Meritage Hospitality Group Inc.
Annual Disclosures

For Fiscal Year Ended December 28, 2014

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.

3310 Eagle Park Drive NE, Suite 205
Grand Rapids, MI 49525
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 5,607,523 common shares outstanding at December 28, 2014. 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). 200,000 Series A Convertible Preferred Shares were authorized in 1996, and there are 29,520 Series A convertible preferred shares outstanding. 500,000 Series B Convertible Preferred Shares were authorized in 2003 and an additional 850,000 were authorized in December 2010. There are 746,000 Series B convertible preferred shares outstanding. The Series B shares are assigned CUSIP No. 59000K408 and trade on the OTC Markets under the symbol "MHGUP".

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

Common Shares: The Company paid a $0.01 cash dividend on its common shares in 2012, $0.02 cash dividends in 2013, and $0.03 cash dividends in 2014. 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 A Convertible Preferred Shares: The Company has 29,520 Series A Convertible Preferred Shares ("Series A Preferred Shares") outstanding. Each Series A Preferred Share has an annual dividend rate of $0.90 per share, 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 A Preferred Shares into common shares at a conversion price of $7.00 for each common share. The conversion rate is subject to adjustment in the event of stock splits, stock dividends, combinations, reclassifications and similar occurrences. Upon any dissolution or winding up, the holder of each Series A Preferred Share will be entitled to receive a liquidation value of $10.00 per Series A 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 that should the Company miss six consecutive quarterly dividend payments, the holders of the Series A Preferred Shares, voting as a class with each Series A Preferred Share having one vote, would be entitled to elect two additional directors to the Company's Board of Directors, which members would remain on the Board as long as any dividend payment arrearages remain outstanding.

Series B Convertible Preferred Shares: The Company has 746,000 Series B Convertible Preferred Shares ("Series B Preferred Shares") outstanding. The Series B Preferred Shares have an annual dividend rate of $0.80 per share. The right to payment of dividends is cumulative. The dividend is payable in equal quarterly installments on the first day of each January, April, July and October to holders of record as of the 15th day of the preceding month. The holders may convert their Series B Preferred Shares into common shares at a conversion price of $5.57 per common share. The 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.

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.

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

	12/28/2014	12/29/2013
Common Shares		
Authorized:	30,000,000 shares	30,000,000 shares
Outstanding:	5,607,523 shares	5,547,152 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. 383	approx. 220
Number of record holders:	approx. 100	approx. 110
Preferred A		
Authorized:	200,000 shares	200,000 shares
Outstanding:	29,520 shares	29,520 shares
Freely Tradable (public float):	29,520 shares	29,520 shares
Number of record holders:	2	2
Preferred B		
Authorized:	1,350,000 shares	1,350,000 shares
Outstanding:	746,000 shares	746,000 shares
Freely Tradable (public float):	300,000 shares	300,000 shares
Number of record holders:	38	33

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 is registered under the Securities Exchange Act of 1934, as amended (the "Exchange Act") and the Transfer Agent Act. Their procedures and transactions are regulated and audited by the Securities and Exchange Commission ("SEC").

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

Item 8 The nature of the issuer's business.

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

Summary

Meritage operates 137 "Wendy's Old Fashioned Hamburgers" quick-service restaurants; 47 in Western and Southern Michigan, 40 in the Jacksonville, Florida area, 37 in the Atlanta, Georgia area, two in North Carolina, one in South Carolina, and 10 in the Richmond, Virginia area. The Company is the nation's only publicly traded Wendy's franchisee. Through its development and acquisition efforts, the Company is the sixth largest Wendy's franchisee.

The Company also owns and operates five casual dining restaurants in Michigan, through three brands consisting of three Twisted Rooster locations, one Crooked Goose location, and one Freighters Eatery & Taproom location. In 2010, the Company launched its own original casual dining concept, Twisted Rooster, which is a casual dining restaurant with a fresh look and dynamic menu focused on current customer trends. The emphasis is on fresh, local products done with a twist, including local beers, wines and liquors. In 2012 the Company opened Crooked Goose, a classic corner pub that features old-school pub favorites with a twist. In 2013, the Company opened the doors of its newest casual dining concept, Freighters Eatery & Taproom. The come-as-you-are atmosphere is warm and inviting, with locally-sourced art that reflects elements of the freighters passing by on the St. Clair river. All the casual dining restaurants are committed to locally-sourced, Michigan-made products.

Meritage has approximately 4,000 employees, of which approximately 1,100 are full-time. The Company was assigned a primary SIC Code of 5812 (Retail-Eating Places). Meritage was incorporated under the laws of the State of Michigan in August 1986. The Company's consolidated financial statements include the accounts of Meritage Hospitality Group Inc. and all of its wholly owned subsidiaries, 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, and its 98.5% owned subsidiary, RDG-MHG, LLC, ("RDG"). 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 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 31st of each year.

Risks and Governmental Regulations

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

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

Approximately 22% of the Company's casual dining restaurant sales are attributable to the sale of alcoholic beverages. Each casual dining restaurant has licenses from regulatory authorities allowing it to sell liquor, beer and wine. The failure of a restaurant to obtain or retain liquor service licenses could adversely affect the Company' 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. Our restaurants are designed to be accessible to the disabled and we believe that we are in substantial compliance with all current applicable regulations relating to restaurant accommodations for the disabled. The development and construction of additional restaurants will be subject to compliance with applicable zoning, land use and environment regulations.

Legal Proceedings

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

Stock Split and Other Listing Developments

In January 2007, a majority of outstanding common shares voted in favor of a delisting and deregistering transaction by means of a reverse stock split of the Company's issued and outstanding common shares at a ratio of 1-for-300, followed immediately by a 300-for-1 forward stock split of common shares (the "Transaction"). Each record shareholder of fewer than 300 common shares immediately prior to the reverse stock split had such shares cancelled and converted into the right to receive $5.25 for each common share held immediately prior to the reverse stock split. The common shares of each record shareholder of 300 or more shares prior to the reverse stock split remained unchanged after the Transaction. As a result of the Transaction, the Company had fewer than 300 record common shareholders, allowing the Company to terminate its registration of common shares with the SEC under the Exchange Act.

In 2007, the Company's common shares were 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.

In 2012, the Company's Series B Preferred Shares were 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 Western and Southern Michigan, Northeast Florida, Northwest Georgia, Southern North Carolina, Northern South Carolina, and Northeast Virginia. The Michigan Wendy's restaurants are hereafter referred to as "Wendy's of Michigan", the Florida Wendy's restaurants are hereafter referred to as "Wendy's of Florida", the Georgia Wendy's restaurants are hereafter referred to as "Wendy's of Georgia", the North Carolina and South Carolina Wendy's restaurants are hereafter referred to as "Wendy's of the Carolinas", and the Virginia Wendy's restaurants are hereafter referred to as "Wendy's of Virginia".

Menu

Each Wendy's restaurant offers a diverse menu of food items featuring hamburgers and chicken breast sandwiches, all of which are prepared to order with the customer's choice of condiments. The Wendy's menu also includes chili, baked and french fried potatoes, chicken nuggets, freshly prepared salads, soft drinks, "Frosty" desserts and children's meals. 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 that are offered in the Company's restaurants.

Restaurant Layout and Operation

The Company's Wendy's restaurants typically range from 2,700 to 3,400 square feet with seating capacity for 90 to 130 people, and are generally open from 10:00 a.m. until midnight. Restaurants feature a pick-up drive-through window. Sales to drive-through customers account for approximately two-thirds of total restaurant sales.

Marketing and Promotion

The franchisor requires at least 4% of the Company's restaurant sales be contributed to an advertising and marketing fund, 3.5% of which is used to benefit all Wendy's restaurants in national advertising programs. The Wendy's National Advertising Program uses these funds to develop advertising and sales promotion materials and concepts to be implemented nationally. The remainder is used on local advertising. The Company typically spends local advertising dollars in support of radio advertising, print media, 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. However, higher petroleum and natural gas prices negatively impact the industry by reducing consumer expenditures and increasing operating expenses.

