,065)
Stock option expense	-	-	1,625,995	-	-	1,625,995
Distributions	-	-	-	-	(711,112)	(711,112)
Balance - December 30, 2018	$ 12,897	$ 62,586	$ 32,573,284	$ 25,082,412	$ (338,016)	$ 57,393,163
Adoption of accounting principle (Note 1)	-	-	-	12,961,572	2,262,167	15,223,739
Net income	-	-	-	12,056,427	818,204	12,874,631
Issuance of 81,166 shares of common stock	-	812	140,055	-	-	140,867
Issuance of 26,000 shares of preferred stock, net	260	-	617,388	-	-	617,648
Repurchase of 10,000 shares of common stock	-	(100)	(183,000)	-	-	(183,100)
Preferred stock conversion	(100)	185	(95)	-	-	(10)
Common stock dividends	-	-	-	(1,513,623)	-	(1,513,623)
Preferred stock dividends, net	-	-	-	(1,467,220)	-	(1,467,220)
Company-owned stock	-	-	(1,257,082)	-	-	(1,257,082)
Stock option expense	-	-	1,761,450	-	-	1,761,450
Distributions	-	-	-	-	(512,573)	(512,573)
Balance - December 29, 2019	$ 13,057	$ 63,483	$ 33,652,000	$ 47,119,568	$ 2,229,782	$ 83,077,890

See notes to consolidated financial statements.

Meritage Hospitality Group Inc., Subsidiaries and Affiliate

Consolidated Statements of Cash Flows

	Fiscal Year Ended December 29, 2019	Fiscal Year Ended December 30, 2018
Cash Flows from Operating Activities		
Net income	$ 12,874,631	$ 13,157,803
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	14,077,164	11,954,654
Amortization of financing costs	484,250	507,147
Deferred income taxes	1,855,044	1,881,432
Amortization of deferred gain from sale and leaseback transactions	-	(1,223,199)
Recognition of deferred gain on sale and leaseback transactions	-	(332,256)
Loss on disposal of fixed assets	3,359,615	2,059,155
Gain on sale and leaseback transactions (Note 8)	(7,628,589)	
Change in fair market value of swap	1,207,328	(857,022)
Gain on sale of long-term investment	-	(825,001)
Stock-based compensation	110,942	84,056
Change in company-owned stock	(1,257,082)	(259,065)
Stock option expense	1,761,450	1,625,995
Changes in operating assets and liabilities which (used) provided cash:		
Receivables	345,146	(625,129)
Inventories	(121,999)	(263,823)
Prepaid expenses and other current assets	(550,782)	141,921
Deposits and other assets	(615,130)	(206,232)
Accounts payable	5,282,791	(1,383,694)
Accrued liabilities	1,474,020	897,932
Accrued rent	679,874	605,720
Unearned vendor allowances	(497,452)	653,781
Deferred compensation	2,399,802	472,345
Net cash provided by operating activities	35,241,023	28,066,520
Cash Flows from Investing Activities		
Purchase of property and equipment	(89,575,944)	(61,128,821)
Purchase of intangible assets	(638,292)	(1,867,444)
Change in long-term investments	3,690,506	1,100,001
Proceeds from the sale of assets	-	700,564
Acquisitions, net of cash proceeds (Note 21)	(16,800,772)	(85,027,979)
Net cash used in investing activities	(103,324,502)	(146,223,679)

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows (Continued)

	Fiscal Year Ended December 29, 2019	Fiscal Year Ended December 30, 2018
Cash Flows from Financing Activities		
Proceeds from long-term debt	20,635,887	80,961,124
Principal payments on long-term debt	(17,094,871)	(14,417,267)
Proceeds from lines of credit	80,498,718	52,431,575
Payments on lines of credit	(17,923,988)	(14,876,142)
Proceeds from sale and leaseback transactions	47,747,340	69,294,346
Payments on lines of credit related to sale and leaseback transactions	(38,761,337)	(57,885,298)
Principal payments on finance leases	(365,164)	(347,436)
Payments on financing costs	-	(919,541)
Payments on preferred stock conversion	(10)	(54)
Payments on repurchase of common stock	(183,100)	-
Proceeds from sale of common stock	29,924	81,042
Proceeds from issuance of preferred stock, net	617,648	7,285,757
Common stock dividends paid	(1,513,623)	(934,622)
Preferred stock dividends paid, net	(1,467,220)	(1,405,180)
Distributions from variable interest entity	(512,573)	(711,112)
Net cash provided by financing activities	71,707,631	118,557,192
Net Increase in Cash	3,624,152	400,033
Cash - Beginning of year	13,317,385	12,917,352
Cash - End of year	$ 16,941,537	$ 13,317,385
Supplemental Disclosure of Cash Flow Information		
Cash paid for:		
Interest	$ 10,208,518	$ 9,827,325
Income taxes	$ 2,011,121	$ 829,862
Significant non-cash investing and financing transactions:		
Deferred gain on sale and leaseback transactions	$ -	$ 9,030,170
Conversion of note receivable to land	$ -	$ 300,000

See notes to consolidated financial statements.

