Meritage Hospitality Group Inc.
Annual Disclosures

For Fiscal Year Ended January 1, 2012

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 5,496,214 common shares outstanding at January 1, 2012. 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 500,000 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."

There were 208,333 Class B warrants outstanding at January 1, 2012. The Class B warrants expire in December 2012.

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

Item IV is incorporated by reference for a complete description of the security.

<u>Common Shares</u>: The Company paid a $0.05 cash dividend on its common shares in 2005, and a $0.06 cash dividend in 2006. 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.

<u>Series A Convertible Preferred Shares</u>: 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 15^{th} 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.

<u>Series B Convertible Preferred Shares; Class A and Class B Warrants</u>: In December 2003, the Company sold Units and Series B Convertible Preferred Shares ("Series B Preferred Shares"). Each Unit was priced at $6.00 and consisted of one common share and warrants to purchase one common share. The warrants were divided into one-half each of a Class A Warrant to purchase one common share at a price of $6.00 per share expiring six years from the date of issuance, and a Class B Warrant to purchase one common share at a price of $9.00 per share expiring nine years from the date of issuance. The Class A Warrants expired in December 2009. No Class A Warrants were exercised prior to expiration. The Series B Preferred Shares were priced at $10.00 each and are convertible into common shares at any time at a conversion price of $5.57 per common share. 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 15^{th} day of the preceding month. 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.

	01/01/2012	01/02/2011
Common Shares		
Authorized:	30,000,000 shares	30,000,000 shares
Outstanding:	5,496,214 shares	5,472,642 shares
Freely Tradable (public float):	appx. 3,000,000 shs.	appx. 3,000,000 shs.
Number of beneficial holders:	appx. 480 holders	appx. 450 holders
Number of record holders:	appx. 140 holders	appx. 160 holders
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 beneficial holders:	2 holders	2 holders
Number of record holders:	2 holders	2 holders
Preferred B		
Authorized:	1,350,000 shares	1,350,000 shares
Outstanding:	500,000 shares	500,000 shares
Freely Tradable (public float):	300,000 shares	300,000 shares
Number of beneficial holders:	not available	15 holders
Number of record holders:	22 holders	23 holders
Class A Warrant		
Authorized:	500,000 shares	500,000 shares
Outstanding:	-	-
Freely Tradable (public float):	-	-
Number of beneficial holders:	-	-
Number of record holders:	-	-
Class B Warrant		
Authorized:	500,000 shares	500,000 shares
Outstanding:	208,333 shares	208,333 shares
Freely Tradable (public float):	75,000 shares	75,000 shares
Number of beneficial holders:	3 holders	3 holders
Number of record holders:	3 holders	3 holders

Item 7 The name and address of the transfer agent.

IST Shareholder Services
209 West Jackson Blvd., Suite 903
Chicago, IL 60606
Phone: (800) 757-5755

IST Shareholder Services 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").

Part C Business Information

Item 8 The nature of the issuer's business.

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

Summary

Meritage operates 86 "Wendy's Old Fashioned Hamburgers" quick-service restaurants; 49 in Western and Southern Michigan, 29 in the Jacksonville, Florida area, and eight in the Atlanta, Georgia area. The Company is the nation's only publicly traded Wendy's franchisee. Through its development and acquisition efforts, the Company has more than doubled the number of its Wendy's restaurants over the last 10 years.

The Company also owns and operates three Twisted Rooster casual dining restaurants in Michigan. In July 2010, the Company launched its own newly-created Twisted Rooster concept, 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.

The Company owns a controlling interest in RDG-MHG, LLC ("RDG"), an entity that is a 50% partner in a joint venture, TRG-Meritage Bahamas, LLC ("TRG"). TRG purchased approximately 760 acres of ocean-front real estate located on the island of Eleuthera in the Bahamas. TRG 's plan is to either sell the property or develop it into a resort community, although at this time no assurances can be made in either regard. Under the terms of the TRG operating agreement, the Company will jointly oversee sales and marketing services, and provide co-development services in return for fee income.