Seasonality

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

Relationship with Franchisor

Meritage operates its Wendy's restaurants pursuant to various agreements (including one franchise agreement for each restaurant) with its franchisor, The Wendy's Company. These agreements grant privileges to the Company such as the right to utilize trademarks, service marks, designs and other proprietary rights (such as "Wendy's" and "Wendy's Old Fashioned Hamburgers") 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 2 to 30 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 standard expandability criteria and site standards of the franchisor. While the franchise agreements are in place, Meritage is prohibited from acquiring or developing any other types of quick-service restaurants 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 DMAs.

The reputation of Meritage's restaurants is largely dependent on the reputation of the entire Wendy's restaurant chain, which in turn is dependent upon the management and financial condition of The Wendy's Company and the performance of Wendy's restaurants operated by other Wendy's franchisees. Should The

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

Casual Dining Operations

The Company also owns and operates three casual dining concepts throughout Michigan, comprised of three Twisted Rooster locations, one Crooked Goose location and one Freighters Eatery & Taproom location.

In 2010, Meritage launched its first casual dining concept, Twisted Rooster. The first location opened in 2010, followed by two additional locations in 2011. The three Twisted Roosters located in Grand Rapids, Belleville and Chesterfield are family friendly, and feature dynamic menus focused on current customer trends. Twisted Rooster's menu focuses on the utilization of fresh, local ingredients in their recipes which are made daily from scratch. It also features a wide variety of local craft beer, wine and liquors.

The success of Twisted Rooster led to the development of the Crooked Goose in 2012. Crooked Goose is a classic corner pub that features old-school pub favorites with a twist. Like its affiliate eatery, Crooked Goose is committed to locally-sourced, Michigan-made products. They also offer a wide variety of Michigan beer, wine and signature cocktails.

In 2013, the Company opened the doors of its newest casual dining concept, Freighters Eatery & Taproom in Port Huron, Michigan. Connected to a Hilton DoubleTree Hotel, Freighters provides a unique waterfront dining experience for every guest. The restaurant serves as a culinary destination, situated on the St. Clair river, overlooking the serene Blue Water Bridge and freighters passing by. Freighter's extensive dine-in, banquet and room service menus all feature locally sourced menu options, as well as a wide variety of Michigan-sourced libations.

Menu

The Twisted Rooster menu features classic American fare with dynamic twists at a reasonable price. The menu is guided by fresh, seasonally local ingredients combined with bold flavors for simply twisted results. The goal of the local focus is to "Commit to the Mitt" by partnering with local vendors and suppliers to reinvest in the state of Michigan. The Twisted Rooster menu includes locally sourced steaks, signature sandwiches, fresh fish, pasta plates, Twisted Rooster's signature macaroni and cheese, 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 and dinner, and special menu items including seasonal promotions, daily special selections and a special kids menu. Twisted Rooster restaurants offer curbside takeout.

The Crooked Goose is a classic corner pub that features old-school pub favorites with a twist. Their wings, pizzas, crooked grilled cheeses and scrumptious burgers are just a few of the tantalizing menu options that were specially created by the Company's executive chef. Like its affiliate eatery, Twisted Rooster, Crooked Goose is committed to locally-sourced, Michigan-made products. The teammates are focused on creating a unique dining experience, complete with distinctive food and drinks in an energetic atmosphere. Its daily food and drink specials, dynamic wait staff and sixteen flat screen televisions all come together in a plaid exterior that always leaves guests wanting more. The restaurant features special menus for lunch and dinner. It also offers curbside takeout as well as a children's menu.

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

Restaurant Layout and Operation

Twisted Rooster's fresh new look is intent on reflecting current customer trends and focused on creating impeccable food and drinks in an energetic atmosphere. The buildings are freestanding brick structures with awnings and attractive landscaping that accommodate between 190 and 245 guests, including 50 to 100 bar seats. The modern 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 Crooked Goose was established as a neighborhood restaurant and bar. With its eclectic mix of antique bar and lighting, it was designed to make you feel at home. The 3,200 square foot end cap space will accommodate 120 patrons, including 15 bar seats.

Freighters Eatery & Taproom's interior is incredibly unique in that its large windows and outdoor patio feature a stunning waterfront view for its guests. The restaurant also features 11 flat-screen TV's, a 21 seat bar and fireplace lounge for guests to enjoy. The come-as-you-are atmosphere is warm and inviting, with locally-sourced art that reflects elements of the freighters passing by.

Marketing and Promotion

The advertising efforts for Twisted Rooster, Crooked Goose and Freighters are entirely focused on their local markets. Promotional efforts are aimed at building brand loyalty and emphasizing the distinctiveness of each location's food, service, atmosphere and commitment to supporting the local economy. Their "grassroots" campaigns include philanthropic 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 Twisted Rooster, Crooked Goose and Freighters restaurants comply with internal recipe and ingredient specifications. Food and beverage inventories and restaurant supplies are purchased from third party suppliers that have been selected by the Company's executive chef. The Company has not experienced any significant shortages of food or other products that are necessary to restaurant operations. While no such shortages are anticipated at this time, the Company believes that alternate suppliers are available if any shortage were to occur.

The Company's principal sources of energy for its casual dining restaurants are electricity and natural gas. The supply of energy available to the Company has been sufficient to maintain normal operations. However, higher petroleum and natural gas prices negatively impact the industry by reducing consumer expenditures and increasing operating expenses.

Competition and Industry Conditions

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

QSR 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 McDonald's, Wendy's and Burger King. Pizza, chicken, other sandwich, and Mexican and Asian 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 (e.g., McDonald's, Burger King, Taco Bell, etc.), 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, effectiveness of marketing and new product development. In recent years, these competitors have attempted to draw customer traffic by discounting the price of their primary food products. While Wendy's has continued to nationally promote low-margin, value menu items, the Company does not believe this is a profitable long-term strategy. The Company believes that the competitive position of a Wendy's restaurant is ultimately enhanced by its unique qualities such as the use of fresh ground beef, a diverse menu, food prepared to order with an emphasis on quality, nutrition and taste, pleasant and speedy service and its atmosphere.

Casual Dining Restaurant Industry

The Company operates its Twisted Rooster, Crooked Goose, and Freighters 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. The bill is paid at the table after the meal is eaten. This industry benefits from the spending of baby-boomers (40 to 60 year olds), the nation's largest demographic group in their peak earning years.

As with its Wendy's restaurants, the Company's casual dining restaurants are located in close proximity to their principal casual dining restaurant competitors (e.g., Applebee's, Chili's, T.G.I. Friday's, etc.) 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 constructed on sites of approximately 40,000 square feet, with parking for 50 to 70 vehicles. The restaurants typically have a food preparation area, a dining room with seating capacity for 80 to 130 guests, and a pick-up window for drive-through service.

The Company remains intently focused on "Image Activating" its Wendy's restaurants with a goal of 60 percent of the portfolio upgraded by 2020. Image Activation costs range from $450,000 to $650,000 per restaurant.

Of the 137 Wendy's restaurants it operates, the Company (i) owns the land and buildings comprising 12 restaurants, (ii) leases the land and buildings comprising 122 restaurants, and (iii) owns the building and leases the land comprising three restaurants. The remaining lease terms (including options to renew) range from 1 to 50 years. The structures are between one and approximately 40 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 subject to mortgages.

Each Twisted Rooster casual dining restaurant is a freestanding structure with 5,000 to 6,800 internal square feet, accommodating 190 to 245 patrons, including 50 to 100 bar seats. The atmosphere is open with a partially exposed kitchen and unique décor. The exterior is brick with awnings and attractive landscaping. The interior is designed to be fun, current and energetic.

The Company's Crooked Goose casual dining restaurant is a 3,200 square foot site in the end cap space of a shopping center. The restaurant will accommodate 120 patrons, including 15 bar seats. Crooked Goose was established as a neighborhood restaurant and bar designed to make you feel at home.

The Company's newest casual dining restaurant, Freighters Eatery & Taproom, is a 11,105 square foot site connected to a DoubleTree by Hilton hotel. The restaurant will accommodate 286 patrons, including 21 bar seats and 44 patio seats. The come-as-you-are atmosphere is warm and inviting, with locally-sourced art that reflects elements of the freighters passing by.

