Meritage Hospitality Group Inc.
Annual Disclosures

For Fiscal Year Ended January 3, 2021

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 6,643,681 common shares outstanding at January 3, 2021. The shares are assigned CUSIP No. 59000K309 and are quoted on the OTC Markets under the symbol “MHGU”.

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

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

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

Common Shares: The Company most recently paid $0.07 cash dividends in 2016, $0.10 cash dividends in 2017, $0.15 cash dividends in 2018, $0.24 cash dividends in 2019, and $0.14 cash dividends in 2020. 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 authorized 500,000 Series B Convertible Preferred Shares ("Series B Preferred Shares") in 2003, an additional 850,000 shares in 2015, and has 809,067 shares outstanding. The Series B Preferred Shares have an annual dividend rate of $0.80 per share. The right to payment of dividends is cumulative. The dividend is payable in equal quarterly installments on the first day of each January, April, July and October to holders of record as of the 15th day of the preceding month. The holders may convert their Series B Preferred Shares into common shares at a conversion price of $5.57 per common share. The conversion rate is subject to adjustment in the event of stock splits, stock dividends, combinations, reclassifications and similar occurrences. The Company may, upon 15 days written notice, redeem all or part of the Series B Preferred Shares at a redemption price of $10.00 per Series B Preferred Share plus accrued but unpaid dividends. Upon any dissolution or winding up, the holder of each Series B Preferred Share will be entitled to receive a liquidation value of $10.00 per Series B Preferred Share plus all accrued but unpaid dividends after the payment of all indebtedness of the Company and before any distributions to holders of common shares. No voting rights are provided except as required by law and with the exception that, if at any time the Company fails to make six quarterly dividend payments, the holders of the Series B Preferred Shares, voting as a class with each Series B Preferred Share having one vote, would be entitled to elect two directors to the Board, which members would remain on the Board as long as any dividend payment arrearages remain outstanding.

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

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

Series E Convertible Preferred Shares: The Company authorized 800,000 Series E Convertible Preferred Shares ("Series E Preferred Shares") in 2018 and has 341,510 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.

	01/03/2021	12/29/2019
Common Shares		
Authorized:	30,000,000 shares	30,000,000 shares
Outstanding:	6,643,681 shares	6,348,259 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. 698	approx. 740
Number of record holders:	approx. 68	approx. 73
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:	45 holders	44 holders
Preferred C		
Authorized:	200,000 shares	1,500,000 shares
Outstanding:	160,360 shares	160,360 shares
Number of record holders:	7 holders	7 holders
Preferred D		
Authorized:	600,000 shares	600,000 shares
Outstanding:	310,293 shares	310,293 shares
Number of record holders:	24 holders	24 holders
Preferred E		
Authorized:	800,000 shares	800,000 shares
Outstanding:	341,510 shares	238,766 shares
Number of record holders:	14 holders	10 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.

Summary

Meritage was incorporated under the laws of the State of Michigan in August 1986 and was assigned a primary SIC Code of 5812 (Retail-Eating Places). Meritage has approximately 11,000 employees, of which approximately 1,920 are full-time. The Company's consolidated financial statements include the accounts of Meritage Hospitality Group Inc. and all of its wholly-owned subsidiaries and affiliate, consisting of MHG Food Service Inc., OCM Development, LLC, WM Limited Partnership-1998, Wen South, LLC, Wen Georgia LLC, Wen Carolina's LLC, Wen Virginia LLC, Wen Ohio LLC, Wen Oklahoma LLC, Wen Tennessee LLC, Inspired by Opportunity LLC, 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. Fiscal year 2020 ended on January 3, 2021 and contained 53 weeks. Fiscal year 2019 ended on December 29, 2019 and contained 52 weeks.

Meritage operates 333 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 nine restaurants in Arkansas, 32 in Connecticut, 56 in Florida, 45 in Georgia, 12 in Indiana, 13 in Massachusetts, 54 in Michigan, seven in Mississippi, three in Missouri, two in North Carolina, 15 in Ohio, 27 in Oklahoma, one in South Carolina, 33 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 seven independent restaurants operating under four concepts throughout Michigan which include two Morning Belle restaurants, two Stan's Tacos, one Freighters Eatery & Taproom, and two Twisted Roosters. All restaurants were launched as the Company's own original concepts, each with a unique environment and offerings tailored to consumer preferences.

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. Meritage is subject to risks and uncertainties related to the development of pandemics, including COVID-19. See *Recent Developments Related to COVID-19* below for additional details.

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

Approximately 18% of the Company's independent concept restaurant sales are attributable to the sale of alcoholic beverages. Each restaurant has licenses from regulatory authorities allowing it to sell liquor, beer and wine. The failure of a restaurant to obtain or retain liquor service licenses could adversely affect the Company's operations. Once a liquor license is obtained, Meritage is subject to "dram-shop" statutes and interpretations which generally provide that a person who is injured by an intoxicated person has the right to recover damages from an establishment that wrongfully served alcoholic beverages to the intoxicated person.

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

See *Forward-Looking Statements* following Item 21 of this annual disclosure statement for additional details.

Recent Developments Related to COVID-19

In January 2020, the World Health Organization ("WHO") announced a global health emergency resulting from a new strain of coronavirus (COVID-19). As the virus spread globally, the COVID-19 outbreak was classified as a pandemic in March 2020.

As a result of governmental actions taken to curtail the spread of the coronavirus in the United States, in mid-March 2020 the Company was mandated to close dine-in services for all its restaurants. Effective with these mandates, the Company's Wendy's restaurants operated under reduced hours of operation for drive-through and certain delivery services only, with the exception of two locations without pick-up windows that were fully closed. In addition, all independent concept restaurants were completely closed for operation. As a result of such closures, the Company immediately experienced a significant and unfavorable impact on sales and operations. In response to the effect of these disruptions, the Company took various mitigating actions focused on reducing costs, preserving cash, and enhancing customer and employee health and safety. Actions included, but were not limited to, deferral of employer's share of Social Security tax under the CARES Act, suspension of dividends, suspension of new restaurant development and non-essential cap-ex spend, pursuit of landlord rent relief, and amendments of loan agreements to include interest only payments.

Since late April 2020, Wendy's restaurant operations have seen a positive trend in sales. The Wendy's breakfast segment that launched in early March 2020 provided incremental sales and continues to outperform internal projections. Beginning mid-June 2020 and in accordance with state and local executive orders, the Company began to re-open some of its dining rooms which further contributed to positive earnings growth. As of the date of this report and as permitted by local executive orders, approximately 75% of the Company's Wendy's dining rooms have re-opened, and independent concepts are currently open with modified dine-in service at 50% capacity.

Given the continuously evolving environment and the broader impact of the COVID-19 pandemic on the Company's results of operations, overall financial performance remains impracticable to estimate. While the Company is optimistic that the disruption to revenue from the COVID-19 pandemic will continue to improve, there remains a level of uncertainty around the duration and severity of future disruption, as well as any long-term effects on economic growth, operational procedures, supply chains, and consumer demand. COVID-19 and the resulting economic impact has the potential to materially adversely affect the Company's ability to implement its current growth plans, including new concepts in the casual dining industry. The Company will also be adversely affected if government authorities impose longer-term restrictions on public gatherings such as reductions in restaurant capacity, operations of restaurants, and/or mandatory closures. Even if such measures are not implemented and the COVID-19 virus does not spread significantly, the perceived risk and fear of infection or health risk may adversely affect the Company's business, financial condition, results of operations, liquidity and ability to service its existing debt, particularly if these effects continue for a significant time.

See *Forward-Looking Statements* following Item 21 of this annual disclosure statement for further discussion of the COVID-19 pandemic on the Company's business.