Meritage has approximately 2,500 employees, of which approximately 220 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, and its 92.25% owned subsidiary, RDG-MHG, LLC, ("RDG"). RDG is a 50% 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 18% 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 March 2007, the Company was 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.

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 and Northwest Georgia. 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”, and the Georgia Wendy’s restaurants are hereafter referred to as “Wendy’s of Georgia”.

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 either the Pepsi-Cola Company or Coca Cola Company and their 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 that at least 4% of the Company’s restaurant sales be contributed to an advertising and marketing fund, 3% 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 seasonal fluctuations. Michigan traffic typically increases during the summer months, resulting in increased revenues during those months. Florida and Georgia traffic 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 7 to 19 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 and convert any competitive units located in its designated market areas ("DMAs") subject to the standard expandability criteria and site standards of the franchisor. Meritage is prohibited from acquiring or developing new Wendy's restaurants outside of its DMAs without the franchisor's sole consent. While the franchise agreements are in place, Meritage is also prohibited from acquiring or developing any other types of quick-service restaurants within its DMAs, or outside of it 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.

Twisted Rooster/Casual Dining Operations

In 2010, the Company launched its own newly created Twisted Rooster concept. Meritage currently operates three Twisted Rooster casual dining restaurants (previously operated as O'Charley's restaurants) in Michigan. Twisted Rooster offers a fresh new look with a dynamic menu focused on current customer trends and an emphasis on local products, done with a twist. The first converted location opened in 2010, and the remaining locations were converted (two locations) or permanently closed (one location) (see Item 16) in 2011.

Menu

The Twisted Rooster menu is 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 emphasis on local products includes local beers, wines and liquors. 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 handhelds, a variety of fresh fish, pasta plates, Twisted Rooster's signature macaroni and cheese, a variety of fresh-cut salads with special recipe salad dressings and homemade desserts. Also offered are a wide variety of alcoholic beverages including beer, wine and cocktails. The restaurants are open seven days a week and serve lunch and dinner. Special menu items include seasonal promotions, daily special selections and a special kids menu. Restaurants offer curbside take out.

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.

Marketing and Promotion

Twisted Rooster's advertising is focused on local markets, with a concentration on social media. Promotional efforts are aimed at building brand loyalty and emphasizing the distinctiveness of Twisted Rooster food, service, atmosphere and commitment to supporting the local economy.

Raw Materials and Energy

The Company's Twisted Rooster 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 Twisted Rooster 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.

Competition and Industry Conditions

Meritage operates restaurants within the quick-service restaurant ("QSR") industry and within 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, Burger King and Wendy's. 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 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 90 to 130 guests, and a pick-up window for drive-through service.

Of the 86 Wendy's restaurants it operates, the Company (i) owns the land and buildings comprising 13 restaurants, (ii) leases the land and buildings comprising 71 restaurants, and (iii) owns the building and leases the land comprising two restaurants. The remaining lease terms (including options to renew) range from 11 to 49 years. The structures are between one and approximately 38 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 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 operates three casual dining restaurants, two that are owned and one where the building is owned and the land is leased. The remaining lease term (including options to renew) is 27 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 office space includes an operations training facility. The lease term runs through January 2015 with two 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 January 1, 2012:

Name and Age	Position	Common Shares Beneficially Owned Amount (1)	Percentage
Robert E. Schermer, Sr., 76	Chairman of the Board of Directors	971,966	17.7%
Robert E. Schermer, Jr., 53	Chief Executive Officer, President and Director	1,739,440	31.6%
Gary A. Rose, 49	Vice President, Chief Financial Officer, Chief Operating Officer, Secretary & Treasurer	291,871	5.3%
James P. Bishop, 71	Director	138,526	2.5%
Duane F. Kluting, 62	Director	68,106	1.2%
Joseph L. Maggini, 72	Director	761,542	13.9%
Peter D. Wierenga, 57	Director	405,585	7.4%
All Current Executive Officers and Directors as a Group (7 persons)		4,377,036	79.6%