The Company operates five casual dining restaurants, two that are owned, two that are leased, and one where the building is owned and the land is leased. The remaining term of the building and land leases (including options to renew) are between 22 and 34 years. The remaining term of the land lease (including options to renew) is 24 years. The land and buildings owned by the Company are subject to mortgages.

The Company leases office space at 3310 Eagle Park Drive, N.E., Suite 205, Grand Rapids, Michigan, which serves as the registered office and principal place of business of the Company. The lease term runs through March 2016. Subsequent to this date the Company's office space will be relocating to downtown Grand Rapids for a ten year lease term 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 Members and Officers at December 28, 2014:

Name and Age	Position	Total Shares Beneficially Owned Amount (1)	Percentage
Robert E. Schermer, Sr., 79	Chairman of the Board of Directors	1,315,774	23.4%
Robert E. Schermer, Jr., 56	Chief Executive Officer, President and Director	1,584,067	28.2%
Gary A. Rose, 52	Vice President, Chief Financial Officer, Chief Operating Officer, Secretary & Treasurer	433,016	7.7%
James P. Bishop, 74	Director	142,664	2.5%
Duane F. Kluting, 65	Director	97,313	1.7%
Joseph L. Maggini, 75	Director	681,490	12.1%
Peter D. Wierenga, 60	Director	442,865	7.9%
All Current Executive Officers and Directors as a Group (7 persons)		4,697,189	83.5%

(1) Represents beneficial ownership of Company stock including commons shares, options presently exercisable or exercisable within 60 days and shares underlying Series B Convertible Preferred Shares.

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 3310 Eagle Park Drive NE, Suite 205, Grand Rapids, MI 49525.

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 October 2000, and since February 2004. Mr. Schermer's business address is 3310 Eagle Park Drive NE, Suite 205, Grand Rapids, MI 49525.

Gary A. Rose has been Vice President, Chief Financial Officer and Treasurer of the Company since 2005, Chief Operating Officer since 2006, and Secretary since 2008. Mr. Rose is a CPA and spent six years with Deloitte & Touche in Grand Rapids, MI. Mr. Rose's business address is 3310 Eagle Park Drive NE, Suite 205, Grand Rapids, MI 49525.

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

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

Joseph L. Maggini has been a director of the Company since 1996. Mr. Maggini is the President and Chairman of the Board of Magic Steel Corporation, a steel service center located in Grand Rapids, Michigan since founding the company in 1974. Mr. Maggini's business address is 4242 Clay Street SW, Grand Rapids, MI 49548.

Peter D. Wierenga has served as a director of the Company since 2010. He has been the Vice-President and director of Godwin Plumbing, Inc., a plumbing and mechanical contractor, since 1987. Concurrently, Mr. Wierenga has also been the President and director of Godwin Hardware Stores, a retail hardware company with three locations, since 1988. Mr. Wierenga was a co-founder and currently serves as Vice-President of Millennia Telecom, Inc., a leader in VOIP telephony. Mr. Wierenga also serves as Chairman of the Board of FirsTime Design Limited, a Wisconsin manufacturer of wholesale clocks.

The non-employee directors are compensated in accordance with the compensatory plans outlined in Item 17 below. In fiscal 2014, each of the non-employee directors received an option grant of 10,000 common shares priced at $5.24 per share (the closing price on the date of the grant). In fiscal 2014, the non-employee directors received compensation for attendance at Board and Committee meetings as follows: Mr. Bishop: $13,000 (paid in 2,497 common shares); Mr. Kluting: $13,000 (paid in 2,497 common shares); Mr. Maggini: $5,000 (paid in 959 common shares); Mr. Schermer, Sr.: $5,000 (paid in 959 common shares); and Mr. Wierenga: $5,000 (paid in 959 common shares).

The Board of Directors establishes and oversees the Company's executive officer compensation policies and incentive awards. Mr. Schermer, Jr. was paid a base salary of $205,500 plus an annual car allowance of $10,500. Mr. Rose was paid a base salary of $177,950 plus an annual car allowance of $8,400. In fiscal 2014, each executive officer also received 30,000 stock option grants priced at $5.25 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 2014 was approximately $132,000 for each executive officer. Bonuses earned and accrued in fiscal 2014 were approximately $255,000 for each executive officer.

Legal/Disciplinary History

None.

Disclosure of Family Relationships

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

Related Party Transactions

The Company's CEO is a co-managing member of a real estate development project of which the Company owns 11.2 percent.

In November 2012, the Company entered into a $200,000 mortgage note with one of its independent directors. The note bears interest of 8.0 percent and matures in December 2015.

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 a bank for certain of the Company's debt facilities.

Conflicts of Interest

None.

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

See audited consolidated financial statements for Fiscal Year Ended December 28, 2014, 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 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 letter.

Item 14 Beneficial Owners.

Other than certain of Meritage's 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 Gary P. Kreider, Esq.
One East Fourth Street, Suite 1400
Cincinnati, OH 45202-3752
(513) 579-6400
gkreider@kmklaw.com

Auditors:

Plante & Moran, PLLC
License #: 1102002948 (State of Michigan)
c/o Michael Lamfers
634 Front Avenue, NW
Suite 400
Grand Rapids, MI 49504
(616) 774-8221
Michael.lamfers@plantemoran.com

Plante & Moran, PLLC conducted an audit of the consolidated financial statements of Meritage in accordance with generally accepted auditing standards.

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Accordingly, the fairness of representations made throughout the financial statements is an implicit and integral part of management's responsibility.

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

The Company reported revenues of $160.2 million in fiscal 2014 compared to revenues of $137.8 million in fiscal 2013, an increase of 16.3%. The increase in revenues was primarily due to the acquisition of 19 Wendy's restaurants in August 2014, four new construction Wendy's restaurants built in 2014, the full year of sales in 2014 from the five Wendy's restaurants that were acquired in December 2013, and the full year of sales in 2014 from the casual dining restaurant opened in August 2013. Additionally, total Company "same store sales" increased by 2.1% for all restaurants in the fiscal year ended December 28, 2014.

The Company continues to evaluate acquisition opportunities in the Wendy's restaurant system. Since 2009, the Company has acquired 85 Wendy's restaurants through 12 separate transactions.

Results of Operations

Meritage operates in the quick-service and casual dining restaurant industries. The Company has experienced significant growth through its acquisition efforts and the launch of its own, newly-created concepts, Twisted Rooster, Crooked Goose and Freighters. At December 28, 2014, the Company operated 137 Wendy's Old Fashioned Hamburger quick-service restaurants under franchise agreements with The Wendy's Company and five casual dining restaurants. Forty-seven of the Wendy's restaurants are located in Michigan, 40 of the Wendy's restaurants are located in Florida, 37 of the Wendy's restaurants are located in Georgia, two of the Wendy's restaurants are located in North Carolina, one of the Wendy's restaurants is located in South Carolina, and 10 of the Wendy's restaurants are located in Virginia. All five casual dining restaurants are located in Michigan.

A schedule of Company restaurants follows:

	Wendy's	Casual Dining	Total Restaurants
Restaurants as of December 30, 2012	107	4	111
Acquired restaurants	8	-	8
Newly opened restaurants	1	1	2
Closed restaurants	-2	-	-2
Restaurants as of December 29, 2013	114	5	119
Acquired restaurants	19	-	19
Newly opened restaurants	4	-	4
Restaurants as of December 28, 2014	137	5	142

Results of operations are summarized below:

	(000's) 2014		(000's) 2013	
Food and Beverage Revenue	$160,213	100.0%	$137,784	100.0%
Costs and Expenses				
Cost of food and beverages	46,787	29.2%	40,064	29.1%
Labor and related expenses	47,949	29.9%	40,964	29.7%
Advertising expenses	6,646	4.1%	5,677	4.1%
Other operating expenses	42,909	26.8%	36,614	26.6%
Total Operating Costs	144,291	90.1%	123,319	89.5%
General & administrative expenses	7,636	4.8%	6,985	5.1%
Preopening and acquisition expenses	861	0.5%	488	0.4%
Closing and disposition expenses	49	0.0%	74	0.1%
Depreciation and amortization	3,099	1.9%	2,282	1.7%
Total Costs and Expenses	155,937	97.3%	133,149	96.6%
Income from Operations	4,276	2.7%	4,635	3.4%
Other (Income) Expense				
Interest expense	1,891	1.2%	1,734	1.3%
Other	(1,160)	-0.7%	(1,389)	-1.0%
Total Other Expense	731	0.5%	344	0.2%
Income Before Income Taxes	3,545	2.2%	4,291	3.1%
Income Tax Expense	787	0.5%	1,237	0.9%
Net Income	2,758	1.7%	3,054	2.2%

Food and Beverage Revenue

In fiscal 2014, revenues increased $22.4 million, or 16.3%, to $160.2 million from $137.8 million in fiscal 2013.