Legal Proceedings

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

Listing Developments

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

Item 9 The nature of products or services offered.

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 additionally includes chili, baked and french fried potatoes, chicken nuggets, freshly prepared salads, soft drinks, "Frosty" desserts and children's meals. Wendy's breakfast menu was launched in the first quarter of 2020 and features a variety of breakfast sandwiches and specialty coffees, including the Frosty-ccino. Each Wendy's restaurant features soft drink products supplied by the Coca Cola Company and its respective affiliates. 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 approximately 30 to 130 people. Restaurants are generally open from 6:30 a.m. until midnight, with the exception of four restaurants that do not offer Wendy's breakfast and therefore open at 10:00 a.m. Restaurants feature a pick-up drive-through window. Sales to drive-through customers account for approximately 89% of total 2020 restaurant sales, representing an increase of 18% over 2019. The increase primarily represents the impact of offering drive-through services only as mandated by local executive orders in response to the COVID-19 pandemic.

Marketing and Promotion

The franchisor requires at least 4.0% of the Company's restaurant sales be contributed to an advertising and marketing fund, 3.5% of which is used to benefit all Wendy's restaurants in national advertising programs. The Wendy's National Advertising Program uses these funds to develop advertising and sales promotion materials and concepts to be implemented nationally. The remaining 0.5% is used on local advertising. 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, resulting in increased revenues during those months. Traffic in the southern states typically increases during the early spring, resulting in increased revenues during those months.

Relationship with Franchisor

Meritage operates its 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.

Independent Concept Operations

The Company owns seven independent restaurants currently operating under four concepts throughout Michigan which include two Morning Belle restaurants, two Stan's Tacos, one Freighters Eatery & Taproom, and two Twisted Roosters. In an effort to refine the Company's brands and establish future development opportunity, the Company is focusing on consolidating its independent concepts into two primary brands: Morning Belle and Stan's Tacos.

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

Stan's Tacos restaurants are located in Standale and Grand Rapids, Michigan. The restaurants' upbeat décor is designed to reflect a summer patio and features a unique, tailored menu which includes a variety of made-to-order tacos and specialty margaritas.

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.

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

Restaurant Menu, Layout and Operation

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

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

Freighters Eatery & Taproom is a unique facility with large windows and an outdoor patio with a stunning waterfront view. The 11,105 square foot restaurant is connected to a DoubleTree Hilton hotel as well as the Blue Water Convention Center. The restaurant features a 21-seat bar, fireplace lounge, and 44 patio seats. The menu at Freighters Eatery & Taproom features an imaginative flare on what might otherwise be considered "typical" American favorites. Its seasonally changing menus offer a selection of appetizers and specialty entrees and desserts. The full-service bar is stocked with locally sourced libations, craft beers, wines and small-batch liquors, which are used as a base for various specialty cocktails. It also has a full-service breakfast buffet which 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.

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. The Twisted Rooster menu features classic American fare with dynamic twists at a reasonable price. It includes steaks, signature sandwiches, fresh fish, pasta plates, 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, special menu items including seasonal promotions, daily special selections, a special kid’s menu, and curbside takeout.

Marketing and Promotion

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

Raw Materials and Energy

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

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

Competition and Industry Conditions

Meritage operates restaurants within the quick-service restaurant (“QSR”) industry and the full-service, casual dining restaurant industry.

Quick-Service Restaurant Industry

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

Most of the Company’s 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 Morning Belle, Stan's Tacos, Freighters and Twisted Rooster 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 independent concept restaurants are located in close proximity to their principal casual dining restaurant competitors who are highly competitive on the basis of price and value perception, service, location, food quality, menu variety, quality and speed of service, attractiveness of facilities, effectiveness of marketing and new product development.

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

Each Wendy's restaurant is built to the franchisor's specifications for exterior style and interior decor. Typical freestanding restaurants are one-story brick buildings with parking for 15 to 70 vehicles. The restaurants have a food preparation area, a dining room with seating capacity for 30 to 130 guests, and a pick-up window for drive-through service.

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, 60% of the Company's Wendy's restaurant portfolio has been reimaged.

Of the 333 Wendy's restaurants it operates, the Company (i) owns the land and buildings comprising 16 restaurants, (ii) leases the land and buildings comprising 310 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 between one and 46 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.

Of the Company's seven independent restaurants, one owns the land and building, five lease the land and buildings, and one location owns the building and leases the land. The remaining term of the building and land leases (including options to renew) are between 18 and 40 years. The remaining term of the land lease (including options to renew) is 18 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 January 3, 2021 represented per Exchange Act Rule 13d-3(d)(1)(i) are as follows:

		Total Shares Beneficially Owned	
Name and Age	**Position**	**Amount (1)**	**Percentage**
Robert E. Schermer, Jr., 62	Chief Executive Officer	2,375,140	31.6%
Gary A. Rose, 58	President, Chief Operating Officer, and Corporate Secretary	919,078	12.7%
Tracey A. Smith, 46	Vice President, Chief Financial Officer, and Treasurer	140,342	2.1%
Robert E. Schermer, Sr., 85	Chairman of the Board of Directors	1,351,792	19.0%
Duane F. Kluting, 71	Director	134,185	2.0%
Joseph L. Maggini, Sr., 81	Director	915,917	13.3%
Peter D. Wierenga, 66	Director	591,896	8.7%
Dirk J. Pruis, 60	Director	18,759	0.3%
Chris A. Armbruster, 59	Director	482	0.0%
All Current Executive Officers and Directors as a Group (9 persons)		6,447,590	70.0%

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

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

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

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

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

Duane F. Kluting has been a Director of the Company since 2005. Mr. Kluting is currently retired. From 1992 through 2003, Mr. Kluting served as Vice President, Chief Financial Officer and Corporate

Secretary of X-Rite, Incorporated, a developer and manufacturer of color measurement instrumentation and software used in graphic arts, retail and industrial applications. Mr. Kluting's business address is 2525 Keyton Ct NW, Grand Rapids, MI 49504.

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

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

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

Chris A. Armbruster recently retired from The Wendy's Company after serving as their Vice President of Development for three years. Mr. Armbruster worked for Taco Bell Corporation from 1991 through 2013 where he held several leadership positions in finance involving acquisitions and divestitures, financial planning and development. He spent the last six years at Taco Bell as Vice President of Development and Franchise Finance. Mr. Armbruster's business address is 6969 Red Bank Road, Galena, OH 43021.

The non-employee directors are compensated in accordance with the compensatory plans outlined in Item 17 below. In fiscal 2020, each of the non-employee directors received an option grant of 10,000 common shares priced at $14.45 per share (the closing price on the date of the grant). In fiscal 2020, the non-employee directors received compensation for attendance at Board and Committee meetings as follows: Mr. Kluting: $34,619 (paid in 2,339 common shares); Mr. Pruis: $34,619 (paid in 2,339 common shares); Mr. Maggini: $9,926 (paid in 669 common shares); Mr. Schermer, Sr.: $9,926 (paid in 669 common shares); Mr. Wierenga: $9,926 (paid in 669 common shares); and Mr. Armbruster: $7,510 (paid in 482 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 $287,100 plus an annual car allowance of $10,500. Mr. Rose earned a base salary of $254,100 plus an annual car allowance of $8,400. Mrs. Smith earned a base salary of $200,200. In fiscal 2020, Mr. Schermer, Jr. and Mr. Rose each also received 30,000 stock option grants priced at $20.00 per share (the closing price on the date of the grant). Mrs. Smith received 15,000 and grants priced at $20.00 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 2020 was $681,000 each for Mr. Schermer, Jr. and Mr. Rose. Deferred compensation earned and accrued in fiscal 2020 for Mrs. Smith was $162,000. Bonuses earned and accrued in fiscal 2020 were $1,262,000 for Mr. Schermer, Jr. and Mr. Rose. Bonus earned and accrued in fiscal 2020 for Mrs. Smith was approximately $505,000.