(1) Represents beneficial ownership of Company stock including commons shares, options presently exercisable or exercisable within 60 days, shares underlying Class B Warrants 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, Wisconsin. 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 has also 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 consultant at Seber Tans PLC accounting firm in Kalamazoo, Michigan. Prior to that, Mr. Bishop was the President and majority owner of the Bishop, Gasperini & Flipse, P.C. accounting firm in Kalamazoo, Michigan, where he worked since 1973. Mr. Bishop’s business address is 555 W. Crosstown Parkway, Suite 304, Kalamazoo, MI 49008.

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 has served as 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. In addition, Mr. Wierenga is currently President of BPW Properties LLC, a land development company. 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 a director 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 XVII below. In fiscal 2011, each of the non-employee directors received an option grant of 10,000 shares priced at $2.50 per share (the closing price on the date of the grant). In fiscal 2011, the current non-employee directors received compensation for attendance at Board and Committee meetings as follows: Mr. Bishop: $9,000 (paid in 4,876 common shares); Mr. Kluting: $8,000 (paid in 4,360 common shares); Mr. Maggini: $4,000 (paid in 2,194 common shares); Mr. Schermer, Sr.: $4,000 (paid in 2,194 common shares); and Mr. Wierenga: $4,000 (paid in 2,194 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 $197,300 (no increase since fiscal 2008) plus an annual car allowance of $10,500. Mr. Rose was paid a base salary of $171,100 (no increase since fiscal 2008) plus an annual car allowance of $8,400. In fiscal 2011, each executive officer also received 40,000 stock option grants priced at $1.64 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 2011 was approximately $81,000 for each executive officer. Bonuses earned and accrued in fiscal 2011 were approximately $162,000 for each executive officer.

Legal/Disciplinary History

None.

Disclosure of Certain 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 and 50,000 Class B Warrants.

Related Party Transactions

The Company's interest in RDG is pledged as collateral for a $2.3 million mezzanine loan to TRG from Robert E. Schermer, Sr.

In February 2008, the Company sold a retail center to Robert E. Schermer, Jr. and entered into a non-transferable five year master lease relating to non-leased space in the retail center at the time of sale, which was subsequently leased for less than the master lease obligation. A portion of the gain on the sale representing the estimated present value of the remaining master lease obligation of $33,933 was deferred until all remaining obligations under the master lease are fulfilled. The obligation is being amortized as future payment obligations are made on the master lease agreement by the Company.

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.

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

See audited consolidated financial statements for Fiscal Year Ended January 1, 2012, 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 12 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:**

Securities 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 Kelly Springer
634 Front Avenue, NW
Suite 400
Grand Rapids, MI 49504
(616) 774-8221
Kelly.springer@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 XVI 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 $91.9 million in fiscal 2011 compared to revenues of $77.5 million in fiscal 2010, an increase of 18.6%. The significant increase in revenues was due to the 17 new Wendy’s restaurants that were acquired or built between March and August 2011 and the conversion of two of the Company’s casual dining restaurants into its own newly-created Twisted Rooster concept in the spring of 2011. Income from operations decreased by $62,000 compared to the prior fiscal year. Net income from continuing operations was $2.8 million in 2011, an increase of $400,000 over net income from continuing operations of $2.4 million in 2010. Net income of $2.3 million was the same as in 2010. The Company continued to face significant economic and cost pressures brought on by (i) significant unemployment in the state of Michigan, (ii) high food and commodity costs, and (iii) intense price discounting by competitors.

Because of the continued weakness of the Michigan economy, the Company continues to evaluate opportunities outside of Michigan in both its core Wendy’s business and in non-core ventures. In that regard, the Company continues to pursue acquisitions in the Wendy’s restaurant system. The Company purchased 20 Wendy’s restaurants in Jacksonville, Florida in 2009. In 2011, the Company acquired an additional eight Wendy’s restaurants in Jacksonville, Florida and acquired eight Wendy’s restaurants in Atlanta, Georgia.