The Company's Wendy's restaurants reported sales of $146.0 million in fiscal 2014, an increase of 15.0% over the prior year's sales. The most significant contributing factors to the increase were the net addition of seven Wendy's restaurants in 2013, and the net addition of 23 Wendy's restaurants throughout 2014. The Company's Wendy's restaurants experienced a "same store sales" increase of 1.8% over the prior year's sales.

The Company's casual dining restaurant sales were $14.2 million, an increase of 30.8% over prior year sales of $10.8 million. The casual dining sales increase is a result of a "same store sales" increase of 6.6% and the opening of its new Freighters restaurant in August 2013.

Cost of Food and Beverages

The cost of food and beverages increased as a percent of sales from 29.1% in fiscal 2013 to 29.2% in fiscal 2014. The increase in cost of food and beverages as a percent of revenues was due to an increase in commodity costs of primary products, including an increase of 12.3% in the average cost of beef in 2014 compared to 2013. This increase was offset by certain strategic price increases during 2014.

Labor and Related Expenses

Labor and related expenses increased from 29.7% of revenues in 2013 to 29.9% of revenues in 2014. The increase of 0.2% is attributed to increased minimum wage rates, directly impacting core labor costs.

Other Operating Expenses

Other operating expenses increased as a percentage of revenues from 26.6% in 2013 to 26.8% in 2014. The increase in other operating expenses was due to inflated building and equipment repairs as a percentage of sales resulting from the overall condition of the recently acquired Wendy’s restaurants.

General and Administrative Expenses

General and administrative expenses declined from 5.1% of revenues in 2013 to 4.8% of revenues in 2014. This decline is primarily credited to the leveraging of general and administrative expenses resulting from the net addition of 23 restaurants in 2014, and the net addition of eight restaurants in 2013.

Preopening and Acquisition Expenses

Preopening and acquisition expenses include costs associated with the acquisition of 19 Wendy’s restaurants in Georgia, the opening of one newly built Wendy’s restaurant in Georgia, and the opening of three newly built Wendy’s restaurants in Florida.

Closing and Disposition Expenses

Closing and disposition expenses in 2014 were due to costs incurred from the sale and write-off of a previously closed Wendy’s restaurant.

Depreciation and Amortization

The increase in depreciation and amortization expense was due to significant asset purchases in 2014 and 2013.

Interest Expense

The decline in interest expense was primarily a result of recorded swap expense in the prior year, and a change in interest rates due to certain debt refinancing.

Income Tax Expense

Income tax expense is summarized as follows:

	2014 (000's)	2013 (000's)
Federal income tax expense	255	347
State and local income tax expense	168	427
Change in deferred tax asset	364	463
Income tax expense	$ 787	$ 1,237

The Company had net deferred tax assets totaling $4.1 million and $4.5 million at December 28, 2014 and December 29, 2013, respectively. The Company regularly assesses the ability to realize 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 deferred tax assets including recent cumulative earnings and loss experiences and future reversals of timing differences. The Company had no valuation allowance as of December 28, 2014 and December 29, 2013.

The Company's federal income tax expense was reduced by tax credits of $976,000 and $797,000 in 2014 and 2013 respectively.

Financial Condition

Management monitors short and long-term cash needs and believes at this time, that with its ongoing operations and current cash balances, it has sufficient capital to meet its ongoing obligations.

Loan covenants of the various loan agreements include requirements for the maintenance of certain financial ratios. At December 28, 2014, and December 29, 2013, the Company was in compliance with these covenants.

Off-Balance Sheet Arrangements

There were no off-balance sheet arrangements as of December 28, 2014.

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 2013 and 2014:

Transaction	Date	Amount
Director Comp – 1st Quarter 2013	3/31/2013	2,870
Director Comp – 2nd Quarter 2013	6/30/2013	2,291
Director Comp – 3rd Quarter 2013	9/29/2013	1,973
Director Comp – 4th Quarter 2013	12/29/2013	2,050
Director Comp – 1st Quarter 2014	3/30/2014	2,662
Director Comp – 2nd Quarter 2014	6/29/2014	1,739
Director Comp – 3rd Quarter 2014	9/28/2014	1,735
Director Comp – 4th Quarter 2014	12/28/2014	1,735

Management Compensation Plans

2009 Directors' Compensation Plan ("2009 Plan"). The 2009 Plan was adopted by the Board of Directors in December 2008. Pursuant to the Plan, all non-employee directors receive a fee of $1,000 for attendance at meetings of the Board of Directors and $2,000 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 December 1, 2018. See Item 11 for details on common shares outstanding under this Plan.

2008 Directors' Share Equity Plan ("2008 Directors' Plan"). The 2008 Directors' Plan was adopted by the Board of Directors in March 2008. Under the terms of the 2008 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 2008 Directors' Plan will terminate pursuant to its terms on May 21, 2018. See Item 11 for details on options outstanding under this Plan.

2002 Management Equity Incentive Plan ("2002 Incentive Plan") and 2008 Management Equity Incentive Plan ("2008 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 was adopted by the Board of Directors in March 2008 and authorized up to 750,000 common shares for use in the 2008 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 on May 21, 2012. The 2008 Incentive Plan will terminate pursuant to its terms on May 21, 2018. See Item 11 for details on options outstanding under these Plans.

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 December 28, 2014:

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 12/30/13-01/26/14	0	---	---	298,645
Month #2 01/27/14-03/02/14	0	---	---	298,645
Month #3 03/03/14-03/30/14	0	---	---	298,645
Month #4 03/31/14-04/27/14	0	---	---	298,645
Month #5 04/28/14-06/01/14	0	---	---	298,645
Month #6 06/02/14-06/29/14	0	---	---	298,645
Month #7 06/30/14-07/27/14	0	---	---	298,645
Month #8 07/27/14-08/31/14	0	---	---	298,645
Month #9 09/01/14-09/28/14	0	---	---	298,645
Month #10 09/29/14-10/26/14	0	---	---	298,645
Month #11 10/27/14-11/30/14	0	---	---	298,645
Month #12 12/01/14-12/28/14	0	---	---	298,645

(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, but 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 (Series A Preferred Shares or Series B 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 25, 2015

Robert E. Schermer, Jr.
Chief Executive Officer

I, Gary A. Rose, 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 25, 2015

Gary A. Rose
Chief Financial Officer

FORWARD-LOOKING STATEMENTS

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

Statements concerning expected financial performance, business strategies and action which Meritage intends to pursue to achieve its strategic objectives, constitute forward-looking information. Implementation of these strategies and achievement of such financial performance are subject to numerous conditions, uncertainties and risk factors, which could cause actual performance to differ materially from the forward-looking statements. These include, without limitation: competition; changes in the national or local economy; changes in consumer 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; promotions and price discounting by competitors; severe weather; changes in travel patterns; road construction; demographic trends; the cost of food, labor and energy; 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; 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; and the recurring need for renovation and capital improvements. Meritage is also subject to extensive government regulations relating to, among other things, zoning, public health, sanitation, alcoholic beverage control, environment, food preparation, minimum and overtime wages and tips, employment of minors, citizenship requirements, working conditions, and the operation of its restaurants. Because Meritage's operations are concentrated in certain areas of Michigan, Florida, Georgia, North and South Carolina and Virginia, continued economic decline in these states, or in the local economies where our restaurants are located, could adversely affect our operations. Additionally, with Meritage's expansion into Florida, the Company could be adversely affected by tropical storms or hurricanes. 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. and Subsidiaries