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 shares of MHGU common stock.

Related Party Transactions

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

Robert E. Schermer, Jr., 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.

Robert E. Schermer, Jr. and Gary A. Rose are each 50.0% owners of a company with which one of the Company's independent concept restaurants is a tenant.

Conflicts of Interest

None.

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

See audited consolidated financial statements for fiscal year ended January 3, 2021, 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 commitment to build 40 new restaurants by December 31, 2024 under a development agreement with Wendy's and most recently, the launch of a new Wendy's Breakfast menu in March 2020. Since 2009, the Company has acquired 264 Wendy's restaurants through 26 separate transactions. The Company continues to evaluate acquisition opportunities in the Wendy's system, as well as other growth opportunities in the restaurant industry.

At January 3, 2021, the Company operated 333 Wendy's quick-service restaurants under franchise agreements with The Wendy's Company and seven independent concept restaurants. Of the Wendy's quick-service restaurants, nine are operating in Arkansas, 32 in Connecticut, 56 in Florida, 45 in Georgia, 12 in Indiana, 13 in Massachusetts, 54 in Michigan, seven in Mississippi, three in Missouri, two in North Carolina, 15 in Ohio, 27 in Oklahoma, one in South Carolina, 33 in Tennessee, 11 in Texas and 13 in Virginia. All seven independent concept restaurants are located in Michigan.

A schedule of Company restaurants follows:

	Wendy's	Independent Concepts	Total Restaurants
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
Acquired restaurants	-	-	-
Newly opened restaurants	8	1	9
Closed restaurants	-6	-	-6
Restaurants as of January 3, 2021	333	7	340

Results of Operations

Results of operations are summarized below:

	Fiscal 2020 (in thousands)		Fiscal 2019 (in thousands)	
Food and Beverage Revenue	$ 516,178	100.0%	$ 467,547	100.0%
Expenses				
Food and beverage	134,420	26.0%	124,903	26.7%
Labor and related	153,110	29.7%	137,644	29.4%
Occupancy	69,943	13.6%	65,995	14.1%
Advertising	18,164	3.5%	18,202	3.9%
Franchise fees	19,518	3.8%	17,593	3.8%
Other operating	42,652	8.3%	40,552	8.7%
Total Operating Expenses	437,807	84.8%	404,889	86.6%
General and administrative	27,824	5.4%	23,391	5.0%
Preopening, acquisition and closing	8,464	1.6%	4,022	0.9%
Depreciation and amortization	16,307	3.2%	14,077	3.0%
Total Expenses	490,402	95.0%	446,379	95.5%
Income from Operations	25,776	5.0%	21,168	4.5%
Other Expense (Income)				
Interest	10,784	2.1%	12,336	2.6%
Other	(3,164)	-0.6%	(7,632)	-1.6%
Total Other Expense	7,620	1.5%	4,704	1.0%
Income Before Income Taxes	18,156	3.5%	16,464	3.5%
Income Tax Expense	2,401	0.5%	3,589	0.8%
Consolidated Net Income	$ 15,755	3.1%	$ 12,875	2.8%
Less Consolidated Net Income Attributable to Noncontrolling Interest in Variable Interest Entity	845	0.2%	818	0.2%
Consolidated Net Income Attributable to Controlling Interest	$ 14,910	2.9%	$ 12,057	2.6%

Food and Beverage Revenue

The Company reported revenues of $516.2 million in fiscal 2020, an increase of 10.5% over prior year's revenues of $467.5 million. Total Company "same store sales" (i.e., food and beverage revenue for stores in full operation on a per period basis for both fiscal years) increased by 3.2% in 2020 over prior year's sales.

The Company’s Wendy’s restaurants reported sales (before the impact of deferred revenue from Wendy’s Rewards loyalty program) of $510.0 million in fiscal 2020, an increase of 11.9% over the prior year’s sales of $456.1 million. The Company’s Wendy’s restaurants experienced a “same store sales” increase of 4.1% over prior year’s sales. The sales increase directly corresponds with incremental sales provided from the launch of Wendy’s Breakfast menu in March 2020, as well as a net addition of restaurants through acquisition and new build efforts. The increase was significantly offset by a decrease in revenue due to closed dine-in services throughout the year as mandated by governmental actions in response to the COVID-19 pandemic.

The Company’s independent concept restaurants reported sales of $6.2 million, a decrease of 45.6% from prior year sales of $11.4 million. Independent concept restaurants experienced a “same store sales” decrease of 41.9% from prior year’s sales. These declines reflect the impact of limited or fully closed operations in response to state and local ordinances implemented in response to the COVID-19 pandemic.

Cost of Food and Beverages

The cost of food and beverage decreased to 26.0% of revenue for fiscal 2020 from 26.7% of revenue for fiscal 2019. The decline primarily results from a shift in product mix to premium items with lower food cost, as well as increased average ticket and reduced product waste while operating under a drive-through only model during the mandated pandemic closures. Further contributing to the decline of food and beverage as a percent of revenue were the Company’s strategic price increases deployed throughout 2019 and 2020. Decreases were offset by an 10.6% increase in the average cost of beef for fiscal year 2020 when compared to fiscal 2019.

Labor and Related Expenses

Labor and related expenses increased to 29.7% of revenue for fiscal 2020 from 29.4% of revenue for fiscal 2019. The increase represents the dilutive impact throughout the first half of the year from decreased sales due to COVID-19. The increase is also due to an increase in average minimum wage when compared to the prior year, as well as increased labor.

Occupancy Expenses

Occupancy expenses decreased to 13.6% of revenue for fiscal 2020 from 14.1% of revenue for fiscal 2019. The decrease represents the dilutive impact from increased breakfast sales, as well as rent concessions received and reduced utility expense resulting from dining room closures during the COVID-19 pandemic.

General and Administrative Expenses

General and administrative expenses increased to 5.4% of revenue for fiscal 2020 from 5.0% of revenue for fiscal 2019. The increase is primarily due to variable incentive compensation.

Preopening, Acquisition and Closing Expenses

Preopening and acquisition expenses generally represent costs associated with opening new locations, concepts, or product lines in addition to numerous reimaging efforts and acquisitions. Expenses in 2020 also included costs related to preparing for the launch of Wendy’s Breakfast.

Closing expenses generally 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.

Preopening, acquisition and closing expenses in 2020 also included non-recurring costs of approximately $3.6 million related to the COVID-19 pandemic which include, but are not limited to, safety supplies, legal and bank fees, business interruption income replacement and other expenses.

Depreciation and Amortization

The increase in the amount of depreciation and amortization expense was due to increased asset purchases in 2020 and 2019, primarily as the result of new restaurant construction, reimaging efforts, and acquisitions.

Interest Expense

The decrease in the amount of interest expense was primarily due to the change in fair value of the Company's interest rate swap agreements, as well as a decline in the effective interest rate on variable debt over the prior year.

Interest expense is summarized below:

	Fiscal 2020 (in thousands)	Fiscal 2019 (in thousands)
Interest expense - swap	$ 408	$ 1,634
Interest expense	10,376	10,702
Total interest expense	$ 10,784	$ 12,336

Other (Income)

Other (Income) generally represents gains on real estate transactions completed throughout the year, which are partially offset by stock option expense. The decline in income from prior year is primarily due to a significant gain from the sale of a long-term investment recognized in the first quarter of 2019.

