Meritage Hospitality Group Inc.
Quarterly Report

For Quarterly Period Ended April 2, 2017

The following information provides updates to the Annual Report for Fiscal Year Ended January 1, 2017. Accordingly, this report does not contain all the information required of an issuer for its initial disclosure obligations, and should therefore be reviewed in conjunction with the Annual Report for Fiscal Year Ended January 1, 2017 and any interim reports or updates provided since the fiscal year-end report.

Item 1 Exact name of the issuer and the address of its principal executive offices.

Name of the Company or Issuer:
Meritage Hospitality Group Inc. (the "Company" or "Meritage").

Address of Principal Office:
45 Ottawa Ave SW, Suite 600
Grand Rapids, MI 49503
Telephone: 616.776.2600
Facsimile: 616.776.2776
Web: www.meritagehospitality.com

Item 2 Shares outstanding.

Common Shares	04/02/17	01/01/17	01/03/16
Authorized:	30,000,000 shares	30,000,000 shares	30,000,000 shares
Outstanding:	6,031,278 shares	5,979,371 shares	5,651,242 shares
Freely Tradable (public float):	approx. 3,000,000 shs.	approx. 3,000,000 shs.	approx. 3,000,000 shs.
Number of beneficial holders owning at least 100 shares:	approx. 491 holders	approx. 491 holders	approx. 360 holders
Number of record holders:	approx. 91 holders	approx. 91 holders	approx. 95 holders
Preferred A			
Authorized:	200,000 shares	200,000 shares	200,000 shares
Outstanding:	0 shares	29,520 shares	29,520 shares
Freely Tradable (public float):	0 shares	29,520 shares	29,520 shares
Number of record holders:	0 holders	2 holders	2 holders
Preferred B			
Authorized:	1,350,000 shares	1,350,000 shares	1,350,000 shares
Outstanding:	852,250 shares	852,850 shares	856,000 shares
Freely Tradable (public float):	300,000 shares	300,000 shares	300,000 shares
Number of record holders:	39 holders	37 holders	39 holders
Preferred C			
Authorized:	1,500,000 shares	0 shares	0 shares
Outstanding:	170,360 shares	0 shares	0 shares
Number of record holders:	7 holders	0 holders	0 holders

Item 3 Interim financial statements.

See the unaudited consolidated financial report for the quarter ended April 2, 2017 attached at the end of this report. The unaudited consolidated financial statements include the following reports:

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

Item 4 Management's discussion and analysis or plan of operation.

Overview

The Company reported revenues of $62.0 million for the three months ended April 2, 2017 compared to revenues of $54.1 million for the three months ended April 3, 2016, an increase of 14.7%. The increase in revenues was primarily the result of a full quarter of sales from the 18 Wendy's restaurants acquired in 2016, three new Wendy's restaurants built in 2016, and the opening of the Company's new casual dining restaurant, Wheelhouse Kitchen & Cocktails, in May 2016. Additionally, total Company "same store sales" increased by 3.3% for all restaurants in the three months ended April 2, 2017.

The Company continues to evaluate acquisition opportunities in the Wendy's and casual dining restaurant segments. Since 2009, the Company has acquired 135 Wendy's restaurants through 17 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 independent concepts, Twisted Rooster, Crooked Goose, Freighters Eatery & Taproom, and Wheelhouse Kitchen & Cocktails. At April 2, 2017, the Company operated 183 Wendy's quick-service restaurants under franchise agreements with The Wendy's Company and six casual dining restaurants. Of the Wendy's, 51 are located in Michigan, 50 in Florida, 36 in Georgia, two in North Carolina, one in South Carolina, 10 in Virginia, 15 in Ohio, and 18 in Oklahoma. All six casual dining restaurants are located in Michigan.

A schedule of Company restaurants follows:

	Wendy's	Casual Dining	Total Restaurants
Restaurants as of January 3, 2016	161	5	166
Acquired restaurants	18	-	18
Newly opened restaurants	3	1	4
Closed restaurants	-7	-	-7
Restaurants as of January 1, 2017	175	6	181
Acquired restaurants	8	-	8
Restaurants as of April 2, 2017	183	6	189

Results of operations are summarized below.