Consolidated Financial Report
December 28, 2014 and December 29, 2013

Contents

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Grand Rapids, MI 49504
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Independent Auditor's Report

To the Board of Directors
Meritage Hospitality Group Inc. and Subsidiaries

We have audited the accompanying consolidated financial statements of Meritage Hospitality Group Inc. and Subsidiaries (the "Company"), which comprise the consolidated balance sheet as of December 28, 2014 and December 29, 2013 and the related consolidated statements of operations, equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Meritage Hospitality Group Inc. and Subsidiaries as of December 28, 2014 and December 29, 2013 and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Plante & Moran, PLLC

March 25, 2015

Meritage Hospitality Group Inc. and Subsidiaries

Consolidated Balance Sheet

	December 28, 2014	December 29, 2013
Assets		
Current Assets		
Cash	$ 5,200,901	$ 3,479,265
Receivables	237,887	545,402
Inventories	1,267,596	1,077,927
Prepaid expenses and other current assets	1,357,816	1,321,492
Total Current Assets	8,064,200	6,424,086
Property and Equipment - Net	39,273,369	32,340,148
Goodwill	25,675,350	20,566,974
Intangible Assets	1,409,403	1,448,591
Deferred Income Taxes	4,104,152	4,468,267
Other Assets		
Notes receivable	548,215	548,215
Long-term investments	4,783,638	4,337,177
Deposits and other assets	1,671,381	1,483,228
Total Assets	**$ 85,529,708**	**$ 71,616,686**
Liabilities and Equity		
Current Liabilities		
Trade accounts payable	$ 6,351,440	$ 4,724,537
Revolving lines of credit	4,603,213	693,054
Current portion of long-term debt	6,378,332	3,296,378
Accrued liabilities	7,242,834	6,316,121
Total Current Liabilities	24,575,819	15,030,090
Unearned Vendor Allowances	1,002,908	632,573
Accrued Rent	2,435,059	1,912,081
Other Long-term Obligations	1,514,199	1,276,204
Long-term Debt - Net of current portion	32,338,004	31,490,157
Deferred Gain - Sale and leaseback transactions	10,632,067	10,507,220
Equity	13,031,652	10,768,361
Total Liabilities and Equity	**$ 85,529,708**	**$ 71,616,686**

See notes to consolidated financial statements

Meritage Hospitality Group Inc. and Subsidiaries

Consolidated Statement of Operations

	Twelve Months Ended December 28, 2014	Twelve Months Ended December 29, 2013
Food and Beverage Revenue	$ 160,213,210	$ 137,784,490
Costs and Expenses		
Cost of food and beverages	46,787,076	40,064,385
Labor and related expenses	47,948,892	40,964,152
Advertising expenses	6,646,356	5,676,590
Other operating expenses	42,909,093	36,613,951
Total Operating Expenses	144,291,417	123,319,078
General and administrative expenses	7,636,128	6,985,122
Preopening and acquisition expenses	860,778	488,103
Closing and disposition expenses	49,037	74,386
Depreciation and amortization	3,099,364	2,282,341
Total Costs and Expenses	155,936,724	133,149,030
Income from Operations	4,276,486	4,635,460
Other (Income) Expense		
Interest expense	1,891,212	1,733,729
Other income	(1,159,751)	(1,389,370)
Total Other Expense	731,461	344,359
Income Before Income Taxes	3,545,025	4,291,101
Income Tax Expense	787,371	1,236,765
Net Income	**$ 2,757,654**	**$ 3,054,336**

See notes to consolidated financial statements

Meritage Hospitality Group Inc. and Subsidiaries

Consolidated Statement of Equity

	Controlling Interest						
	Series A Convertible Preferred Stock	Series B Convertible Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Deficit and Members Interest	Noncontrolling Interest	Total
Balance - December 30, 2012	$ 295	$ 7,460	$ 55,104	$ 18,496,143	$ (10,215,294)	$ 52,485	$ 8,396,193
Net income					3,054,336	-	3,054,336
Issuance of 36,685 shares of common stock			367	77,838			78,205
Common dividends				(110,584)			(110,584)
Preferred dividends				(623,368)			(623,368)
Stock option expense and related tax effects				(26,419)			(26,419)
Balance - December 29, 2013	$ 295	$ 7,460	$ 55,471	$ 17,813,608	$ (7,160,958)	$ 52,485	$ 10,768,361
Net income					2,757,654	-	2,757,654
Issuance of 60,371 shares of common stock			604	97,494			98,098
Common dividends				(167,634)			(167,634)
Preferred dividends				(623,368)			(623,368)
Stock option expense				198,541			198,541
Acquisition of non-controlling interest				52,485		(52,485)	-
Balance - December 28, 2014	$ 295	$ 7,460	$ 56,075	$ 17,371,126	$ (4,403,304)	$ -	$ 13,031,652

See notes to consolidated financial statements

Meritage Hospitality Group Inc. and Subsidiaries

Consolidated Statement of Cash Flows

	Twelve Months Ended December 28, 2014	Twelve Months Ended December 29, 2013
Cash Flows from Operating Activities		
Net Income	$ 2,757,654	$ 3,054,336
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	3,099,364	2,282,341
Deferred income taxes	364,115	321,074
Amortization of deferred gain from sale and leaseback transactions	(892,092)	(829,845)
Change in fair market value of swap	45,161	64,920
Compensation paid by issuance of common stock	40,998	34,505
Loss on disposal of intangible assets	185,525	6,326
Loss on disposal of fixed assets	33,200	35,935
Loss on impairment of asset held for sale	-	276,572
Bargain purchase gain	-	(95,487)
Stock option expense	198,541	115,240
Changes in operating assets and liabilities which provided (used) cash:		
Receivables	307,515	(224,196)
Inventories	(99,862)	(100,031)
Prepaid expenses and other current assets	(36,324)	373,953
Deposits and other assets	(256,490)	(749,710)
Accounts payable	1,626,903	937,181
Accrued liabilities	(147,513)	1,908,460
Other long-term liabilities	192,835	296,103
Accrued rent	522,978	523,874
Unearned vendor allowances	73,670	(389,353)
Net cash provided by operating activities	8,016,178	7,842,198
Cash Flows from Investing Activities		
Purchase of property and equipment	(11,358,446)	(6,526,814)
Purchase of intangible assets	(117,705)	(53,750)
Change in long term investments	(348,556)	(122,953)
Acquisitions, net	(6,909,059)	(5,812,479)
Net cash used in investing activities	(18,733,766)	(12,515,996)

See notes to consolidated financial statements

Meritage Hospitality Group Inc. and Subsidiaries

Consolidated Statement of Cash Flows (Continued)

	Twelve Months Ended December 28, 2014	Twelve Months Ended December 29, 2013
Cash Flows from Financing Activities		
Proceeds from long-term debt	16,918,218	13,253,617
Proceeds (repayments) from revolving lines of credit - net	3,910,159	(764,836)
Proceeds from sale leaseback transactions	7,538,279	4,508,388
Principal payments on long-term debt	(10,467,858)	(9,874,208)
Payments on capital lease	(209,166)	-
Payments on debt related to sale leaseback transactions	(4,270,000)	-
Payments on financing costs	(246,506)	(299,753)
Proceeds from sale of common stock	57,100	43,700
Common stock dividends paid	(167,634)	(110,584)
Preferred stock dividends paid	(623,368)	(615,948)
Net cash provided by financing activities	12,439,224	6,140,376
Net Increase in Cash	1,721,636	1,466,578
Cash - Beginning of year	3,479,265	2,012,687
Cash - End of year	$ 5,200,901	$ 3,479,265
Supplemental Disclosure of Cash Flow Information		
Cash paid for:		
Interest	$ 1,911,246	$ 1,736,620
Income taxes	$ 830,633	$ 998,232
Significant non-cash investing and financing transactions:		
Seller financed notes payable related to Wendy's acquisitions	$ 1,100,000	$ -
Deferred gain on sale leaseback transactions	$ 1,016,939	$ 763,384
Acquisition of equipment through capital lease	$ 858,607	$ -
Conversion of note receivable to an investment	$ 97,905	$ -

See notes to consolidated financial statements

Note 1 - Nature of Business and Significant Accounting Policies

Meritage Hospitality Group Inc. and Subsidiaries (the "Company") conducts its business in the quick-service and casual dining restaurant industries. At December 28, 2014, the Company operated 137 Wendy's Old Fashioned Hamburgers quick-service restaurants under franchise agreements with The Wendy's Company, three Twisted Rooster, one Crooked Goose, and one Freighters full-service casual dining restaurants. Operations of the Company are located in Michigan, Florida, Georgia, North Carolina, South Carolina, and Virginia.