Note 1 - Nature of Business and Significant Accounting Policies

Meritage Hospitality Group Inc., Subsidiaries and Affiliate (the "Company") conducts its business in the quick-service and casual dining restaurant industries. At December 29, 2019, the Company operated 331 Wendy's Old Fashioned Hamburgers quick-service restaurants under franchise agreements with its franchisor, Quality Is Our Recipe, LLC, hereafter referred to as "the Wendy's Company" or "Wendy's," as well as six casual dining restaurants. Operations of the Company are located in Arkansas, Connecticut, Florida, Georgia, Indiana, Massachusetts, Michigan, Mississippi, Missouri, North Carolina, Ohio, Oklahoma, South Carolina, Tennessee, Texas, and Virginia.

Principles of Consolidation - The consolidated financial statements include the accounts of Meritage Hospitality Group Inc., all of its wholly owned subsidiaries, its 98.5% owned subsidiary, RDG-MHG, LLC., ("RDG") a 15% partner in TRG-Meritage Bahamas, LLC., ("TRG") and its variable interest entity (VIE), Restaurant Holdings, LLC ("Restaurant Holdings"), for which the Company is a primary beneficiary.

Restaurant Holdings is reported as a noncontrolling interest in the accompanying consolidated financial statements. All intercompany transactions and balances between the Company 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 office in order to allocate resources and assess performance. Resource allocation decisions are made based on the chief operating officer's evaluation of total Company operations. Accordingly, the Company views the operating results of its Wendy's and casual dining restaurants as one 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 years presented, December 29, 2019 and December 30, 2018, contained 52 weeks.

Revenue Recognition - Revenues consist of restaurant food and beverage sales and are recorded net of applicable sales taxes. Food and beverage revenue are recognized at the point in time when 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. The Company's gift card activity is run primarily through the franchise agreement with The Wendy's Company and is not significant to the consolidated financial results.

As of January 1, 2018 the Company adopted FASB ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)," which superseded the previous revenue recognition requirements in Topic 605, "Revenue Recognition." The adoption of this new standard did not have a significant impact on the timing or method of revenue recognized. As the Company generates revenue through the sale of restaurant food and beverage, it aggregates results into sales from Wendy's restaurants and casual dining.

Included in the consolidated statements of operations for the fiscal years ending December 29, 2019 and December 30, 2018 are the following results:

	2019	2018
Wendy's restaurants	$ 456,132,114	$ 422,682,581
Casual dining restaurants	11,414,896	12,615,446
Total Revenue	$ 467,547,010	$ 435,298,027

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 at financial institutions are maintained 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 receivables and other receivables. Trade receivables consist of gift cards sold by the Company, the Company's franchisor, or other franchisees that have been redeemed at the Company's restaurants and amounts due from unsettled debit and credit card sales. No allowance for doubtful accounts is deemed necessary.

Inventories - Inventories consist of restaurant food items, beverages, 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 $175,862 and $93,939 was capitalized in 2019 and 2018, respectively.

Goodwill - The Company tests goodwill for impairment annually in the fourth quarter on an aggregate basis. For the years ended December 29, 2019 and December 30, 2018, the tests indicated no goodwill impairment. The fair value was calculated using the discounted cash flow approach.

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 6).

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 (see Note 12). These costs are recorded as a reduction in the recorded balance of the outstanding debt.

Long-Term Investments – Investments in entities in which the Company is not able to exercise significant influence are carried at cost. Impairment losses due to a decline in the value of the investment that is other than temporary are recognized when incurred. Investments are reviewed only when impairment indicators are present by comparing carrying value to fair market value, as determined by appraisals, present value of estimated future cash flows or similar third-party transactions. If the carrying value exceeds fair market value, an impairment is recognized for the amount by which the carrying amount of the asset exceeds the fair market value. There were no impairments for the years ended December 29, 2019 and December 30, 2018.

Self-Insurance – The Company's restaurants in Michigan are self-insured for workers' compensation claims up to a $550,000 per claim stop-loss level and maximum aggregate claims of $5,000,000 on an annual basis. The Company determines its liability based on estimated loss reserves provided by the Company's third-party claims administrator and on management's knowledge of open claims.

Unearned Vendor Allowances - Up-front consideration received from vendors linked to future purchases is initially deferred, then recognized as earned income as the purchases occur over the term of the vendor arrangement in accordance with accounting guidance. During the years ended December 29, 2019 and December 30, 2018, the Company received $7,280,868 and $7,874,091, respectively, in funds that are recognized as a reduction of cost of food and beverage as products are purchased.