	(000's) 4/2/2017		(000's) 4/3/2016	
Food and Beverage Revenue	$ 62,015	100%	$ 54,053	100%
Costs and Expenses				
Cost of food and beverages	16,064	25.9	14,239	26.3
Labor and related expenses	18,095	29.2	16,290	30.1
Advertising expenses	2,618	4.2	2,240	4.1
Other operating expenses	15,854	25.6	14,063	26.0
Total Operating Expenses	52,631	84.9	46,831	86.6
General and administrative expenses	3,591	5.8	2,863	5.3
Preopening and acquisition expenses	512	0.8	416	0.8
Closing and disposition expenses	90	0.1	998	1.8
Depreciation and amortization	1,779	2.9	1,291	2.4
Total Costs and Expenses	58,603	94.5	52,399	96.9
Income from Operations	3,412	5.5	1,654	3.1
Other Expense				
Interest expense	656	1.1	723	1.3
Other expense	55	0.1	148	0.3
Total Other Expense	711	1.1	870	1.6
Income Before Income Taxes	2,701	4.4	783	1.4
Income Tax Expense	835	1.3	242	0.4
Consolidated Net Income	1,866	3.0	541	1.0
Less Consolidated Net Loss Attributable to Noncontrolling Interest in Variable Interest Entities	(3)	(0)	-	-
Consolidated Net Income Attributable to Controlling Interest	1,869	3.0%	541	1.0%

Food and Beverage Revenue

For the three months ended April 2, 2017, revenues increased 14.7%, to $62.0 million from $54.1 million in the three months ended April 3, 2016.

The Company's Wendy's restaurants reported sales of $58.5 million in the three months ended April 2, 2017, an increase of 14.9% over the prior year's first quarter sales. The most significant contributing factor to the increase was a full quarter of sales from the 18 Wendy's restaurants acquired mid-year in 2016, and three new Wendy's restaurants built in February, October, and December of 2016. The Company's Wendy's restaurants experienced a "same store sales" (i.e., food and beverage revenue for stores in full operation on a per period basis for both fiscal years) increase of 4.1% over the prior year's first quarter sales.

Food and Beverage Revenue (continued)

The Company's casual dining restaurants reported sales of $3.5 million in the three months ended April 2, 2017, an increase of 12% over the prior year's first quarter sales. The most significant contributing factor to the increase in sales was the opening of a restaurant, Wheelhouse Kitchen & Cocktails, in May 2016. The casual dining restaurants experienced a "same stores sales" decrease of 9.2% from the prior year, reflecting an overall national downward trend in the casual dining segment for the first quarter, as well as increased competitive intrusion.

Cost of Food and Beverages

The cost of food and beverages was 25.9% as a percent of revenues for the three months ended April 2, 2017 compared to food and beverage costs of 26.3% during the same period of the prior year. The decrease in cost of food and beverage as a percentage of revenues is due to a 15.6% decrease in average beef costs to $1.62 per pound for the three months ended April 2, 2017, from $1.92 per pound during the same period of prior year.

Labor and Related Expenses

Labor and related expenses decreased to 29.2% of revenues for the three months ended April 2, 2017 from 30.1% of revenues in the same period of the prior year. The decrease in labor is primarily attributed to the implementation of new labor policies and practices, including improvements in the management of labor hours at reimaged and remodeled restaurants after reopening.

Other Operating Expenses

Other operating expenses decreased to 25.6% of revenues for the three months ended April 2, 2017 from 26.0% of revenues in the same period of the prior year. The decrease is partially related to increased sales in 2017, resulting in a dilutive impact of fixed costs as a percentage of sales. In addition, overall utilities expense was reduced during 2017 from improved weather conditions when compared to 2016.

General and Administrative Expenses

General and administrative expenses increased to 5.8% of revenues for the three months ended April 2, 2017 from 5.3% of revenues in the same period of the prior year. The increase is mainly due to bonus accruals, which are calculated as a percentage of net income.