Principles of Consolidation - The consolidated financial statements include the accounts of Meritage Hospitality Group Inc., all of its wholly owned subsidiaries, and its 98.5% owned subsidiary, RDG-MHG, LLC., ("RDG"). RDG is a 15% partner in TRG-Meritage Bahamas, LLC., ("TRG"). All intercompany transactions and balances have been eliminated in consolidation.

Fiscal Period – The Company operates on a 52/53 week fiscal year ending on the Sunday closest to December 31st of each year. Each of the two years presented, December 28, 2014 and December 29, 2013, contained 52 weeks.

Revenue Recognition - Revenues consist of restaurant food and beverage sales and are net of applicable sales taxes. Food and beverage revenue is recognized upon delivery.

Receivables - Receivables consist of trade receivables and other receivables. Trade receivables consist of gift cards sold by the Company, its franchisers, and 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 are stated at the lower of cost or market, with cost determined on the first-in, first-out (FIFO) method, and consist of restaurant food items, beverages, and paper supplies.

Property and Equipment - Property and equipment are stated at cost. Depreciation is computed principally using the straight-line method based upon estimated useful lives ranging from 3 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, including renewal periods when there is a compulsion to renew as the result of a penalty. 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 new restaurants. Interest of $40,000 and $17,200 was capitalized in 2014 and 2013, respectively.

Impairment of Long-lived Assets - Long-lived assets, such as property and equipment, and purchased intangibles subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to its estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized for the amount by which the carrying amount of the asset exceeds the fair value of the asset. The Company has approximately $59,400 in stores classified as held for sale in other current assets at December 28, 2014, and $384,000 for the year ended December 29, 2013. There were no impairments for the year ended December 28, 2014, and total impairments of $276,572 for the year ended December 29, 2013.

Long Term Investments – Investments in entities in which the Company has less than a 20 percent interest or is not able to exercise significant influence are carried at cost. Impairment losses due to a decline in the value of the investment that is other than temporary are recognized when incurred. Investments are reviewed only when impairment indicators are present by comparing carrying value to fair market value, as determined by appraisals, present value of estimated future cash flows or similar third-party transactions. If the carrying value exceeds fair market value, an impairment is recognized for the amount by which the carrying amount of the asset exceeds the fair market value. There were no impairments for the years ended December 28, 2014 and December 29, 2013.

Franchise Agreement Costs - Franchise 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 options, given the Company's historical pattern and economic compulsion to renew (see Note 5 for capitalized franchise agreement costs).

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 5 for capitalized financing costs).

Liquor Licenses - Costs incurred to obtain liquor licenses are capitalized and amortized using the straight-line method over 20 years. Annual costs to renew existing liquor licenses are expensed as incurred.

Goodwill - The Company tests goodwill for impairment annually in the fourth quarter of each fiscal year. The Company determines its reporting units for goodwill based on its operating business segments. For the years ended December 28, 2014 and December 29, 2013 the tests indicated no goodwill impairment. The fair value was calculated using the discounted cash flow approach.

Self-insurance – The Company's Wendy's restaurants in Michigan are self-insured for workers' compensation claims up to a $400,000 per claim stop-loss level and maximum aggregate claims of $599,000 on an annual basis. The Company determines its liability based on estimated loss reserves provided by the Company's third-party administrator and on management's knowledge of open claims.

Unearned Vendor Allowances - Up-front consideration received from vendors linked to future purchases is initially deferred, and then recognized as earned income as the purchases occur over the term of the vendor arrangement in accordance with guidance on accounting by a customer for certain consideration received from a vendor. During the years ended December 28, 2014 and December 29, 2013, the Company received $2,555,000 and $1,714,000, respectively, in marketing and conversion funds that, in accordance with guidance, are being recognized as a reduction of cost of food and beverages as products are purchased.

Interest Rate Swaps – The Company held derivative financial instruments for the purpose of hedging risks relating to the variability of cash flows caused by interest rate fluctuations. The interest rate swaps were recognized in the accompanying consolidated balance sheets at fair value and had not been designated as a cash flow hedge for financial reporting purposes. During 2014, all swap agreements were terminated during a refinancing.

Stock-based Compensation - The Company measures the cost of employee services received in exchange for equity awards, including stock options, based on the grant date fair value of the awards. The cost for all new grants is recognized as compensation expense over the expected life of the awards. The Company issues new shares when stock options are exercised.

Advertising Costs and Other Franchise Fees - 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. Advertising expense was approximately $6,646,000 and $5,677,000 for the years ended December 28, 2014 and December 29, 2013, respectively.

Use of Estimates - The preparation of 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 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 in the near term relate to the assessment of impairment of long-lived assets, goodwill, and deferred tax assets.

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.

Deferred Gain – In the current year and previous years, the Company completed multiple sale and leaseback transactions. The gains recognized from these transactions are being amortized over the respective lease terms and recorded as a reduction of base rent expense.

Subsequent Events - The financial statements and related disclosures include evaluation of events up through and including March 25, 2015, which is the date the financial statements were issued.

Note 2 - Equity

The Company has 5,000,000 authorized shares of $0.01 par value preferred stock. A total of 200,000 shares are designated as Series A convertible cumulative preferred stock, with 29,520 shares issued and outstanding as of December 28, 2014 and December 29, 2013. A total of 1,350,000 shares are designated as Series B convertible cumulative preferred stock, with 746,000 shares issued and outstanding as of December 28, 2014 and December 29, 2013.

The Series A nonvoting convertible preferred stock has an annual dividend rate of $0.90 per share which is cumulative. The shares are convertible by the stockholders into common shares at the conversion price of $7.00 per share and have a liquidation value of $10.00 per share. The Company has the option to convert the preferred stock into common stock under certain conditions relating to the market value of the Company's common stock.

The Series B nonvoting convertible preferred stock has an annual dividend rate of $0.80 per share which is cumulative. The preferred shares are convertible into common shares at the conversion price of $5.57 per share based on 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 Company has 30,000,000 authorized shares of $0.01 par value common stock, with 5,607,523 and 5,547,152 shares issued and outstanding as of December 28, 2014 and December 29, 2013, respectively. The common shares of the Company are quoted on the OTC Markets under the symbol “MHGU”.

Note 3 - Property and Equipment

Property and equipment are summarized as follows:

	2014	2013
Land and improvements	$ 13,342,293	$ 11,611,720
Buildings and improvements	15,238,233	14,201,574
Furnishings and equipment	27,156,869	21,757,240
Leasehold improvements	4,084,760	3,728,522
Leased property under capital leases	1,135,700	277,092
Construction in progress	2,532,717	2,288,844
Total cost	63,490,572	53,864,992
Accumulated depreciation	24,217,203	21,524,844
Net property and equipment	$ 39,273,369	$ 32,340,148

Depreciation expense was approximately $2,911,000 and $2,119,000 in fiscal 2014 and fiscal 2013, respectively.

Note 4 - Goodwill

Changes to goodwill for the fiscal years ended 2014 and 2013 are as follows:

Balance - December 30, 2012	$ 20,098,534
Acquisitions	468,440
Balance - December 29, 2013	20,566,974
Acquisitions	5,108,376
Balance - December 28, 2014	$ 25,675,350

Note 5 - Intangible Assets

Intangible assets consist of capitalized franchise and financing costs, less accumulated amortization.