Interest Rate Swaps – The Company has entered into interest rate swaps for the purpose of hedging risks related to the variability of cash flows caused by interest rate fluctuations. The interest rate swaps are recognized in the accompanying consolidated balance sheets at fair value and have not been designated as a cash flow hedge for financial reporting purposes. Changes in the fair value of the interest rate swaps, as well as realized gains and losses, are recognized as a component of interest expense.

Stock-Based Compensation - The Company measures compensation expense for equity awards, including stock options, based on the fair value of the awards on the grant date. Compensation expense for new grants is recognized ratably over the vesting period of the awards. The Company issues new common shares when stock options are exercised.

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 $18,201,889 and $18,412,999 for the years ended December 29, 2019 and December 30, 2018, 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 tax rates anticipated to be in effect when those differences reverse. 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 full realization of deferred tax assets is uncertain. 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 files 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.

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

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. Material estimates that are particularly susceptible to significant change relate to the assessment of impairment of long-lived assets, goodwill, and deferred tax assets.

New Accounting Principles – **Leases** - As of the beginning of the Company's 2019 fiscal year, the Company adopted the Financial Accounting Standards Board (FASB) ASU No. 2016-02 ("ASC 842"), "Leases," which superseded the previous lease requirements in ASC 840. The new ASC's objective is to enable users of the financial statements to assess the amount, timing and uncertainty of cash flows arising from leases, and requires lessees to recognize a right-of-use ("ROU") asset and related lease liability for all leases, with a limited exception for short-term leases which were deemed immaterial. Leases are classified as either operating or finance (previously referred to as capital). The reporting of lease-related expenses in the statements of operations and cash flows is generally consistent with the previous guidance. The most significant impact of the new lease standard involves the recognition of a ROU asset and lease liability for operating leases, while the accounting for finance leases remains substantially unchanged and is immaterial to the consolidated financial statements.

The balance sheet effect of applying the new lease guidance increased long-term assets, liabilities, and equity. Under previous guidance, only finance leases were recognized on the balance sheet.

The Company applied ASC 842 and all related amendments using the effective date method by recognizing the cumulative effect of adoption as an adjustment to the opening balance of retained earnings at the beginning of the Company's 2019 fiscal year. Therefore, comparative information has not been adjusted and continues to be reported under prior guidance.

The cumulative net impact of adoption at the beginning of the Company's 2019 fiscal year was as follows:

		2019
Assets:		
	Operating Lease Right-of-Use Assets	$ 307,427,227
	Accrued Rent	(3,982,793)
	Total	$ 303,444,434
Liabilities:		
	Current portion of operating lease obligations payable	$ 18,006,675
	Operating Lease Obligations Payable	289,420,552
	Total	$ 307,427,227
Equity:		
	Unamortized Deferred Gains - Sale and leaseback transactions	$ 20,140,198
	Deferred Income Taxes	(4,916,459)
	Total	$ 15,223,739

The effects on the results of operations is limited to sale and leaseback activity. Under ASC 842, gains on sale and leaseback transactions are immediately recognized in whole and are recorded in other income on the consolidated statements of operations. Under previous guidance, ASC 840, gains on sale and leaseback transactions were deferred over the life of the related lease and recorded in other operating expense. As of the beginning of the 2019 fiscal year, the Company had remaining unamortized gain on sale and leasebacks, net of tax, totaling $15,223,739. Upon adoption of ASC 842, this balance was adjusted through equity and represents foregone net income that would have been recognized in future years under ASC 840.

Reclassification – Certain 2018 amounts have been reclassified to conform to the 2019 presentation.

Subsequent Events - The consolidated financial statements and related disclosures include evaluation of events up through and including March 4, 2020, the date the consolidated financial statements were issued.

Note 2 - Equity

The Company has 5,000,000 authorized shares of $0.01 par value preferred stock. A total of 1,350,000 shares are designated as Series B nonvoting convertible cumulative preferred stock, with 809,067 shares issued and outstanding as of December 29, 2019 and December 30, 2018. A total of 1,500,000 shares are designated as Series C nonvoting convertible cumulative preferred stock, with 160,360 shares issued and outstanding as of December 29, 2019, and 170,360 shares issued and outstanding as of December 30, 2018. 600,000 shares are designated as Series D nonvoting convertible cumulative preferred stock, with 310,293 shares issued and outstanding as of December 29, 2019 and December 30, 2018. 800,000 shares are designated as Series E nonvoting convertible cumulative preferred stock, with 238,766 shares issued and outstanding as of December 29, 2019, and zero shares issued and outstanding as of December 30, 2018. The Company's preferred stock ranks senior to the Company's common stock with respect to payment of dividends and amounts upon liquidation, dissolution or winding up and dissolution.

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 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. 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 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. 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 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. 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.