The Company has an interest in an entity that holds a development property (approximately 760 acres) known as Lighthouse Point on the island of Eleuthera in the Bahamas. The Company’s plan is to either sell the property or develop it into a resort community, although at this time no assurances can be made in either regard.

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 concept, Twisted Rooster. At January 1, 2012, the Company operated 86 Wendy’s Old Fashioned Hamburger quick-service restaurants under franchise agreements with The Wendy’s Company and three casual dining restaurants. Forty-nine of the Wendy’s restaurants are located in Michigan, 29 of the Wendy’s restaurants are located in Florida, and eight of the Wendy’s restaurants are located in Georgia. All three Twisted Rooster restaurants are located in Michigan.

A schedule of Company restaurants follows:

	Wendy’s	O’Charley’s	Twisted Rooster	Total Restaurants
Restaurants as of January 3, 2010	69	4	-	73
Newly opened restaurants	-	-	1	1
Closed restaurants	-	(1)	-	(1)
Restaurants as of January 2, 2011	69	3	1	73
Acquired restaurants	16	-	-	16
Newly opened restaurants	1	-	2	3
Closed restaurants	-	(3)	-	(3)
Restaurants as of January 1, 2012	86	0	3	89

Results of operations are summarized below:

	(000's) 2011		(000's) 2010	
Food and Beverage Revenue	$91,942	100.0%	$77,504	100.0%
Costs and Expenses				
Cost of food and beverages	26,103	28.4%	21,151	27.3%
Labor and related expenses	27,790	30.2%	23,669	30.5%
Advertising expenses	3,666	4.0%	3,063	4.0%
Other operating expenses	24,618	26.8%	21,037	27.1%
Total Operating Costs	82,176	89.4%	68,921	88.9%
General & administrative expense	4,582	5.0%	3,745	4.8%
Preopening and acquisition expense	399	0.4%	243	0.3%
Depreciation and amortization	1,605	1.7%	1,355	1.7%
Total Costs and Expenses	88,763	96.5%	74,263	95.8%
Income from Operations	3,179	3.5%	3,241	4.2%
Other Income (Expense)				
Interest expense	(1,378)	-1.5%	(782)	-1.0%
Debt extinguishment charges	(16)	0.0%	-	0.0%
Equity in loss of unconsolidated investee	(645)	-0.7%	(583)	-0.8%
Other	148	0.2%	(120)	-0.2%
Total Other Expense	(1,890)	-2.1%	(1,485)	-1.9%
Income Before Income Taxes	1,288	1.4%	1,756	2.3%
Income Tax Benefit	1,498	1.6%	663	0.9%
Net Income from Continuing Operations	2,787	3.0%	2,419	3.1%
Discontinued Operations (net of tax)	(521)	-0.6%	(156)	-0.2%
Net Income	2,266	2.5%	2,263	2.9%
Plus: Net Loss from Noncontrolling Interest	50	0.1%	47	0.1%
Net Income	$ 2,316	2.5%	$ 2,310	3.0%

Food and Beverage Revenue

In fiscal 2011, revenues increased $14.4 million, or 18.6%, to $91.9 million from $77.5 million in fiscal 2010.

Wendy's of Michigan restaurants had a "same store sales" (i.e., food and beverage revenue for stores in full operation for both fiscal years) decrease of 1.4% to $50.4 million from $51.1 million in the prior year. The Company believes that the most significant contributing factor to the "same store sales" decrease is the increased focus on couponing and discounting in response to its competitors' discounting.

Wendy's of Florida restaurants had a sales increase of 34.8% from $21.1 million in fiscal 2010 to $28.4 million in fiscal 2011. Wendy's of Florida experienced a "same store sales" increase of 1.1%. The significant sales increase was due to additional sales from the eight acquired restaurants and one new restaurant opening in fiscal 2011.

Wendy's of Georgia restaurant sales from April 2011 (the date of acquisition) through the end of the fiscal year were $6.3 million.