	2014	2013
Franchise costs	$ 1,500,067	$ 1,422,567
Financing costs	820,716	921,059
Total	2,320,783	2,343,626
Accumulated amortization	911,380	895,035
Net	$ 1,409,403	$ 1,448,591

Amortization expense for franchise costs in 2014 and 2013 was approximately $48,900 and $46,800, respectively, and amortization expense for financing costs was approximately $128,800 and $107,900 in 2014 and 2013, respectively. The weighted average useful life is 18.4 years for franchise costs and 2.8 years for financing costs.

Amortization expense for the next five fiscal years is projected as follows:

2015	$ 171,231
2016	165,363
2017	161,852
2018	112,829
2019	101,700
Thereafter	696,428
Total	$ 1,409,403

Note 6 - Notes Receivable

Notes receivable consist of the following:

	2014	2013
Non-interest bearing note, collateralized by the associated real estate, due January 2016	$ 300,000	$ 300,000
Promissory note receivable, bearing interest of 7.20 percent, maturing August 2032	248,215	248,215
Total Notes Receivable	$ 548,215	$ 548,215

In July 2012, the company loaned $748,215 to the developer of a hotel and convention center. The developer committed to provide one million dollars of equipment for the Company to open a new on-site restaurant. The Company has an option to purchase the equipment in seven years for $748,215 (the value of the loan). The estimated fair market value of the equipment was determined to be $248,215. The Company intends to exercise its option. Accordingly, when the restaurant opened, the Company reclassified the remaining value to prepaid expense and began to amortize the $500,000 over seven years in conjunction with the related operating lease agreement.

Note 7 - Long-term Investments

Long-term investments consist of the following:

	2014	2013
Investment in TRG	$ 2,086,011	$ 1,639,550
Priority interest in TRG	2,422,627	2,422,627
Other investment	275,000	275,000
Total Long-term Investments	$ 4,783,638	$ 4,337,177

Investment in TRG - RDG holds a 15 percent investment in TRG, which owns approximately 760 acres of ocean-front real estate in the Bahamas, for future development.

Priority Interest in TRG – The priority interest in TRG has a priority preferred return of 16.0 percent, compounded quarterly.

Note 8 - Accrued Liabilities

The following is a detail of accrued liabilities:

	2014	2013
Payroll and related payroll taxes	$ 4,332,767	$ 3,997,309
Property taxes	930,372	936,590
Other	1,979,695	1,382,222
Total	$ 7,242,834	$ 6,316,121

Note 9 – Other Long-term Obligations

Other long-term obligations consist of the following:

	2014	2013
Restructuring benefits payable, due no later than December 27, 2016	69,998	69,998
Interest rate swap obligations (See Note 17)	-	227,294
Deferred compensation obligations payable (See Note 13 and Note 17)	1,444,201	978,912
Total other long-term obligations	$ 1,514,199	$ 1,276,204

Note 10 - Long-term Debt and Revolving Line of Credit

Long-term debt consists of the following:

	2014	2013
Mortgage notes payable - fixed rate, due in monthly installments totaling $44,661 including fixed interest rates ranging from 5.40 percent to 8.00 percent, maturing from December 2015 through September 2023	$ 2,177,011	$ 2,563,404
Mortgage notes payable - variable rate, due in monthly installments totaling $64,779 including interest of Libor plus 4.25 percent at December 28, 2014, and prime rate as of December 29, 2013 (effective rate of 4.42 and 3.25 percent at December 28, 2014 and December 29, 2013, respectively), maturing August 2021	7,970,394	332,845
Mortgage notes payable - SWAP fixed rate, including interest ranging from 6.29 percent to 7.08 percent, paid in 2014	-	6,945,200
Acquisition notes payable, unsecured - fixed rates, due in monthly installments totaling $173,134 including interest ranging from 4.95 percent to 6.45 percent, maturing from October 2017 through October 2022	12,152,943	12,386,211
Acquisition notes payable, unsecured - variable rates, due in monthly installments totaling $34,439 including interest ranging from 3.25 percent to 6.00 percent, maturing from August 2015 to December 2022	3,668,703	6,518,503
Acquisition notes payable, unsecured - interest only, monthly payments totaling $5,950 with an interest rate of 6.00 percent, maturing in March 2016	940,000	1,190,000
Equipment notes payable, with fixed interest rates, due in monthly installments totaling $86,001 including interest ranging from 5.02 percent to 7.29 percent, maturing from March 2018 through December 2020	5,107,260	3,385,009
Equipment notes payable, with variable interest rates, due in monthly installments totaling $51,933 including interest starting at 4.75 percent, maturing August 2020	4,847,020	-
Equipment note payable, with interest-only monthly payments of $12,093 including interest at 7.5 percent, maturing September 2019	577,021	674,192
Other note payable, with fixed interest rate, due in monthly payments of $6,661 at interest ranging from 6.00 percent to 7.00 percent, maturing in May 2022	626,542	666,171
Other note payable, with no interest, due in quarterly payments of $50,000, paid in 2014	-	125,000
Other note payable, with fixed interest, due in monthly payments of $21,006 including interest of 8.305 percent, maturing December 2017	649,442	-
Total	38,716,336	34,786,535
Less current portion	6,378,332	3,296,378
Long-term portion	$ 32,338,004	$ 31,490,157

The total of the above debt matures as follows:

2015	$	6,378,332
2016		5,096,867
2017		4,571,737
2018		9,260,467
2019		2,632,894
Thereafter		10,776,039
Total	$	38,716,336

The Company has one revolving line of credit agreement with a bank as of December 28, 2014, and two revolving lines of credit agreements as of December 29, 2013. The revolver allows for borrowings up to $5.1 million, bearing interest of 4.44 percent and 3.58 percent at December 28, 2014 and December 29, 2013, respectively, and expires July 2015.

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

Loan covenants of the various loan agreements include requirements for the maintenance of certain financial ratios. At December 28, 2014, and December 29, 2013, the Company was in compliance with these covenants.

Note 11 - Income Taxes

Deferred income tax assets and liabilities:

Deferred income tax assets:	2014	2013
Accrued rents	$ 974,025	$ 764,833
Deferred gains on sale leaseback transactions	4,374,722	4,308,185
General business credit	1,482,222	887,534
Other	1,937,548	2,048,340
Total deferred tax assets	8,768,517	8,008,892
Deferred income tax liabilities:	**2014**	**2013**
Depreciation, amortization, and basis differences	(2,631,589)	(1,719,953)
Other	(2,032,776)	(1,820,672)
Total deferred tax liabilities	(4,664,365)	(3,540,625)
Net deferred income tax assets	$ 4,104,152	$ 4,468,267

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 experiences, future reversals of existing temporary differences, and carryforwards.

The general business credits listed above, expire ranging from 2030 to 2035.

The income tax provision reconciled to the tax computed at the statutory state and federal rates for the years ended December 28, 2014 and December 29, 2013 was as follows:

	2014	2013
Tax expense at statutory rates applied to income before income taxes	$ 1,418,010	$ 1,716,440
Permanent differences	360,807	322,246
Impact of tax credits	(976,036)	(797,176)
Other - net	(15,410)	(4,745)
Income tax expense	$ 787,371	$ 1,236,765

The provision for income taxes consists of the following:

	2014	2013
Current expense	423,256	774,032
Deferred expense	364,115	462,733
Total income tax expense	$ 787,371	$ 1,236,765

As of December 28, 2014 and December 29, 2013, the Company’s unrecognized tax benefits were not significant. There were no significant penalties or interest recognized or accrued during 2014 and 2013.

Note 12 - Lease Commitments

The Company leases land and buildings used in operations under operating agreements, with remaining lease terms (including options to renew) ranging from 1 to 50 years. At December 28, 2014, the Company had several leases that contained rent escalators. Certain of these rent escalators are contingent upon changes in the Consumer Price Index and have limits over which lease payments may increase. For the remaining rent escalators that have specific periodic increases, rent expense is recognized in accordance with accounting guidance related to accounting for operating leases with scheduled rent increases, using the straight-line method over the term of the leases. The Company includes renewal options in determining straight-line rent only when an economic compulsion to renew exists, such as when the Company owns a building subject to a ground lease.