In 2019, the Company issued 238,766 shares of Series E nonvoting convertible preferred stock. Of this issuance, 212,766 shares were acquired by Restaurant Holdings for

$5,000,000. The impact of the related investment and equity have been eliminated and are presented net in consolidation (see Note 18).

The Company has 30,000,000 authorized shares of $0.01 par value common stock, with 6,348,259 and 6,258,575 shares issued and outstanding as of December 29, 2019 and December 30, 2018, respectively. The common shares of the Company are quoted on the OTC Markets under the symbol "MHGU."

Note 3 - Property and Equipment

Property and equipment are summarized as follows:

	2019	2018
Land and improvements	$ 37,938,344	$ 22,571,702
Buildings and improvements	55,645,155	41,458,485
Furnishings and equipment	72,273,987	61,343,330
Leasehold improvements	17,653,364	11,180,121
Leased property under capital leases	1,422,111	1,422,111
Construction in progress	21,332,854	17,423,963
Total cost	$ 206,265,815	$ 155,399,712
Accumulated depreciation	54,419,719	42,734,034
Net property and equipment	$ 151,846,096	$ 112,665,678

As of December 29, 2019, the Company estimates costs of $7,883,071 to complete construction in progress.

Depreciation expense was $13,909,333 and $11,810,327 in fiscal years ended 2019 and 2018, respectively.

During 2018, the Company owned two buildings from permanently closed locations. The buildings were classified as assets held for sale within other assets and carried at a combined fair market value of $715,000. In 2018 both buildings were sold, and the net loss on sales of $14,500 was recorded to closing and disposition expense.

Note 4 - Goodwill

Changes to goodwill for the fiscal years ended 2019 and 2018 are as follows:

Balance - December 31, 2017	$ 91,743,204
Acquisitions and adjustments	72,268,951
Balance - December 30, 2018	$ 164,012,155
Acquisitions	10,231,177
Balance - December 29, 2019	$ 174,243,332

Note 5 – Intangible Assets

Intangible assets consist of capitalized franchise rights and agreement costs less accumulated amortization.

	2019	2018
Franchise rights and agreement costs	$ 5,048,429	$ 4,284,563
Accumulated amortization	761,491	660,081
Net	$ 4,286,938	$ 3,624,482

Amortization expense for franchise rights and agreement costs in 2019 and 2018 was $156,644 and $132,619, respectively. The weighted average remaining life through the next renewal period is 17.61 years.

Amortization expense is projected as follows:

2020	$ 174,308
2021	173,764
2022	172,180
2023	138,279
2024	138,186
Thereafter	3,490,221
Total	$ 4,286,938

Note 6 - 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 up to 50 years.

Under ASC 842, operating leases are included on the consolidated balance sheet ended December 29, 2019 in operating lease ROU assets, operating lease obligations payable, and current portion of operating lease obligations payable. Finance leases remain included in property and equipment, long-term debt, and current portion of long-term debt.

Operating lease ROU assets and operating lease liabilities are recognized based on the present value of future minimum lease payments over the lease term. The Company's lease terms may include options to extend or terminate the lease. The present value of future minimum lease payments include these options only when they are reasonably certain to 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. The weighted average effective discount rate was 5.25% upon adoption and 5.21% as of December 29, 2019.

Base rent expense includes non-lease components such as taxes, insurance, and maintenance when required under the lease agreements. As a result of adopting ASC 842, 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 represents 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.

For the year ended December 29, 2019, rent expense from operating leases were recognized as follows:

	2019
Operating lease costs:	
Fixed base lease expense - real estate	$ 34,793,228
Fixed base lease expense - equipment	1,207,529
Variable rent expense	468,643
Total	$ 36,469,400

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

	2019
Cash paid for amounts included in the measurement of lease liabilities	$ 35,168,014
Right-of-use assets obtained in exchange for lease obligations	$ 53,009,851

The weighted-average remaining lease term for operating leases as of December 29, 2019 was 14.76 years.

The future payments due under operating leases as of December 29, 2019 are projected as follows:

2020	$ 35,859,040
2021	35,270,577
2022	34,031,404
2023	33,531,690
2024	33,043,541
Thereafter	287,942,506
Total	$ 459,678,758
Less present value discount	(139,665,588)
Lease liability recognized	$ 320,013,170

Note 7 – Sale and Leasebacks

For the year ended December 29, 2019, the Company completed 22 sale and leaseback transactions. Through these transactions, the Company netted proceeds of $47,747,340, and with such proceeds paid down indebtedness of $38,761,337 and deposited $8,924,477 into the Company's treasury, net of fees. The Company recorded gains of $7,628,589 which, under ASC 842, were recognized immediately in other income.

For the year ended December 30, 2018, the Company completed 33 sale and leaseback transactions. Through these transactions, the Company netted proceeds of $69,294,346, and with such proceeds paid down indebtedness of $57,885,298 and deposited $11,200,767 into the Company's treasury, net of fees. The Company recorded deferred gains of $8,786,800. Under previous guidance, these gains were amortized over the 20-year lease terms and recorded as a reduction of base rent expense in other operating expense.