The Company's casual dining restaurant sales were $7.0 million, an increase of 9.8% over prior year sales of $6.4 million. The Company's previous O'Charley's restaurants had a "same store sales" decrease of 12.9% from $1.1 million in fiscal 2010 to $0.9 million for the period of time they remained open in fiscal 2011. The casual dining sales increase is related to the Company's conversion of its O'Charley's restaurants to its Twisted Rooster concept. The new Twisted Rooster restaurants average $50,000 in weekly sales compared to the O'Charley's restaurants average of just over $24,500 per week.

Cost of Food and Beverages

The cost of food and beverages increased as a percent of sales from 27.3% in fiscal 2010 to 28.4% in fiscal 2011. The average cost of beef increased 18.2% in 2011 compared to 2010, reaching $2.03 per pound in the third quarter of 2011 (the highest cost ever paid by the Company for beef). Beef costs eased in the fourth quarter, but are anticipated to remain extraordinarily high for the next couple of years due to low supply caused by U.S. Government subsidies for corn-based ethanol consuming major portions of the U.S. corn crop.

Labor and Related Expenses

Labor and related expenses decreased to 30.2% of revenues in 2011 from 30.5% of revenues in 2010. In 2011, the Company continued to leverage its core business experience to decrease labor costs at Wendy's of Florida by 1.3% of revenues, reducing costs from 31.1% in 2010 to 29.8% in 2011. The overall reduction of 0.3% is the result of (i) the implementation of store labor reductions due to efficiencies and (ii) strategic price increases which had a favorable impact on labor as a percent of revenues.

Other Operating Expenses

Other operating expenses decreased as a percentage of revenues from 27.1% in 2010 to 26.8% in 2011. The decrease in other operating expenses was primarily due to lower rent expense as a percent of sales on Wendy's restaurants acquired in Georgia.

General and Administrative Expenses

General and administrative expenses increased by 0.2% of revenues in fiscal 2011 as compared to fiscal 2010. The increase in general and administrative expenses is due to several factors including increased salary expenses from staff additions, additional recruiting costs related to continued growth, increased bank fees which are offset by reduced restaurant level labor expenses and commission expenses for work opportunity tax credits.

Preopening and Acquisition Expenses

Preopening and acquisition expenses were due to costs associated with the conversion of two of the Company's casual dining restaurants to its newly-created casual dining concept, Twisted Rooster, the acquisition of 8 Wendy's restaurants in Florida, the acquisition of 8 Wendy's restaurants in Georgia, and the construction of one new Wendy's restaurant in Florida.

Depreciation and Amortization

The increase in depreciation and amortization expense was due to significant asset purchases in 2011.

Interest Expense and Debt Extinguishment Charges

The increase in interest expense was due to (i) additional debt acquired during fiscal 2011 used to finance the acquisition of 16 additional Wendy's restaurants, (ii) additional debt used to finance a new Wendy's restaurant location, and (iii) interest expense as a result of recording interest rate swap agreements related to refinanced debt. The Company measures interest rate swaps at fair value, and accordingly recorded a balance sheet obligation and corresponding interest expense of approximately $287,000. Debt extinguishment charges reflect costs associated with the early pay-down of debt related to refinancing.

Equity in Loss of Unconsolidated Investee

Equity in loss of unconsolidated investee totaled $645,000 in fiscal 2011. This expense represents the Company's portion of TRG's operating loss for the year.

Income Tax Benefit

Income tax expense is summarized below.

	2011 (000's)	2010 (000's)
Local income tax expense	13	8
Current Michigan Business Tax expense	319	386
Refund of prior year Michigan Business Tax	(20)	(50)
Change in deferred income taxes - state	(339)	268
Current Florida Income Tax expense	21	31
Refund of prior year Florida Income Tax	(0)	(3)
Current Georgia Income Tax expense	10	-
Current federal income tax expense (credit)	(93)	272
Refund of prior year federal income tax	9	(211)
Change in deferred income taxes - federal	175	230
Reversal of deferred tax asset valuation allowance	(1,593)	(1,593)
Total income tax benefit	(1,498)	(663)

The Company had net deferred tax assets totaling $3,866,000 at January 1, 2012. 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 deferred tax assets including recent cumulative earnings and loss experiences and future reversals of timing differences. The Company previously recorded a valuation allowance of $4,780,000 against its deferred tax assets. In both 2011 and 2010, the Company reversed approximately $1,593,000 of the valuation allowance resulting in an income tax credit.