Base rent expense includes taxes, insurance, and maintenance when required under the lease agreements. Percentage rentals represent additional rent due under certain leases for which the Company is required to pay a percent of sales in excess of minimum prescribed amounts. Total operating lease expenses for the years ended December 28, 2014 and December 29, 2013 were as follows:

	2014	2013
Base rent expense	$11,878,078	$ 10,155,997
Deferred gain amortization	(892,092)	(829,845)
Percentage rentals	81,050	145,789
Straight-line rent expense	277,506	359,579
Total	$11,344,542	$ 9,831,520

Minimum future rentals on noncancelable leases as of December 28, 2014 for each of the next five fiscal years and in the aggregate are as follows:

2015	$ 12,772,600
2016	12,498,840
2017	12,248,759
2018	12,134,423
2019	12,071,742
Thereafter	101,208,679
Total	$ 162,935,043

Note 13 - Employee Benefit Plans

The Company has a deferred compensation plan (the "Plan") for certain employees. The plan provides for the payment of benefits for an elected period of up to ten years. Deferred compensation expense was $343,856 in 2014 and $345,765 in 2013. Other long-term obligations related to deferred compensation under the Plan include $1,444,201 and $978,912 as of December 28, 2014 and December 29, 2013, respectively. The participants vest in accordance with a predetermined vesting schedule. The Company has partially funded the Plan obligation with Company-owned life insurance policies which have a cash surrender value of $898,027 and investments of $484,203 at December 28, 2014 and a cash surrender value of $184,579 and investments of $699,782 at December 29, 2013, which are included in other assets.

Note 14 - Stock Option Plans

The Company has management and director share-based compensation plans which are described below. The compensation cost charged against income for the plans was $198,540 and $115,240 in fiscal 2014 and fiscal 2013, respectively. The total income tax benefit recognized in the consolidated statement of operations for share-based compensation arrangements was $37,000 for fiscal 2014, and zero for fiscal 2013.

The employee equity incentive plans provide for the discretionary grant of options. The current plan authorizes 750,000 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 option price is not less than the fair market value of the common stock at the date of grant. Options granted under the plans become exercisable pursuant to a vesting schedule adopted by the board which administers the plans and the options may have a term of 10 years.

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 300,000 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 will be granted options to purchase 10,000 shares on the date such person becomes a non-employee director and on the date of each annual stockholders' 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 fully vest three years from the date of grant.

The fair value of each option award is estimated on the date of grant using the Black Scholes option valuation model that uses the following weighted average assumptions: dividend yield of 0 percent; risk-free interest rates of 1.46 percent to 1.53 percent in 2014 and 0.84 percent to 1.56 percent in 2013; expected life of approximately 4.85 years to 6.00 years in 2014 and 2013; and expected volatility of 32.26 percent to 64.28 percent in 2014 and 33.71 percent to 63.29 percent in 2013. Expected volatilities are based on historical volatility of The Wendy’s Company weekly stock price. The Company uses historical data to estimate option exercise and employee termination when determining the expected life within the valuation model. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

A summary of option activity under the employee plans for the years ended December 28, 2014 and December 29, 2013 is presented below:

Options	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in Years)
Outstanding at December 30, 2012	1,118,764	$ 2.92	-
Granted	120,000	2.90	-
Exercised	(27,500)	1.59	
Forfeited or expired	(219,264)	4.55	
Outstanding at December 29, 2013	992,000	2.60	5.2
Outstanding at December 29, 2013	992,000	$ 2.60	-
Granted	112,000	5.24	-
Exercised	(52,500)	1.09	
Forfeited or expired	(152,500)	4.55	-
Outstanding at December 28, 2014	899,000	2.68	5.4

The breakdown of outstanding options as of December 28, 2014 is as follows:

Options	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in Years)
Options excercisable	736,250	$ 2.40	4.7
Nonvested options	162,750	3.94	8.4

There were 52,500 and 27,500 options exercised in 2014 and 2013, respectively. Cash used to settle equity instruments granted under share-based payment arrangements was $0 during the 2014 and 2013 fiscal years. As of December 28, 2014, total unrecognized compensation expense related to non-vested options was $271,203. This expense will be recognized over approximately 2.8 years.

A summary of option activity under the directors' plans for the years ended December 28, 2014 and December 29, 2013 is presented below:

Options	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in Years)
Outstanding at December 30, 2012	444,000	$ 2.99	-
Granted	50,000	3.15	-
Forfeited or expired	(9,000)	4.23	-
Outstanding at December 29, 2013	485,000	2.99	4.7
Outstanding at December 29, 2013	485,000	$ 2.99	-
Granted	50,000	5.24	-
Forfeited or expired	(100,000)	4.88	-
Outstanding at December 28, 2014	435,000	2.81	5.6

The breakdown of outstanding options as of December 28, 2014 is as follows:

Options	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in Years)
Options excercisable	360,000	$ 2.55	4.9
Nonvested options	75,000	4.07	8.8

There were no options exercised in 2014 or 2013. Cash used to settle equity instruments granted under share-based payment arrangements was $0 during the years ended 2014 and 2013. As of December 28, 2014, total unrecognized compensation expense related to non-vested options was $100,193. This expense will be recognized over approximately 2.4 years.

Note 15 - Related Party Transactions

The Company's CEO has provided personal guarantees to The Wendy's Company to facilitate the granting of Wendy's franchise agreements, as well as personal guarantees to a bank for certain of the Company's debt facilities.

The Company's CEO is a co-managing member of a real estate development project in which the Company has an 11.2 percent interest.

In November 2012, the Company entered into a $200,000 mortgage note with one of its independent directors. The note bears interest of 8.0 percent and matures in December 2015. There was $171,800 outstanding as of December 28, 2014.

Note 16 - Guarantees, Commitments, and Contingencies

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

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

Note 17 – Fair Value of Financial Instruments

Accounting standards require certain assets and liabilities be reported at fair value in the financial statements and provides a framework for establishing that fair value. The Company measured interest rate swaps at fair value on a recurring basis. The fair value of these swaps was based primarily on inputs such as interest rates and yield curves that are observable at commonly quoted intervals. Investments under the Company's deferred compensation plan are measured and carried at fair value based on the quoted prices in active markets for identical assets, and other observable and unobservable inputs reflecting assumptions that market participants would use in pricing. The Company also has other financial instruments which are not required to be measured at fair value on the consolidated balance sheet. Those instruments consist of the following:

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

Long-term Obligations – The fair value of long-term debt obligations approximates carrying value at December 28, 2014 and December 29, 2013 based on estimated rates currently available to the Company at year end and debt obligations with similar terms and maturities.

Note 18 – Acquisition of Wendy's Restaurants

The Company acquired 19 Wendy's restaurants in 2014 and eight Wendy's restaurants in 2013 through various transactions. One of the restaurants acquired in 2014 included the business, equipment, land and building of that location. The remaining 18 restaurants acquired included the business and equipment. 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.

The 2014 acquisitions were financed with approximately $6,887,000 of new debt, $1,100,000 of seller financing, $452,000 of cash, and $446,000 of net buyer credits. The transactions resulted in the recording of approximately $5,108,000 of goodwill, $4,165,000 of property, equipment and building, $90,000 of inventory, and $1,370,000 of liabilities of which $520,000 was received from the seller and is included in net buyer credits.

The 2013 acquisitions were financed with approximately $5,459,000 of new debt, $158,000 of cash, and $81,000 of buyer credits. The transactions resulted in the recording of approximately $353,000 of goodwill, $95,000 of a gain on bargain purchase, $5,396,000 of property and equipment, and $44,000 of inventory.

The Company expensed $345,000 and $79,000 of acquisition and preopening costs in 2014 and 2013 respectively, related to the transactions.

The goodwill of approximately $5,108,000 in fiscal 2014 and $353,000 in fiscal 2013 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 of the goodwill is expected to be deductible for tax purposes.

Note 19 – Subsequent Event

Subsequent to year end in January 2015, the Company acquired nine Wendy's restaurants which included the business and equipment of those locations. The 2015 acquisition was financed with approximately $5,000,000 of new debt, $1,170,000 of cash, and $58,000 of buyer credits. The transaction resulted in the recording of approximately $5,270,000 of goodwill, $869,000 of equipment, $31,000 of inventory, and liabilities of $58,000 all of which were paid by the seller and included in buyer credits above.