Income Tax Expense (Benefit)

Income tax expense is summarized as follows:

	Fiscal 2020 (in thousands)	Fiscal 2019 (in thousands)
Federal income tax expense (benefit)	$ (321)	$ 448
State and local income tax expense	1,403	1,286
Change in deferred income taxes	1,319	1,855
Total Income tax expense	$ 2,401	$ 3,589

The Company had net deferred tax liabilities totaling approximately $9,660 and $8,341 at January 3, 2021 and December 29, 2019, respectively.

The Company's federal income tax expense was reduced by tax credits of $1,539 and $1,692 in 2020 and 2019, 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 January 3, 2021 and December 29, 2019, the Company was in compliance with these covenants.

Off-Balance Sheet Arrangements

There were no off-balance sheet arrangements as of January 3, 2021.

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 2019 and 2020:

Transaction	Date	Shares Issued
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
Director Comp – 1st Quarter 2020	03/29/2020	1,685
Director Comp – 2nd Quarter 2020	06/28/2020	2,322
Director Comp – 3rd Quarter 2020	09/27/2020	1,732
Director Comp – 4th Quarter 2020	01/03/2021	1,428

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 $2,662 for attendance at meetings of the Board of Directors and $5,324 for attendance at meetings of the audit committee of the Board. Compensation is paid quarterly in arrears in the form of cash or Company common shares which are priced at the average fair market value during the five trading days prior to the end of the fiscal quarter. A director who is also an employee of Meritage is not separately compensated for serving as a director. This Plan will terminate pursuant to its terms on January 1, 2027.

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

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

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 January 3, 2021:

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 12/30/19-01/26/20	0	---	---	280,716
Month #2 01/27/20-03/01/20	0	---	---	280,716
Month #3 03/02/20-03/29/20	0	---	---	280,716
Month #4 03/30/20-04/26/20	0	---	---	280,716
Month #5 04/27/20-05/31/20	0	---	---	280,716
Month #6 06/01/20-06/28/20	0	---	---	280,716
Month #7 06/29/20-07/26/20	0	---	---	280,716
Month #8 07/27/20-08/30/20	10,000	$18.31	---	270,716
Month #9 08/31/20-09/27/20	0	---	---	270,716
Month #10 09/28/20-10/25/20	0	---	---	270,716
Month #11 10/26/20-11/29/20	0	---	---	270,716
Month #12 11/30/20-01/03/21	0	---	---	270,716

(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 10, 2021

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 10, 2021

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," "would," and similar expressions (including the negative versions), 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 actions 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 restaurant 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. Meritage is also subject to risks and uncertainties related to disruptions to or reductions in business operations, liquidity, prospects or supply chains due to pandemics, epidemics, widespread health emergencies, or outbreaks of infectious diseases such as the coronavirus disease COVID-19 and developments related to these types of events. 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
January 3, 2021 and December 29, 2019

Contents

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, MI

Opinion

We have audited the consolidated financial statements of Meritage Hospitality Group Inc. and Subsidiaries and Affiliate, which comprise the consolidated balance sheets as of January 3, 2021 and December 29, 2019, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of January 3, 2021 and December 29, 2019, and the results of its operations and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

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

BDO USA, LLP

Grand Rapids, Michigan
March 10, 2021

Meritage Hospitality Group Inc., Subsidiaries and Affiliate

Consolidated Balance Sheets
(in thousands)

	January 3, 2021	December 29, 2019
Assets		
Current Assets		
Cash	$ 32,319	$ 16,942
Receivables	1,733	1,215
Inventories	3,616	3,517
Prepaid expenses and other current assets	8,515	3,487
Total Current Assets	46,183	25,161
Property and Equipment - Net	118,323	151,846
Goodwill	174,243	174,243
Intangible Assets	5,039	4,287
Operating Lease Right-of-Use Assets - Net	337,575	315,351
Other Assets		
Long-term investments	1,786	1,786
Deposits and other assets	6,777	4,864
Total Assets	**$ 689,926**	**$ 677,538**
Liabilities and Equity		
Current Liabilities		
Trade accounts payable	$ 16,928	$ 21,650
Lines of credit	10,040	38,935
Current portion of long-term debt	19,996	19,370
Current portion of operating lease obligations payable	22,024	19,800
Accrued liabilities	25,695	17,882
Total Current Liabilities	94,683	117,637
Unearned Vendor Allowances	2,872	2,152
Operating Lease Obligations Payable	320,876	300,213
Other Long-term Liabilities	14,553	8,389
Long-term Debt - Net of current portion	148,862	157,727
Deferred Income Taxes	9,661	8,342
Equity	98,419	83,078
Total Liabilities and Equity	**$ 689,926**	**$ 677,538**

See notes to consolidated financial statements.

Meritage Hospitality Group Inc., Subsidiaries and Affiliate

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

	Fiscal Year Ended January 3, 2021	Fiscal Year Ended December 29, 2019
Food and Beverage Revenue	$ 516,178	$ 467,547
Expenses		
Food and beverage	134,420	124,903
Labor and related	153,110	137,644
Occupancy	69,943	65,995
Advertising	18,164	18,202
Franchise fees	19,518	17,593
Other operating	42,652	40,552
Total Operating Expenses	437,807	404,889
General and administrative	27,824	23,391
Preopening, acquisition and closing	8,464	4,022
Depreciation and amortization	16,307	14,077
Total Expenses	490,402	446,379
Income from Operations	25,776	21,168
Other Expense (Income)		
Interest	10,784	12,336
Other	(3,164)	(7,632)
Total Other Expense	7,620	4,704
Income Before Income Taxes	18,156	16,464
Income Tax Expense	2,401	3,589
Consolidated Net Income	**$ 15,755**	**$ 12,875**
Less Consolidated Net Income Attributable to Noncontrolling Interest in Variable Interest Entity	845	818
Consolidated Net Income Attributable to Controlling Interest	**$ 14,910**	**$ 12,057**
Earnings per share		
Basic	$ 2.00	$ 1.62
Diluted	1.58	1.27
Basic Weighted Average Shares Outstanding	6,453	6,309
Diluted Weighted Average Shares Outstanding	9,407	9,033

See notes to consolidated financial statements.

Meritage Hospitality Group Inc., Subsidiaries and Affiliate

Consolidated Statements of Equity
(in thousands)

	Convertible Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Noncontrolling Interest	Total
Balance - December 30, 2018	$ 13	$ 63	$ 32,573	$ 25,082	$ (338)	$ 57,393
Adoption of accounting principle	-	-	-	12,962	2,262	15,224
Net income	-	-	-	12,057	818	12,875
Issuance of common stock	-	1	140	-	-	141
Issuance of preferred stock, net	-	-	617	-	-	617
Repurchase of common stock	-	-	(183)	-	-	(183)
Common stock dividends	-	-	-	(1,514)	-	(1,514)
Preferred stock dividends, net	-	-	-	(1,467)	-	(1,467)
Company-owned stock	-	-	(1,257)	-	-	(1,257)
Stock option expense	-	-	1,762	-	-	1,762
Distributions	-	-	-	-	(513)	(513)
Balance - December 29, 2019	$ 13	$ 64	$ 33,652	$ 47,120	$ 2,229	$ 83,078
Net income	-	-	-	14,910	845	15,755
Issuance of common stock	-	3	121	-	-	124
Issuance of preferred stock	1	-	2,399	-	-	2,400
Repurchase of common stock	-	-	(183)	-	-	(183)
Common stock dividends	-	-	-	(907)	-	(907)
Preferred stock dividends, net	-	-	-	(1,634)	-	(1,634)
Company-owned stock	-	-	(1,271)	-	-	(1,271)
Stock option expense	-	-	1,515	-	-	1,515
Distributions	-	-	-	-	(458)	(458)
Balance - January 3, 2021	$ 14	$ 67	$ 36,233	$ 59,489	$ 2,616	$ 98,419

See notes to consolidated financial statements.