Discontinued Operations

In March 2011, the Company closed one of its O'Charley's casual dining restaurant locations, at which time all activities ceased and the property and related fixed assets were returned to the landlord. Discontinued operations expense includes costs associated with the restaurant closure and estimated lease termination settlement costs.

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 January 1, 2012, the Company was in compliance with these covenants.

In February 2008, the Company acquired a minority interest in RDG for $1.5 million. In August 2008, RDG became a 50% partner in TRG, a new joint venture entity established to own and develop a tract of Bahamian real estate. TRG purchased the Bahamian property in August 2008. TRG is comprised of several investors who intend to sell or develop the property into a resort community. In April 2009, the Company acquired an additional 5% interest in RDG from one of its partners for a nominal amount. In December 2009, several partners, representing 50% ownership interest in RDG, assigned their interest to the Company for a nominal purchase price. An additional partner of RDG, representing ownership of 15.0%, had his ownership interest diluted by 90% in accordance with the provisions of the RDG operating agreement. After completion of the above transactions, the Company's ownership in RDG was 92.25%, representing a 46.125% net ownership interest in TRG. TRG has a first secured mortgage on the property with a bank. Additionally, the Company's interest in RDG is pledged as collateral for a $2.3 million Mezzanine loan to TRG from the Company's chairman of the board. The Company makes no assurances as to when a sale of the property or development will proceed.

Off-Balance Sheet Arrangements

There were no off-balance sheet arrangements as of January 1, 2012.

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 2010 and 2011:

Transaction	Date	Amount
Director Comp – 1st Quarter 2010	4/4/2010	4,861
Director Comp – 2nd Quarter 2010	7/4/2010	4,544
Director Comp – 3rd Quarter 2010	10/3/2010	4,598
Director Comp – 4th Quarter 2010	12/31/2010	6,731
Director Comp – 1st Quarter 2011	4/1/2011	4,878
Director Comp – 2nd Quarter 2011	7/1/2011	3,606
Director Comp – 3rd Quarter 2011	9/30/2011	4,242
Director Comp – 4th Quarter 2011	1/2/2012	4,094

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 or a 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 XI 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 XI for details on options outstanding under these Plans.

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 will terminate pursuant to its terms on May 21, 2012. The 2008 Incentive Plan will terminate pursuant to its terms on May 21, 2018. See Item XI 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 January 1, 2012:

Company's Purchase of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid per Share	Shares Purchased as Part of Publicly Announced Programs	Shares that May Yet Be Purchased Under the Program (1)
Month #1 01/03/11-01/30/11	0	---	---	259,468
Month #2 01/31/11-02/06/11	0	---	---	259,468
Month #3 03/07/11-04/03/11	0	---	---	259,468
Month #4 04/04/11-05/01/11	0	---	---	259,468
Month #5 05/02/11-06/05/11	0	---	---	259,468
Month #6 06/06/11-07/03/11	0	---	---	259,468
Month #7 07/04/11-07/31/11	0	---	---	259,468
Month #8 08/01/11-09/04/11	0	---	---	259,468
Month #9 09/05/11-10/02/11	0	---	---	259,468
Month #10 10/03/11-10/30/11	0	---	---	259,468
Month #11 10/31/11-12/04/11	0	---	---	259,468
Month #12 12/05/10-01/01/12	0	---	---	259,468