Preopening and Acquisition Expenses

Preopening and acquisition expenses include costs associated with the acquisition of eight Wendy's restaurants, the opening of newly built Wendy's restaurants, and the costs related to numerous reimaging efforts.

Closing and Disposition Expenses

Included in closing and disposition expenses are costs related to the closure of under-performing restaurants. We expect these to be an ongoing expense from continuing efforts to improve our overall restaurant portfolio.

Interest Expense

Reduction in interest expense is due to a decreased effective interest rate as a result of the refinancing completed in 2016, as well as a positive change in the fair value of the swap agreement.

Other Expense

Reduction in other expenses is mainly due to a decreased loss on disposals of assets.

Income Tax Expense

Income tax expense is summarized below.

	Three Months Ended (000's)	
	4/2/2017	4/3/2016
Federal income tax expense	448	285
State and local income tax expense	150	155
Change in deferred tax asset	237	(198)
Income tax expense	$ 835	$ 242

Noncontrolling Interest in Variable Interest Entity

Noncontrolling Interest in Variable Interest Entity includes the net income of the newly formed related party entity. The economic structure of the Company's new senior credit facility requires 25% equity for real estate transactions, which the Company believes is dilutive to its long-term growth strategy. The purpose of the VIE is to provide a new source of capital to fund the purchase of restaurant real estate. The VIE, upon acquisition of real estate, will lease the restaurant to the Company and use rent revenue to pay the interest expense on VIE bank debt.

Financial Condition

Management monitors short and long-term cash needs and believes at this time, that with its ongoing operations and current cash balances, the Company has sufficient capital to meet its ongoing obligations. Loan covenants of the Company's various loan agreements include requirements for the maintenance of certain financial ratios. At April 2, 2017, the Company was in compliance with all of these covenants.

Off-Balance Sheet Arrangements

There were no off-balance sheet arrangements as of April 2, 2017.

Item 5 Legal proceedings.

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

Item 6 Defaults upon senior securities.

None.

Item 7 Other information.

None.

Item 8 Exhibits.

None.

Item 9 Certifications.

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

1. I have reviewed this quarterly 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.

May 9, 2017

Robert E. Schermer, Jr.
Chief Executive Officer

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

1. I have reviewed this quarterly 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.

May 9, 2017

Tracey A. Smith
Chief Financial Officer

FORWA RD-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; credit card fraud; 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, Virginia, Ohio and Oklahoma, significant economic changes in these states, or in the local economies where our restaurants are located, could adversely affect our operations. Additionally, with Meritage's expansion into Florida and Oklahoma, the Company could be adversely affected by tropical storms, hurricanes, or tornadoes. The Company's news releases and public reports are not intended to constitute an offer to sell or a solicitation of an offer to buy any securities of the Company or otherwise engage in a transaction with the Company.

Meritage Hospitality Group Inc. and Subsidiaries

Consolidated Financial Report
April 2, 2017 and April 3, 2016

Contents

Consolidated Financials Statements

Meritage Hospitality Group Inc. and Subsidiaries

Consolidated Balance Sheet (unaudited)

	April 2, 2017	January 1, 2017
Assets		
Current Assets		
Cash	$ 15,360,272	$ 9,835,808
Receivables	1,058,448	739,023
Inventories	1,583,591	1,547,208
Prepaid expenses and other current assets	3,499,992	1,371,945
Total Current Assets	21,502,303	13,493,984
Property and Equipment - Net	70,664,679	64,503,125
Goodwill	50,119,032	48,228,488
Intangible Assets	904,170	841,397
Deferred Income Taxes	723,352	876,168
Other Assets		
Notes receivable	548,215	548,215
Long-term investments	5,558,392	5,503,002
Deposits and other assets	3,888,877	3,028,245
Total Assets	**$ 153,909,020**	**$ 137,022,624**
Liabilities and Equity		
Current Liabilities		
Trade accounts payable	$ 8,249,153	$ 10,356,673
Lines of credit	23,772,759	14,303,182
Current portion of long-term debt	5,425,068	5,367,229
Accrued liabilities	8,847,507	9,473,109
Total Current Liabilities	46,294,487	39,500,193
Unearned Vendor Allowances	3,774,684	225,358
Accrued Rent	3,195,065	3,092,784
Deferred Compensation	3,778,835	2,958,985
Long-term Debt - Net of current portion	54,583,096	55,932,940
Deferred Gain - Sale and leaseback transactions	10,094,552	9,185,957
Equity	32,188,301	26,126,407
Total Liabilities and Equity	**$ 153,909,020**	**$ 137,022,624**