Meritage Hospitality Group Inc., Subsidiaries and Affiliate

Consolidated Statements of Cash Flows
(in thousands)

	Fiscal Year Ended	
	January 3, 2021	December 29, 2019
Cash Flows from Operating Activities		
Net Income	$ 15,755	$ 12,875
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	16,307	14,077
Amortization of financing costs	532	484
Deferred income taxes	1,319	1,855
Loss on disposal of fixed assets	2,231	3,360
Gain on sale leaseback transactions (Note 6)	(4,042)	(7,629)
Change in fair market value of swap	408	1,207
Change in company owned stock	(1,271)	(1,257)
Stock option expense	1,515	1,762
Changes in assets and liabilities which provided (used) cash:		
Receivables	(3,936)	345
Inventories	(99)	(122)
Prepaid expenses and other current assets	(1,610)	(551)
Deposits and other assets	(997)	(614)
Accounts payable	(4,722)	5,283
Accrued liabilities	10,931	1,474
Accrued rent	662	680
Unearned vendor allowances	720	(498)
Deferred compensation	2,638	2,400
Net cash provided by operating activities	36,341	35,131
Cash Flows from Investing Activities		
Purchase of property and equipment	(32,808)	(89,576)
Purchase of intangible assets	(1,013)	(638)
Sale of long-term investment (Note 8)	-	3,691
Proceeds from sale of asset	1,348	-
Acquisitions, net of cash proceeds (Note 20)	-	(16,801)
Net cash used in investing activities	(32,473)	(103,324)

See notes to consolidated financial statements.

Meritage Hospitality Group Inc., Subsidiaries and Affiliate

Consolidated Statements of Cash Flows
(in thousands)

	Fiscal Year Ended	
	January 3, 2021	December 29, 2019
Cash Flows from Financing Activities		
Proceeds from long-term debt	-	20,636
Principal payments on long-term debt	(8,306)	(17,095)
Proceeds from lines of credit	25,391	80,499
Payments on lines of credit	(7,999)	(17,924)
Proceeds from sale leaseback transactions	49,833	47,747
Payments on lines of credit related to sale and leaseback transactions	(46,287)	(38,761)
Principal payments on finance leases	(365)	(365)
Payments on financing costs	(100)	-
Payments on repurchase of common stock	(183)	(183)
Proceeds from sale of common stock	124	141
Proceeds from issuance of preferred stock, net	2,400	617
Common stock dividends paid	(907)	(1,514)
Preferred stock dividends paid, net	(1,634)	(1,467)
Distributions to Variable Interest Entity members	(458)	(513)
Net cash provided by financing activities	11,509	71,818
Net Increase in Cash	15,377	3,625
Cash - Beginning of period	16,942	13,317
Cash - End of period	$ 32,319	$ 16,942
Supplemental Disclosure of Cash Flow Information		
Cash paid for:		
Interest	$ 9,838	$ 10,209
Income taxes	$ 2,075	$ 2,011
Significant non-cash investing and financing transactions:		
Conversion of property and equipment to asset held for sale	$ 1,340	-

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 January 3, 2021, the Company operated 333 Wendy’s quick-service restaurants under franchise agreements with its franchisor, Quality Is Our Recipe, LLC, hereafter referred to as “the Wendy’s Company” or “Wendy’s,” as well as seven independent concept 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 officer in order to allocate resources and assess performance. Resource allocation decisions are made based on the chief operating officer’s evaluation of total Company operations. Accordingly, the Company views the operating results of its Wendy’s and independent concept restaurants as one operating and reportable segment.

Fiscal Period – The Company operates on a 52/53-week fiscal year ending on the Sunday closest to December 31 of each year. Fiscal year 2020 ended on January 3, 2021 and contained 53 weeks. Fiscal year 2019 ended on December 29, 2019 and contained 52 weeks.

Revenue Recognition - Revenues consist of restaurant food and beverage sales and are recorded net of applicable sales taxes, and beginning in 2020, deferred revenue associated with the Wendy’s Company app-based loyalty program (“Wendy’s Rewards”). Food and beverage revenue is recognized at the time food is delivered to the customer and the performance obligation is satisfied. Payment in cash or credit is accepted at the time of transaction, and there is no variability in the transaction price as discounts and allowances are recognized at the point of sale. Fees paid to third party delivery providers are reported as other operating expenses on the consolidated statements of operations and are immaterial to the consolidated financial statements. The Company’s gift card activity is run primarily through the franchise agreement with The Wendy’s Company and is not significant to the consolidated financial position.

The Wendy’s Rewards program is offered at all the Company’s Wendy’s restaurants. For every dollar of a qualifying customer purchase, ten rewards points are earned. The Company defers a portion of qualifying revenue until rewards points are redeemed, forfeited or expired within a year of the date earned. As of January 3, 2021, deferred revenue associated with Wendy's Rewards was $291 and is classified in accrued liabilities on the consolidated balance sheet.

(in thousands, except share data)

As the Company generates revenue through the sale of restaurant food and beverage, it aggregates results into sales from Wendy's restaurants and independent concept restaurants. Included in the consolidated statements of operations for fiscal years ended January 3, 2021 and December 29, 2019 are the following results:

	2020	2019
Wendy's restaurants	$ 509,971	$ 456,132
Independent concept restaurants	6,207	11,415
Total Revenue	$ 516,178	$ 467,547

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

Receivables - Receivables consist of trade 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 $63 and $176 was capitalized in the years ended January 3, 2021 and December 29, 2019, respectively.

Goodwill - The Company tests goodwill for impairment annually in the fourth quarter on an aggregate basis. For the years ended January 3, 2021 and December 29, 2019, 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 4).

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 10). 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 when impairment indicators are present by comparing carrying value to fair market value, as determined by appraisals, present value of estimated future cash flows or similar third-party transactions. If the carrying value exceeds fair market value, an impairment is recognized for the amount by which the carrying amount of the asset exceeds the fair market value. There were no impairment losses recognized for the years ended January 3, 2021 and December 29, 2019.

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.

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

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

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

Short-Term Financial Instruments – The fair values of short-term financial instruments, including cash, receivables, trade accounts payable, 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 January 3, 2021 and December 29, 2019 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 other observable market inputs.

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

Self-Insurance – The Company's restaurants in Michigan are self-insured for workers' compensation claims up to a $500,000 per claim stop-loss level with no maximum aggregate. The Company determines its liability based on estimated loss reserves provided by the Company's third-party claims administrator and on management's knowledge of open claims (see Note 9).

Unearned Vendor Allowances - Up-front consideration received from vendors linked to future purchases is initially deferred, then recognized as earned income as the purchases occur over the term of the vendor arrangement. During the years ended January 3, 2021 and December 29, 2019, the Company received $8,566 and $7,281, 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 grants is recognized ratably over the vesting period of the awards. The Company issues 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 $18,164 and $18,202 for the years ended January 3, 2021 and December 29, 2019, respectively.

Income Taxes - A current tax liability or asset is recognized for the estimated taxes payable or refundable on tax returns for the year. Deferred tax liabilities or assets are recognized for the estimated future tax effects of temporary differences between financial reporting and tax accounting and are based on the difference between the financial statement and tax basis of assets and liabilities measured by the current tax rate. The deferred tax provision generally represents the net change in deferred tax assets and liabilities during the period including any changes in valuation allowances. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in the results of operations in the period that includes the enactment date. A valuation allowance is established when 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 file a consolidated federal income tax return.