Note 8 - Notes Receivable

In July 2012, the Company loaned $748,215 to the developer of a hotel and convention center. The developer committed to provide $1,000,000 of equipment for the Company to open a new on-site restaurant. In 2019, the Company exercised its option to purchase the equipment for $748,215 (the value of the loan) and settle the related promissory note receivable which represented the estimated fair market value of the equipment at $248,215. As a result of this settlement, the promissory note receivable balance as of December 29, 2019 was zero.

Note 9 - Long-Term Investments

Long-term investments consist of the following:

	2019	2018
Investment in TRG	$ 537,644	$ 3,054,224
Priority interest in TRG	1,248,701	2,422,627
Total Long-term Investments	$ 1,786,345	$ 5,476,851

Investment in TRG - RDG holds a 15.0% investment in TRG. In 2019, the Company sold a portion of its land investment through its investment partnership managed by TRG-Meritage Bahamas, LLC for proceeds of $5,041,065 and related gain of $1,346,247, net of fees, which is recognized in other income. TRG retained approximately 13 acres of ocean-front real estate for future development.

Priority Interest in TRG – The remaining priority interest receivable in TRG has a priority preferred return upon liquidation of 16.0%, compounded quarterly.

Note 10 - Accrued Liabilities

The following is a detail of accrued liabilities:

	2019	2018
Payroll and related payroll taxes	$ 11,367,535	$ 10,437,531
Property taxes	430,266	905,917
Sales Tax	2,470,353	2,203,459
Other	3,613,917	2,062,805
Total	$ 17,882,071	$ 15,609,712

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Note 11 - Long-Term Debt and Revolving Lines of Credit

Long-term debt consists of the following:

	2019	2018
Mortgage notes payable, variable rate, due in monthly installments annually increasing from \$35,000 to \$36,500 plus interest of LIBOR plus a margin ranging from 2.25% through 2.75% (effective rate of 4.53 and 5.25% at December 29, 2019 and December 30, 2018, respectively), maturing in November 2021.	$ 11,114,036	$ 11,541,697
Term notes payable, variable rate, due in monthly installments annually increasing from \$1,305,464 to \$1,354,022 plus interest of LIBOR plus a margin ranging from 2.25 through 2.75 (effective rate of 4.53% and 5.25% at December 29, 2019 and December 30, 2018, respectively), maturing in November 2021.	161,459,729	161,787,623
Term note payable, variable rate, due in quarterly installments of \$100,000 plus monthly interest payments of LIBOR plus 4.5% (effective rate of 6.28 at December 29, 2019), maturing in January 2021.	4,800,000	-
Equipment notes payable, with fixed interest rates, due in monthly installments totaling \$45,629 including interest ranging from 5.53% to 6.09%, maturing from January 2020 through September 2020.	252,485	755,915
Other notes payable, with fixed interest, due in monthly payments of \$32,775 including interest of 4.95% to 5.00%, maturing from September 2020 through December 2020.	364,708	729,872
Total	$ 177,990,958	$ 174,815,107
Less unamortized financing costs	894,297	1,378,547
Less current portion	19,369,700	17,272,359
Long-term portion	$ 157,726,961	$ 156,164,201

The total of the above debt matures as follows:

2020	$ 19,369,700
2021	158,621,258
Total	$ 177,990,958

The Company has a revolving line of credit agreement with its primary lender that allows for borrowings up to $30.0 million as of December 29, 2019 and December 30, 2018, respectively, and expires February 2020. Subsequent to December 29, 2019, the Company renewed this agreement through November 2021. Outstanding borrowings were $18,267,588 and $1,975,853 and had effective interest rates of 4.53% and 5.25% at December 29, 2019 and December 30, 2018, respectively.

Restaurant Holdings has a $30.0 million revolving credit facility with a bank that expires May 2020. Outstanding borrowings were $17,854,581 and $13,146,038 and had effective interest rates of 6.28% and 7.00% at December 29, 2019 and December 30, 2018, respectively.

The Company has a flexible development line of credit with its primary lender that allows for borrowings up to $32.6 million and $48.5 million as of December 29, 2019 and December 30, 2018, respectively, and expires November 2021. Outstanding borrowings were $2,813,114 and $0 and had effective interest rates of 4.53% and 5.25% at December 29, 2019 and December 30, 2018, respectively.