See notes to consolidated financial statements

Meritage Hospitality Group Inc. and Subsidiaries

Consolidated Statement of Operations (unaudited)

	Three Months Ended	
	April 2, 2017	April 3, 2016
Food and Beverage Revenue	$ 62,015,286	$ 54,052,687
Costs and Expenses		
Cost of food and beverages	16,064,348	14,238,703
Labor and related expenses	18,094,619	16,289,636
Advertising expenses	2,618,267	2,240,066
Other operating expenses	15,853,579	14,062,895
Total Operating Expenses	52,630,813	46,831,300
General and administrative expenses	3,591,128	2,862,569
Preopening and acquisition expenses	512,310	416,324
Closing and disposition expenses	90,076	997,812
Depreciation and amortization	1,778,701	1,290,954
Total Costs and Expenses	58,603,028	52,398,959
Income from Operations	3,412,258	1,653,728
Other Expense		
Interest expense	656,422	722,705
Other expense	54,902	147,764
Total Other Expense	711,324	870,469
Income Before Income Taxes	2,700,934	783,259
Income Tax Expense	834,802	241,948
Consolidated Net Income	**$ 1,866,132**	**$ 541,311**
Less Consolidated Net Loss Attributable to Noncontrolling Interest in Variable Interest Entities	(2,976)	-
Consolidated Net Income Attributable to Controlling Interest	**$ 1,869,108**	**$ 541,311**

See notes to consolidated financial statements

Meritage Hospitality Group Inc. and Subsidiaries

Consolidated Statement of Equity (unaudited)

	Series A Convertible Preferred Stock	Series B Convertible Preferred Stock	Series C Convertible Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Noncontrolling Interest	Total
Balance - January 3, 2016	$ 295	$ 8,560	$ -	$ 56,512	$ 17,845,000	$ 2,622,990	$ -	$ 20,533,357
Net income						6,449,978		6,449,978
Issuance of 322,472 shares of common stock				3,225	179,365			182,590
Preferred stock conversion		(32)		57	(25)			-
Common stock dividends					(409,776)			(409,776)
Preferred stock dividends					(710,108)			(710,108)
Company owned stock					(476,525)			(476,525)
Stock option expense					556,891			556,891
Balance - January 1, 2017	$ 295	$ 8,528	$ -	$ 59,794	$ 16,984,822	$ 9,072,968	$ -	$ 26,126,407
Net income						1,869,108	(2,976)	1,866,132
Issuance of 8,660 shares of common stock				87	17,903			17,989
Issuance of 170,360 shares of preferred stock			1,704		3,952,245			3,953,948
Preferred stock conversion	(295)	(6)		432	(131)			-
Common stock dividends					(119,756)			(119,756)
Preferred stock dividends					(211,036)			(211,036)
Company owned stock					(79,838)			(79,838)
Stock option expense					134,455			134,455
Contributed Capital							500,000	500,000
Balance - April 2, 2017	$ -	$ 8,522	$ 1,704	$ 60,313	$ 20,678,662	$ 10,942,076	$ 497,024	$ 32,188,301

See notes to consolidated financial statements

Meritage Hospitality Group Inc. and Subsidiaries

Consolidated Statement of Cash Flows (unaudited)