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

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. For certain valuations, the Company may engage an independent third-party valuation specialist. The excess of purchase price over the amount allocated to assets and liabilities is recorded as goodwill.

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.

Risks and Uncertainties - On January 30, 2020, the World Health Organization ("WHO") announced a global health emergency resulting from a new strain of coronavirus originating in Wuhan, China (the COVID-19 outbreak) and the risks to the international community as the virus spread globally. Based on the rapid increase in global exposure, the COVID-19 outbreak was classified as a pandemic in March 2020.

As a result of governmental actions taken to curtail the spread of the coronavirus, the Company was mandated to close dine-in services for all its restaurants in mid-March 2020. As a result, the Company immediately experienced a significant and unfavorable impact on sales and operations as well as a brief supply chain interruption resulting from a temporary shortage of beef. In response to the effect of these disruptions, the Company took various mitigating actions focused on reducing costs, preserving cash, and enhancing customer and employee health and safety (see Note 5 for related rental payment concessions received).

In accordance with on-going state and local executive orders, the Company began to phase in the re-opening of its dining rooms beginning in mid-June 2020 as allowed. As of the date of this report, approximately 75% of the Company's Wendy's dining rooms have re-opened, and independent concepts has re-opened with modified dine-in service at 50% capacity as permitted by local executive orders.

The Company continues to actively monitor the impact of COVID-19 on its financial condition, liquidity, operations, workforce, suppliers, and industry. Given the on-going evolution of the pandemic and varied governmental responses, the Company may need to take additional actions to continue to conserve cash but believes it has access to sufficient cash to support current operations. As a result of the pandemic's continued development, the Company is not able to fully estimate the complete impact or duration of the pandemic on its results of operations, financial condition, or liquidity.

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 on-going 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.

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(in thousands, except share data)

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. 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
Accrued Rent		(3,983)
Total	$	303,444
Liabilities:		
Current portion of operating lease obligations payable	$	18,007
Operating Lease Obligations Payable		289,420
Total	$	307,427
Equity:		
Unamortized Deferred Gains - Sale and leaseback transactions	$	20,140
Deferred Income Taxes		(4,916)
Total	$	15,224

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 $15,224. Upon adoption of ASC 842, this balance was recognized through equity and represents net income that would have been recognized in future years under ASC 840.

Reclassification – Certain 2019 amounts have been reclassified to conform to the 2020 presentation.

Subsequent Events - The consolidated financial statements and related disclosures include evaluation of events up through and including March 10, 2021, the date the consolidated financial statements were issued.

(in thousands, except share data)

Note 2 - Property and Equipment

Property and equipment are summarized as follows:

	2020	2019
Land and improvements	$ 23,832	$ 37,938
Buildings and improvements	53,807	55,645
Furnishings and equipment	80,916	72,274
Leasehold improvements	21,866	17,653
Leased property under capital leases	-	1,422
Construction in progress	6,335	21,334
Total cost	$ 186,756	$ 206,266
Accumulated depreciation	68,433	54,420
Net property and equipment	$ 118,323	$ 151,846

As of January 3, 2021, the Company estimates costs of $1,238 to complete construction in progress.

Depreciation expense was $16,108 and $13,909 in fiscal year 2020 and 2019, respectively.

During 2020, the Company owned certain land and buildings classified as assets held for sale within other assets on the consolidated balance sheet. As of January 3, 2021, related assets are carried at an aggregate fair market value of $795.

Note 3 - Goodwill

Changes to goodwill for the fiscal years 2020 and 2019 are as follows:

Balance - December 30, 2018	$ 164,012
Acquisitions and adjustments	10,231
Balance - December 29, 2019	$ 174,243
Acquisitions	-
Balance - January 3, 2021	$ 174,243

Note 4 – Intangible Assets

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

	2020	2019
Franchise rights and agreement costs	$ 5,966	$ 5,048
Accumulated amortization	927	761
Net	$ 5,039	$ 4,287

(in thousands, except share data)

Amortization expense for franchise rights and agreement costs in 2020 and 2019 was $188 and $157, respectively. The weighted average remaining life through the next renewal period is approximately 18 years.

Amortization expense is projected as follows:

2020	$ 192
2021	192
2022	192
2023	192
2024	192
Thereafter	4,079
Total	$ 5,039

Note 5 - 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.

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

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

The Company’s leases do not provide an implicit rate. In determining present value of future minimum lease payments, the Company utilized an incremental borrowing rate congruent with its primary lending agreement. The weighted average effective discount rate was 5.03% and 5.21% as of January 3, 2021 and December 29, 2019, respectively.

Base rent expense includes non-lease components such as taxes, insurance, and maintenance when required under the lease agreements and is classified as occupancy expense in the consolidated statements of operations. 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.

(in thousands, except share data)

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.

Rent expense from operating leases were recognized as follows:

	2020	2019
Operating lease costs:		
Fixed base lease expense - real estate	$ 36,924	$ 34,793
Fixed base lease expense - equipment	1,398	1,208
Variable rent expense	694	469
Total	$ 39,016	$ 36,470

Throughout fiscal year 2020, the Company negotiated lease payment terms related to the effect of the COVID-19 pandemic which resulted in both deferred rent payments and rent abatements. In accordance with Financial Accounting Standards Board's recent Staff Q&A regarding rent concessions related to the effects of the COVID-19 pandemic, the Company has elected to account for concessions that do not result in a substantial increase in the obligations of the lessee as though enforceable rights and obligations for those concessions existed in the original lease agreements. Accordingly, the Company has elected not to remeasure the related lease liabilities and right-of-use assets. For rent abatements, the Company has recorded negative variable rent expense during the period of relief. Abated rent payments as of January 3, 2021 were approximately $526.

For deferred rent payments, the Company has recognized a non-interest bearing payable for lease payments that would have been made based on original terms of the various lease agreements. The payable will be reduced when the deferred payments are made in accordance with repayment terms. Total deferred rent payments at January 3, 2021 were $852 and are included in the current portion of operating lease obligations payable on the consolidated balance sheet. Deferred rent payments have various repayment terms extending through February 2021.

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

	2020	2019
Cash paid for amounts included in the measurement of lease liabilities	$ 36,261	$ 35,168
Right-of-use assets obtained in exchange for lease obligations	$ 35,658	$ 53,010

The weighted-average remaining lease term for operating leases as of January 3, 2021 was approximately 15 years.

(in thousands, except share data)

The future payments due under operating leases as of January 3, 2021 are projected as follows:

2021	$	38,374
2022		37,148
2023		36,645
2024		36,287
2025		35,063
Thereafter		298,437
Total	$	481,954
Less present value discount		(139,054)
Lease liability recognized	$	342,900

Note 6 – Sale and Leasebacks

For the year ended January 3, 2021, the Company completed 23 sale and leaseback transactions. Through these transactions, the Company netted proceeds of $49,833, and with such proceeds paid down indebtedness of $46,287. The Company recorded net gains of $4,042 related to these sale and leaseback transactions in other income on the consolidated statements of operations.

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, and with such proceeds paid down indebtedness of $38,761. The Company recorded net gains of $7,629 related to these sale and leaseback transactions in other income on the consolidated statements of operations.