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

The Company has entered into amortizing interest rate swap agreements to manage variability of cash flows associated with the variable rate debt that matures in November 2021. The notional amounts outstanding and related fair values of the amortizing interest rate swaps at December 29, 2019 and December 30, 2018 consist of the following:

	2019		2018	
	Notional Amount Outstanding	Fair Value	Notional Amount Outstanding	Fair Value
$40,000,000 swap, 2016	$29,337,066	$ (118,323)	$ 32,940,290	$ 522,955
$30,000,000 swap, 2017	23,522,225	(144,513)	26,187,988	343,909
$50,000,000 swap, 2018	42,859,027	(944,492)	47,201,426	(439,860)
Total	$ 95,718,318	$ (1,207,328)	$ 106,329,704	$ 427,004

Related to the interest rate swap agreements, $1,634,332 of unrealized losses due to the changes in fair value as well as $18,093 in realized gains in 2019 were recognized as a component of interest expense. $857,022 of unrealized gains due to the change in fair value as well as $188,747 in realized losses in 2018 were recognized as a component of interest expense.

Loan covenants of the Company’s various loan agreements include requirements for the maintenance of certain financial ratios. As of December 29, 2019 and December 30, 2018, the Company was in compliance with these covenants.

Note 12 - Income Taxes

Deferred income tax assets and liabilities consist of:

Deferred income tax assets:	2019	2018
Accrued rents	$ 1,058,112	$ 871,146
Deferred gains on sale leaseback transactions	-	5,240,162
General business credit	2,663,441	2,186,310
Other	4,918,251	3,567,648
Total deferred tax assets	8,639,804	11,865,266

Deferred income tax liabilities:	2019	2018
Depreciation, amortization, and basis differences	(16,586,056)	(6,938,210)
Other	(395,247)	(6,497,052)
Total deferred tax liabilities	(16,981,303)	(13,435,262)
Net deferred income tax (liabilities) assets	$ (8,341,499)	$ (1,569,996)

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

The general business credits listed above expire between 2037 to 2039.

The income tax provision reconciled to the tax computed at the statutory state and federal rates for the years ended December 29, 2019 and December 30, 2018 was as follows:

	2019	2018
Tax expense at statutory rate of 21% applied to income before taxes	$ 3,457,294	$ 3,743,469
State taxes (net of federal benefit)	1,320,756	719,287
Permanent differences	518,729	605,429
Impact of tax credits	(1,691,475)	(1,584,626)
Other - net	(16,630)	(112,637)
Income tax expense	$ 3,588,674	$ 3,370,922

The provision for income taxes consists of the following:

	2019	2018
Current expense	$ 1,733,630	$ 1,489,490
Deferred expense	1,855,044	1,881,432
Total income tax expense	$ 3,588,674	$ 3,370,922

As of December 29, 2019 and December 30, 2018, the Company's unrecognized tax benefits were not significant. There were no significant penalties or interest recognized or accrued during 2019 and 2018.

Note 13 - Employee Benefit Plans

The Company has a deferred compensation plan (the "Plan") for certain employees. The Plan provides for the payment of benefits for an elected period of up to 10 years. Deferred compensation benefit was $1,517,442 in 2019 and $1,436,707 in 2018. Other long-term obligations related to deferred compensation under the Plan were $7,181,555 and $4,781,753 as of December 29, 2019 and December 30, 2018, respectively. The participants vest in accordance with a predetermined vesting schedule and are allowed to direct investments under the Plan. The Company has partially funded the Plan obligation with Company-owned life insurance policies which have a cash surrender value of $4,649,901 and investments of $2,377,481 at December 29, 2019, and a cash surrender value of $3,210,522 and investments of $1,517,370 at December 30, 2018, and are included in other assets. As of December 29, 2019 and December 30, 2018, $2,373,247 and $1,116,165, respectively, of the investments were Company stock and, therefore, presented as a reduction in equity as opposed to other assets.

Note 14 - Stock Option Plans

The Company has management and director share-based compensation plans which are described below. The compensation expenses charged against income for the plans were $1,761,450 and $1,625,995 for the years ended December 29, 2019 and December 30, 2018, respectively. The total income tax benefit recognized in the consolidated statements of operations for share-based compensation arrangements was $229,530 and $197,545 for the years ended December 29, 2019 and December 30, 2018, respectively.

The employee equity incentive plans provide for the discretionary grant of options. The current plan authorizes 1,000,000 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 which administers the plans. Options have a term of 10 years and vest ratably over three years from the grant date.

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

The fair value of each option award is estimated on the date of grant using the Black Scholes option valuation model that uses the following weighted average assumptions: dividend yield of 0%; risk-free interest rates of 2.23% to 2.53% in 2019 and 2.54% to

2.92% in 2018; expected life of 5.04 years to 9.39 years in 2019 and 6.59 years to 9.33 years in 2018; and expected volatility of 23.15% to 43.10% in 2019 and 33.42% to 51.68% in 2018. 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, 2019 and December 30, 2018 is presented below:

Options	Number of Shares	Average Exercise Price	Contractual Term (in Years)
Outstanding at December 31, 2017	927,650	$ 7.40	-
Granted	151,500	20.71	-
Exercised	(70,495)	5.93	
Forfeited or expired	(33,655)	17.31	-
Outstanding at December 30, 2018	975,000	9.23	5.8
Outstanding at December 30, 2018	975,000	$ 9.23	-
Granted	140,000	17.14	-
Exercised	(66,950)	3.23	-
Forfeited or expired	(27,050)	16.07	-
Outstanding at December 29, 2019	1,021,000	10.53	5.6

The breakdown of outstanding stock options as of December 29, 2019 is as follows:

Options	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in Years)
Options excercisable	799,000	$ 8.59	4.8
Nonvested options	222,000	17.52	8.4

Total options outstanding represent aggregate intrinsic value of $9,465,547 and $8,061,728 as of December 29, 2019 and December 30, 2018, respectively. There were 66,950 and 70,495 options exercised with intrinsic value of $963,787 and $913,385 in 2019 and 2018, respectively. The fair value of stock options awarded during 2019 and 2018 was $643,470 and $1,342,984, respectively. As of December 29, 2019, total unrecognized compensation expense related to non-vested stock options was $1,014,885. This expense will be recognized over approximately 2.4 years.

A summary of option activity under the directors' plans for the years ended December 29, 2019 and December 30, 2018 is presented below:

Options	Shares	Exercise Price	Term (in Years)
Outstanding at December 31, 2017	535,000	$ 6.11	-
Granted	60,000	18.63	-
Exercised	(32,500)	1.25	-
Forfeited or expired	(15,000)	1.54	-
Outstanding at December 30, 2018	547,500	7.90	5.5
Outstanding at December 30, 2018	547,500	$ 7.90	-
Granted	60,000	17.93	-
Exercised	(20,000)	1.05	-
Forfeited or expired	(10,000)	0.95	-
Outstanding at December 29, 2019	577,500	9.30	5.3

The breakdown of outstanding stock options as of December 29, 2019 is as follows:

Options	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in Years)
Options excercisable	444,167	$ 6.87	4.3
Nonvested options	133,333	17.40	8.7

Total options outstanding represent aggregate intrinsic value of $6,074,575 and $5,257,625 as of December 29, 2019 and December 30, 2018, respectively. There were 20,000 and 32,500 options exercised with intrinsic value of $318,450 and $608,725 in 2019 and 2018, respectively. The fair value of stock options awarded during 2019 and 2018 was $585,075 and $697,359, respectively. As of December 29, 2019, total unrecognized compensation expense related to non-vested stock options was $933,434. This expense will be recognized over approximately 2.4 years.

Note 15 – Earnings per Share

Basic earnings per share attributable to the Company's common shareholders is computed by dividing net income, after the deduction of preferred stock dividends, by the number of weighted average common shares outstanding. Diluted earnings per share attributable to the Company's common shareholders assumes the issuance of common stock for all potentially dilutive share equivalents.

Earnings per share as of December 29, 2019 and December 30, 2018 was calculated as follows:

	2019	2018
Income attributable to controlling interest	$ 12,056,427	$ 13,008,215
Less: Preferred stock dividends	(1,810,600)	(1,405,180)
Income available to common shareholders	$ 10,245,827	$ 11,603,035
Weighted average basic shares outstanding	6,308,855	6,218,305
Basic EPS	$ 1.62	$ 1.87
Income available to common shareholders	$ 10,245,828	$ 11,603,033
Add: Dividends on dilutive preferred stock	1,267,588	1,405,180
Income available to common shareholders	$ 11,513,416	$ 13,008,213
Weighted average basic shares outstanding plus assumed conversions	9,032,790	9,060,513
Diluted EPS	$ 1.27	$ 1.44

Note 16 – Information About Variable Interest Entity

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

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

Restaurant Holdings leverages a revolving credit facility with a bank other than the Company's senior lender that allows for borrowings up to $30,000,000 and is secured by its interest in the real estate and personal guarantees of owners. As of December 29, 2019 and December 30, 2018, Restaurant Holdings had bank debt obligations totaling $22,654,581 and $13,146,038, respectively.

Included in the consolidated balance sheets as of December 29, 2019 and December 30, 2018 are the following amounts related to Restaurant Holdings, before eliminating entries:

	2019	2018
Assets:		
Current assets	$ 2,376,910	$ 77,417
Property and Equipment - net	19,461,769	15,479,262
Investment in MHGI preferred stock	5,000,000	-
Total Assets	$ 26,838,679	$ 15,556,679
Liabilities:		
Current liabilities	$ 1,666,088	$ 2,748,657
Current portion of long-term debt	400,000	-
Revolving line of credit	17,854,581	13,146,038
Long-term debt	4,400,000	
Total Liabilities	$ 24,320,669	$ 15,894,695
Equity - Noncontrolling interest	2,518,010	(338,016)
Total Liabilities and Equity	$ 26,838,679	$ 15,556,679

Note 17 - 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 is a co-managing member of a real estate development company of which the Company is a tenant and had an 11.2% interest. During 2018, this investment was sold.