	Three Months Ended	
	April 2, 2017	April 3, 2016
Cash Flows from Operating Activities		
Net Income	$ 1,866,132	$ 541,311
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	1,778,701	1,290,954
Amortization of financing costs	52,116	38,651
Deferred income taxes	152,816	(197,657)
Amortization of deferred gain from sale and leaseback transactions	(214,409)	(217,563)
Compensation paid by issuance of common stock	17,989	8,977
Gain on company owned stock	(79,838)	-
Loss on disposal of fixed assets	384,450	324,391
Stock option expense	134,455	109,369
Changes in operating assets and liabilities which provided (used) cash:		
Receivables	(319,425)	159,191
Inventories	14,617	96,203
Prepaid expenses and other current assets	(2,128,047)	(110,748)
Deposits and other assets	(863,558)	(938,747)
Accounts payable	(2,107,520)	(3,591,010)
Accrued liabilities	(1,080,667)	(1,044,447)
Deferred compensation	819,850	1,010,707
Accrued rent	102,281	86,445
Unearned vendor allowances	3,549,326	2,032,211
Net cash (used in) provided by operating activities	2,079,268	(401,762)
Cash Flows from Investing Activities		
Purchase of property and equipment	(4,622,911)	(4,306,573)
Purchase of intangible assets	(80,000)	-
Change in long-term investments	(55,390)	-
Capital contribution into variable interest entity	500,000	-
Acquisitions, net	(9,900,080)	-
Net cash used in investing activities	(14,158,381)	(4,306,573)

See notes to consolidated financial statements

Meritage Hospitality Group Inc. and Subsidiaries

Consolidated Statement of Cash Flows (unaudited) Continued

	Three Months Ended April 2, 2017	Three Months Ended April 3, 2016
Cash Flows from Financing Activities		
Proceeds from long-term debt	-	4,363,426
Proceeds from lines of credit - net	14,826,431	1,066,736
Proceeds from sale leaseback transactions	5,854,964	-
Principal payments on long-term debt	(1,344,122)	(1,941,371)
Principal payments on capital lease	-	(72,062)
Payments on line of credit related to sale leaseback transactions	(5,356,854)	-
Payments on financing costs	-	(15,954)
Proceeds from sale of common stock	-	62,875
Proceeds from issuance of preferred stock - net	3,953,948	-
Common stock dividends paid	(119,755)	-
Preferred stock dividends paid	(211,035)	(177,842)
Net cash provided by financing activities	17,603,577	3,285,808
Net Increase (Decrease) in Cash	5,524,464	(1,422,527)
Cash - Beginning of year	9,835,808	6,587,845
Cash - End of year	$ 15,360,272	$ 5,165,318
Supplemental Disclosure of Cash Flow Information		
Cash paid for:		
Interest	$ 641,199	$ 723,891
Income taxes	$ 16,584	$ 65,274
Significant non-cash investing and financing transactions:		
Deferred gain on sale leaseback transactions	$ 1,123,000	$ -

See notes to consolidated financial statements

Note 1 - Consolidation

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

RDG is a 15% partner in TRG-Meritage Bahamas, LLC., ("TRG"). The equity attributable to the Holdings is reported as a noncontrolling interest in the accompanying consolidated financial statements. For the purpose of consolidation, the effects of eliminations of revenue and expense due to intercompany transactions between the Company and Holdings are attributed to the Company. All intercompany transactions and balances have been eliminated in consolidation.

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

Note 2 - Stockholders' Equity

The Company has 5,000,000 authorized shares of $0.01 par value per share preferred stock. 200,000 shares are designated as Series A convertible cumulative preferred stock, with 0 shares issued and outstanding as of April 2, 2017 and 29,520 shares issued and outstanding as of January, 2 2017. 1,350,000 shares are designated as Series B convertible cumulative preferred stock, with 852,250 shares issued and outstanding as of April 2, 2017 and 852,850 shares issued and outstanding as of January 2, 2017. 1,500,000 shares are designated as Series C convertible cumulative preferred stock, with 170,360 shares issued and outstanding as of April 2, 2017 and 0 shares issued and outstanding as of January, 2 2017.

The Company raised $3,953,948, net of fees, from issuing 170,360 shares of Series C cumulative convertible preferred stock in February 2017.

The Company exercised its right to convert 29,520 shares of Series A preferred shares to common stock in February 2017. Shares were converted at a conversion rate of $7.00 per share, resulting in the issuance of 42,170 common shares.