Note 7 - Notes Receivable

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

(in thousands, except share data)

Note 8 - Long-Term Investments

Long-term investments consist of the following:

	2020	2019
Investment in TRG	$ 538	$ 538
Priority interest in TRG	1,248	1,248
Total Long-term Investments	$ 1,786	$ 1,786

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 and related gain of $1,346, 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 9 - Accrued Liabilities

The following is a detail of accrued liabilities:

	2020	2019
Payroll and related payroll taxes	$ 18,264	$ 11,368
Property taxes	378	430
Sales Tax	2,472	2,470
Self-insurance	1,388	1,045
Other	3,193	2,569
Total	$ 25,695	$ 17,882

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(in thousands, except share data)

Note 10 - Long-Term Debt and Revolving Lines of Credit

Long-term debt consists of the following:

	2020	2019
Mortgage notes payable, variable rate, due in monthly installments annually increasing from $37 to $38 plus interest of LIBOR plus a margin ranging from 2.25% through 2.75% (effective rate of 3.50% and 4.53% at January 3, 2021 and December 29,2019, respectively), maturing in February 2022.	$ 10,781	$ 11,114
Term notes payable, variable rate, due in monthly installments annually increasing from $1,466 to $1,514 plus interest of LIBOR plus a margin ranging from 2.25% through 2.75% (effective rate of 3.50% and 4.53% at January 3, 2021 and December 29, 2019, respectively), maturing in February 2022.	153,939	161,460
Term note payable, variable rate, due in quarterly installments of $100 plus monthly interest payments of LIBOR plus 4.5% (effective rate of 4.65% and 6.28% at January 3, 2021 and December 29, 2019, respectively), maturing in January 2023.	4,600	4,800
Equipment notes payable, with fixed interest rates, due in monthly installments totaling $46 including interest ranging from 5.53% to 6.09%. Notes were paid in full upon maturity between January and September 2020.	-	253
Other notes payable, with fixed interest, due in monthly payments of $33 including interest of 4.95% to 5.00%, maturing from September 2020 through December 2020. Notes were paid in pull upon maturity between September and December 2020.	-	364
Total	$ 169,320	$ 177,991
Less unamortized financing costs	462	894
Less current portion	19,996	19,370
Long-term portion	$ 148,862	$ 157,727

(in thousands, except share data)

The total of the above debt matures as follows:

2021	$	19,996
2022		145,524
2023		3,800
Total	$	169,320

The Company has a revolving line of credit agreement with its primary lender that allows for borrowings up to $30,000 as of January 3, 2021 and December 29, 2019, and expires February 2022. Outstanding borrowings were $1,865 and $18,268 and had effective interest rates of 3.50% and 4.53% at January 3, 2021 and December 29, 2019, respectively.

Restaurant Holdings has a $30,000 revolving credit facility with a bank that expires May 2021. Outstanding borrowings were $7,537 and $17,855, and had effective interest rates of 4.65% and 6.28% at January 3, 2021 and December 29, 2019, respectively.

The Company has a flexible development line of credit with its primary lender that allows for borrowings up to $35,300 and $32,600 as of January 3, 2021 and December 29, 2019, respectively, and expires February 2022. Outstanding borrowings were $638 and $2,813 and had effective interest rates of 3.50% and 4.53% at January 3, 2021 and December 29, 2019, 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 February 2022. The notional amounts outstanding and related fair values of the amortizing interest rate swaps at January 3, 2021 and December 29, 2019 consist of the following:

	2020		2019	
	Notional Amount Outstanding	Fair Value	Notional Amount Outstanding	Fair Value
Amortizing $40,000 interest rate swap, 2016	$ 26,522	$ (373)	$ 29,337	$ (118)
Amortizing $30,000 interest rate swap, 2017	21,442	(326)	23,522	(145)
Amortizing $50,000 interest rate swap, 2018	39,478	(916)	42,859	(944)
Total	$ 87,442	$ (1,615)	$ 95,718	$ (1,207)

(in thousands, except share data)

Related to the interest rate swap agreements, unrealized losses of $408 and $1,634 in fiscal 2020 and 2019, respectively were recognized as a component of interest expense due to the changes in fair value. Realized gains of $1,494 and $18 in fiscal 2020 and 2019, respectively were recognized on the interest rate swaps and reflected 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 January 3, 2021 and December 29, 2019, the Company was in compliance with these covenants.

Note 11 - Taxes

Deferred tax assets and liabilities consist of:

Deferred tax assets:	2020	2019
Accrued rents	$ 1,240	$ 1,058
General business credit	3,450	2,663
Payroll Taxes Deferred under CARES Act	1,716	-
Other	7,046	4,919
Total deferred tax assets	13,452	8,640

Deferred tax liabilities:	2020	2019
Depreciation, amortization, and basis differences	(23,021)	(16,586)
Other	(92)	(396)
Total deferred tax liabilities	(23,113)	(16,982)
Net deferred tax (liabilities)	$ (9,661)	$ (8,342)

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 and 2040.

(in thousands, except share data)

The income tax provision reconciled to the tax computed at the statutory state and federal rates for the years ended January 3, 2021 and December 29, 2019 was as follows:

	2020	2019
Tax expense at statutory rate of 21% applied to income before taxes	$ 3,813	$ 3,457
State taxes (net of federal benefit)	909	1,321
Permanent differences	284	519
Impact of tax credits	(1,539)	(1,691)
Noncontrolling interest	(177)	(172)
Impact of NOL Carryback to years with higher tax rates	(570)	-
Other - net	(319)	155
	$ 2,401	$ 3,589

The provision for income taxes consists of the following:

	2020	2019
Current expense	$ 1,082	$ 1,734
Deferred expense	1,319	1,855
Total income tax expense	$ 2,401	$ 3,589

As of January 3, 2021 and December 29, 2019, the Company's unrecognized tax benefits were not significant. There were no significant penalties or interest recognized or accrued during 2020 and 2019.

Note 12 - Equity

The Company has 5,000,000 authorized shares of $0.01 par value preferred stock. As of January 3, 2021 and December 29, 2019, preferred stock was designated as follows:

	2020	2019
Preferred B:		
Authorized:	1,350,000	1,350,000
Outstanding:	809,067	809,067
Preferred C:		
Authorized:	1,500,000	1,500,000
Outstanding:	160,360	160,360
Preferred D:		
Authorized:	600,000	600,000
Outstanding:	310,293	310,293
Preferred E:		
Authorized:	800,000	800,000
Outstanding:	341,510	238,766

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

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

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

The Series E nonvoting convertible preferred stock has a cumulative annual dividend rate of $1.75 per share. After one year from the date of issuance, shares are convertible by the shareholders into common shares at $21.00 per share and have a liquidation value of $25.00 per share. 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. The impact of the related investment and equity have been eliminated and are presented net in consolidation (see Note 17).

The Company has 30,000,000 authorized shares of $0.01 par value common stock, with 6,643,681 and 6,348,259 shares issued and outstanding as of January 3, 2021 and December 29, 2019, respectively. The common shares of the Company are quoted on the OTC Markets under the symbol "MHGU."

Note 13 – Coronavirus Aid, Relief and Security (CARES) Act

On March 27, 2020, the Coronavirus Aid, Relief and Economic Security ("CARES") Act was signed into law. The CARES Act includes provisions relating to refundable payroll tax credits, deferment of employer social security payments, potential Small Business Administration ("SBA") loans for qualifying businesses, lengthening of net operating loss carryback periods, accelerating alternative minimum tax credit refunds, modifications to the net interest deduction limitations, increased limitations on qualified charitable contributions and technical corrections to tax depreciation methods for qualified improvement property.

The CARES Act additionally contains several programs including the Employee Retention Credit, Deferment of Employer Tax Credits as well as the SBA Paycheck Protection Program ("PPP"). Through ongoing assessment of the variable economic conditions and related governmental orders, the Company determined not to accept or otherwise participate in the PPP Program. However, the Company did elect to participate in the broad-based employer relief programs provided under the CARES Act to defer payment of employer Social Security taxes for wage payments made after March 12, 2020, through the end of the calendar year. The Company will defer 50% of the payment of these taxes to December 31, 2021, with the remaining 50% to be paid by December 31, 2022. As of January 3, 2021, the Company's deferred payroll taxes associated with the CARES Act was $6,238.