The Company's CEO, President, and two board members are each 22.5% owners in the Company's VIE for which the Company is a primary beneficiary (see Note 1).

Note 18 - Guarantees, Commitments, and Contingencies

The Company is party to several agreements executed in the ordinary course of business that provide for indemnification of third parties under specified circumstances. Generally, these agreements obligate the Company to indemnify the third parties only if certain events occur or claims are made, as these contingent events or claims are defined in each of these agreements. The Company currently is not aware of circumstances that would require it to perform its indemnification obligations under any of these agreements and, therefore, has not recorded a liability.

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

As part of the Company's ongoing franchise relationship with The Wendy's Company, the Company entered into agreements which contain certain reimaging and development requirements. Through the agreements, the Company committed to reimage the remaining 50% of its existing restaurants in installments of 10% per year, completing its obligation by December 31, 2024 with a portfolio that is 100% reimaged. Subject to certain terms and conditions, the Company committed to develop 40 new restaurants by December 31, 2024 and, pursuant to the agreements, the Company is entitled to receive significant economic incentives which include royalty and national marketing fee relief. The Company estimates that it will invest approximately $157,515,000 in the remaining reimaging and development of its Wendy's restaurant portfolio.

The Company additionally is required to complete certain agreed upon improvements to facilities. As of December 29, 2019, these capital improvements have remaining estimated costs of approximately $3,894,000.

Note 19 – Fair Value of Financial Instruments

Accounting standards require the Company to categorize its financial assets and liabilities into a three-level fair value hierarchy, based on the nature of inputs used in determining fair value. The three levels of the fair value hierarchy under fair value accounting are described as follows:

Level I – Valuation is based upon quoted prices for identical assets or liabilities in active markets the Company has the ability to access.

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

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

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

Short-Term Financial Instruments – The fair values of short-term financial instruments, including cash, receivables, trade accounts payable, accrued liabilities, and lines of credit, approximate the carrying amounts in the accompanying consolidated financial statements due to the short maturity of such instruments.

Long-Term Obligations – The fair value of long-term debt obligations approximates carrying value at December 29, 2019 and December 30, 2018 based on estimated rates currently available to the Company at year-end and debt obligations with similar terms and maturities.

The Company identified 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 these swaps are provided by a counterparty and are based primarily on inputs such as interest rates and LIBOR yield curves that are observable at commonly quoted intervals and 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 and unobservable inputs reflecting assumptions that market participants would use in pricing.

Note 20 – Acquisition of Wendy's Restaurants

The Company acquired 10 Wendy's restaurants in 2019 and 56 Wendy's restaurants in 2018 through various transactions. The restaurants acquired in 2019 and 2018 included the business and equipment. For three and five restaurants acquired in 2019 and 2018, respectively, the acquisition also included land and building. The Company plans to leverage its core business experience to improve the operations and profitability of these restaurants, thereby enhancing its current Wendy's restaurant portfolio. The Company entered into new franchise agreements for all locations with its franchisor, The Wendy's Company.

In accordance with ASC 805-10-50-2, the Company deemed it impracticable to disclose sufficient and materially accurate pro forma revenue and net income related to the acquisitions transacted during fiscal years ended December 29, 2019 and December 30, 2018, as the determination of pro forma adjustments requires assumptions about the sellers' intent in the prior period that cannot be independently substantiated, and requires significant estimates for which it is impossible to distinguish objective information about those estimates.

The 2019 acquisitions were financed with approximately $14,794,000 of new debt and $2,007,000 of cash on hand. The transactions resulted in the recording of approximately $10,231,000 of goodwill, $5,900,000 of land and building, $789,000 of equipment and leasehold improvements, $106,000 of inventory, $226,000 of franchise rights, $10,000 in franchise costs and $461,000 of liabilities. Revenue in fiscal year 2019 included $4,180,630 and $101,153,784 from the locations acquired during fiscal year ended December 29, 2019 and December 30, 2018, respectively.

The 2018 acquisitions were financed with approximately $78,954,000 of new debt, $5,614,000 of cash raised through equity and $460,000 of cash on hand. The transactions resulted in the recording of approximately $71,888,000 of goodwill, $9,284,000 of land and building, $4,412,000 of equipment and leasehold improvements, $386,000 of inventory, and $942,000 of liabilities. Revenue of $88,612,654 was recognized in 2018 from locations acquired during fiscal year ended December 31, 2017.

The Company expensed $145,939 and $722,029 of acquisition and preopening costs in 2019 and 2018, respectively, related to the acquisitions.

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

Note 21 – Subsequent Events

In January 2020, the Company renewed its revolving line of credit with its primary lender through November 2021.

In February 2020, the Company raised approximately $2,399,500 from issuing 102,106 shares of Series E cumulative convertible preferred stock.