The Company has 30,000,000 authorized shares of $0.01 par value per share common stock, with 6,031,278 and 5,979,371 shares issued and outstanding as of April 2, 2017 and January 1, 2017, respectively.

Note 3 - Acquisition of Wendy's Restaurants

The Company acquired eight Wendy’s restaurants in March 2017. All restaurants acquired included the business and equipment. The Company acquired certain properties and leased the remaining. The Company entered into new lease agreements for certain newly acquired locations with the restaurants' building owners and franchise agreements for all locations with the Company's franchisor, The Wendy’s Company. The acquisition was financed with approximately $10,232,000 of new debt, net of cash received of $332,000. The transaction resulted in the recording of approximately $1,890,000 of goodwill, $7,814,000 of land and building, $600,000 of equipment, $51,000 of inventory and $455,000 of liabilities.

Note 4 - Sale Leasebacks

The Company completed three sale and leaseback transactions during the three months ended April 2, 2017. The Company netted proceeds of approximately $5,850,000, and with such proceeds paid down indebtedness of $5,356,854, and deposited $506,859 into the Company's treasury. The Company recorded deferred gains of approximately $1,123,000. The gains are being amortized over the 20-year lease terms and recorded as a reduction of base rent expense.

Note 5 - Commitments and Contingencies

As part of the Company's ongoing franchise relationship with The Wendy's Company, the Company is required to complete certain agreed upon improvements to facilities as well as reimage a portion of the Wendy's restaurants acquired during 2015 and 2014 by December 31, 2021. As of April 2, 2017, the Company has remaining estimated capital improvements of $7.3 million toward these efforts.

Note 6 - Reclassification

Certain 2016 amounts have been reclassified to conform to the 2017 presentation.

Note 7 - Subsequent Events

On April 12, 2017 the Company acquired four Wendy’s restaurants. All restaurants acquired included the business and equipment. The Company acquired certain properties and leased the remaining. The Company entered into new lease agreements for certain newly acquired locations with the restaurants' building owners and franchise agreements for all locations with the Company's franchisor, The Wendy’s Company. The acquisition was financed with approximately $5,014,000 of new debt and $39,000 of cash. The transaction resulted in the recording of approximately $1,307,000 of goodwill, $3,515,000 of land and building, $350,000 of equipment, $20,000 of inventory and $139,000 of liabilities.

The Company has entered into an asset purchase agreement to acquire 57 Wendy's restaurants located in the Mid-Atlantic states. The transaction is subject to customary due diligence and standard approvals and is anticipated to be completed in the second quarter of 2017.

Note 8 - Information About Variable Interest Entity

Restaurant Holdings LLC was formed to facilitate real estate transactions where the Company has potential monetary upside in future sale and leaseback transactions. This VIE is owned by related parties and not directly by the Company. Holdings will leverage a credit facility with a bank other than the Company's senior lender, secured by its interest in the real estate. Holdings has availability of borrowings of up to $13.0 million of capacity. As of April 2, 2017 Holdings had bank debt obligations totaling $8,490,366. Restaurant Holdings, LLC is considered to be a variable interest entity because its assets are leased to the Company and these leases with the Company are the primary source of resources to service their obligations.

The economic structure of the Company's new senior credit facility requires 25% equity for real estate transactions, which the Company believes is dilutive to its long-term growth strategy. The purpose of Holdings is to provide a new source of capital to fund the purchase of restaurant real estate. Holdings, upon acquisition of real estate, will lease the restaurant to the Company and use rent revenue to pay the interest expense on their bank debt.

Included in the consolidated balance sheet as of April 2, 2017 are the following amounts related to Restaurant Holdings, LLC.

	April 2, 2017
Assets:	
Cash	$ 504,693
Property and Equipment - net	8,510,954
Total Assets	$ 9,015,647
Liabilities:	
Current liabilities	$ 28,257
Revolving line of credit	8,490,366
Total Liabilities	8,518,623
Equity - Noncontrolling interest	497,024
Total Liabilities and Equity	$ 9,015,647