The Company additionally elected to file an income tax accounting change regarding the technical correction included in the CARES Act for qualified improvement property which generated additional tax deductions for the 2019 income tax year. These deductions resulted in a net operating loss for 2019, which under the CARES Act, was carried back to tax years with a higher corporate income tax rate. The effect of the tax rate differential is a reduction to 2020 income tax expense of $570.

Note 14 - Employee Benefit Plans

The Company has a deferred compensation plan (the "Plan") for certain employees. The Plan provides for the payment of benefits for a period of up to 10 years. Deferred compensation benefit earned was $1,923 in 2020 and $1,517 in 2019. Other long-term obligations related to deferred compensation under the Plan were $9,819 and $7,182 as of January 3, 2021 and December 29, 2019, 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 $5,761 and investments of $3,648 at January 3, 2021, and a cash surrender value of $4,650 and investments of $2,378 at December 29, 2019, which are included in other assets. As of January 3, 2021 and December 29, 2019, respectively, $3,644 and $2,373 of the investments were Company stock and, therefore, presented as a reduction in equity as opposed to other assets.

Beginning January 2020, the Company sponsored a 401(k) plan for the benefit of substantially all employees. To be eligible for plan participation, employees must have completed one year of service and be 21 years of age or older. The 401(k) plan allows employees to contribute a portion of their compensation and provides for the Company to make a discretionary matching contribution that vests in accordance with a predetermined vesting schedule. Employer contributions to the plan were $346 for the year ended January 3, 2021.

Note 15 - 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 $1,515 and $1,761 for the years ended January 3, 2021 and December 29, 2019, respectively. The total income tax benefit recognized in the consolidated statements of operations for share-based compensation arrangements was $192 and $230 for the years ended January 3, 2021 and December 29, 2019, 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 of Directors which administer the plans. Options have a term of 10 years and vest ratably over three years from the grant date.

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

The fair value of each option award is estimated on the date of grant using the Black Scholes option valuation model that uses the following weighted average assumptions, ignoring dividends: risk-free interest rates of 0.33% to 1.40% in 2020 and 2.23% to 2.53% in 2019; expected life of 5.07 years to 9.42 years in 2020 and 5.04 years to 9.39 years in 2019; and expected volatility of 21.75% to 41.5% in 2020 and 23.15% to 43.10% in 2019. 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.

(in thousands, except share data)

A summary of option activity under the employee plans for the years ended January 3, 2021 and December 29, 2019 is presented below:

Options	Number of Shares	Average Exercise Price	Contractual Term (in Years)
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
Outstanding at December 29, 2019	1,021,000	$ 10.53	-
Granted	135,000	20.00	-
Exercised	(239,675)	3.01	-
Forfeited or expired	(10,625)	18.35	-
Outstanding at January 3, 2021	905,700	13.84	6.1

The breakdown of outstanding employee stock options as of January 3, 2021 is as follows:

Options	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in Years)
Options excercisable	707,200	$ 11.68	5.5
Nonvested options	198,500	11.95	8.4

Total options outstanding represent aggregate intrinsic value of $5,005 and $9,466 as of January 3, 2021 and December 29, 2019, respectively. There were 239,675 and 66,950 options exercised with intrinsic value of $3,672 and $964 in 2020 and 2019, respectively. The fair value of stock options awarded during 2020 and 2019 was $600 and $643, respectively. As of January 3, 2021, total unrecognized compensation expense related to non-vested stock options was $709. This expense will be recognized over approximately 2.4 years.

(in thousands, except share data)

A summary of option activity under the directors' plans for the years ended January 3, 2021 and December 29, 2019 is presented below:

Options	Shares	Exercise Price	Term (in Years)
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
Outstanding at December 29, 2019	577,500	$ 9.30	-
Granted	60,000	14.45	-
Exercised	(137,500)	5.26	-
Forfeited or expired	(10,000)	1.75	-
Outstanding at January 3, 2021	490,000	11.22	5.6

The breakdown of outstanding director stock options as of January 3, 2021 is as follows:

Options	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in Years)
Options excercisable	370,000	$ 9.56	4.6
Nonvested options	120,000	16.31	8.8

Total options outstanding represent aggregate intrinsic value of $3,566 and $6,075 as of January 3, 2021 and December 29, 2019, respectively. There were 137,500 and 20,000 options exercised with intrinsic value of $1,664 and $318 in 2020 and 2019, respectively. The fair value of stock options awarded during 2020 and 2019 was $420 and $585, respectively. As of January 3, 2021, total unrecognized compensation expense related to non-vested stock options was $714. This expense will be recognized over approximately 2.4 years.

Note 16 – 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.

(in thousands, except share data)

Earnings per share as of January 3, 2021 and December 29, 2019 was calculated as follows:

	2020		2019	
Income attributable to controlling interest	$	14,910	$	12,057
Less: Preferred stock dividends		(2,006)		(1,811)
Income available to common shareholders	$	12,904	$	10,246
Weighted average basic shares outstanding		6,453		6,309
Basic EPS	$	2.00	$	1.62
Income available to common shareholders	$	12,904	$	10,246
Add: Dividends on dilutive preferred stock		2,006		1,268
Income available to common shareholders	$	14,910	$	11,514
Weighted average basic shares outstanding plus assumed conversions		9,407		9,033
Diluted EPS	$	1.58	$	1.27

Note 17 – 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 and is secured by its interest in the real estate and personal guarantees of owners. As of January 3, 2021 and December 29, 2019, Restaurant Holdings had bank debt obligations totaling $12,137 and $22,655, respectively.

(in thousands, except share data)

Included in the consolidated balance sheets as of January 3, 2021 and December 29, 2019 are the following amounts related to Restaurant Holdings, before eliminating entries:

	2020	2019
Assets:		
Current assets	$ 4,951	$ 2,377
Property and Equipment - net	7,811	19,462
Other assets	420	-
Investment in MHGI preferred stock	5,000	5,000
Total Assets	$ 18,182	$ 26,839
Liabilities:		
Current liabilities	$ 2,810	$ 1,666
Current portion of long-term debt	400	400
Revolving line of credit	7,537	17,855
Long-term debt	4,195	4,400
Total Liabilities	$ 14,943	$ 24,321
Equity - Noncontrolling interest	3,239	2,518
Total Liabilities and Equity	$ 18,182	$ 26,839

Note 18 - 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, 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).

The Company's CEO and President are each 50.0% owners of a related party entity that owns a building with which the Company has an operating lease.

Note 19 - Guarantees, Commitments, and Contingencies

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 $131,165 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 January 3, 2021, these capital improvements have remaining estimated costs of approximately $2,223.

Note 20 – Acquisition of Wendy's Restaurants

The Company acquired no Wendy's restaurants in 2020 and ten Wendy's restaurants in 2019 through various transactions. The ten restaurants acquired in 2019 included the business and equipment. For three restaurants acquired in 2019, 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 the fiscal year ended December 29, 2019, 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 of new debt and $2,007 of cash on hand. The transactions resulted in the recording of approximately $10,231 of goodwill, $5,900 of land and building, $789 of equipment and leasehold improvements, $106 of inventory, $226 of franchise rights, $10 in franchise costs and $461 of liabilities. Revenue in fiscal year 2020 and 2019, respectively, included $16,989 and $4,181 from the locations acquired during fiscal year 2019.

The Company expensed $146 of acquisition and preopening costs in 2019 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 goodwill amortization is expected to be deductible for tax purposes.