(1) In August 1999, the Board of Directors authorized the Company to repurchase from time to time, subject to capital availability, up to 200,000 shares of Meritage's common stock through open market transactions or otherwise. In February 2002, the Board authorized the repurchase of up to an additional 200,000 common shares under this program. In February 2010, the Board authorized the repurchase of up to an additional 150,000 common shares under the program. 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 21, 2012

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 21, 2012

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, and Georgia, continued economic decline in these states, or in the local economies where our restaurants are located, could adversely affect our operations. The current Michigan Business Tax structure has adversely impacted retail businesses. Additionally, with Meritage's expansion into Florida, the Company could be adversely affected by tropical storms or hurricanes. Meritage's expansion into hospitality and resort development in the Bahamas could subject Meritage to additional risks including, without limitation, risks associated with the stability of the Bahamian government including its fiscal and development policies, the ability to obtain necessary development permits and authorizations from the Bahamian government, unanticipated expenses or difficulties encountered in such developments, difficulties in obtaining needed financing to complete such developments, the fact that Meritage has no development or operating history associated with large-scale hospitality and resort developments, and changes in consumer preferences relating to the Bahamas as a travel or residential destination. 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
January 1, 2012 and January 2, 2011

Meritage Hospitality Group Inc. and Subsidiaries

Contents

Consolidated Financials Statements

plante moran

Plante & Moran, PLLC
Suite 400
634 Front Avenue N.W.
Grand Rapids, MI 49504
Tel: 616.774.8221
Fax: 616.774.0702
plantemoran.com

Independent Auditor's Report

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

We have audited the accompanying consolidated balance sheet of Meritage Hospitality Group Inc. and Subsidiaries as of January 1, 2012 and January 2, 2011 and the related consolidated statements of operations, equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Meritage Hospitality Group Inc. and Subsidiaries at January 1, 2012 and January 2, 2011 and the consolidated results of its operations, changes in equity and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Plante & Moran, PLLC

March 27, 2012

Meritage Hospitality Group Inc. and Subsidiaries

Consolidated Balance Sheet

	January 1, 2012	January 2, 2011
Assets		
Current Assets		
Cash	$ 1,763,326	$ 1,829,754
Receivables	314,370	463,100
Inventories	659,660	527,520
Prepaid expenses and other current assets	1,412,506	874,279
Total Current Assets	4,149,862	3,694,653
Property and Equipment - Net	24,190,010	19,946,136
Goodwill	8,365,280	4,429,849
Intangible Assets	1,057,475	919,612
Deferred Income Taxes	3,865,667	1,853,333
Other Assets		
Note receivable	300,000	300,000
Long-term investment	1,459,211	1,698,965
Deposits and other assets	446,545	317,475
Total Assets	**$ 43,834,050**	**$ 33,160,024**
Liabilities and Equity		
Current Liabilities		
Trade accounts payable	$ 3,375,956	$ 2,741,075
Revolving line of credit	150,000	-
Current portion of long-term debt	1,853,628	2,072,731
Accrued liabilities	4,380,609	2,946,978
Total Current Liabilities	9,760,193	7,760,784
Unearned Vendor Allowances	467,440	67,849
Accrued Rent	1,185,202	966,371
Other Long-term Obligations	667,935	453,825
Long-term Debt - Net of current portion	17,155,778	10,358,236
Deferred Gain - Sale and leaseback transactions	11,116,287	12,086,881
Equity	3,481,215	1,466,077
Total Liabilities and Equity	**$ 43,834,050**	**$ 33,160,024**

See notes to consolidated financial statements

Meritage Hospitality Group Inc. and Subsidiaries

Consolidated Statement of Operations

	Year Ended January 1, 2012	Year Ended January 2, 2011
Food and Beverage Revenue	$ 91,941,564	$ 77,503,837
Costs and Expenses		
Cost of food and beverages	26,103,182	21,150,883
Labor and related expenses	27,789,690	23,669,301
Advertising expenses	3,665,885	3,063,166
Other operating expenses	24,617,564	21,037,167
Total Operating Expenses	82,176,321	68,920,516
General and administrative expenses	4,582,045	3,744,684
Preopening and acquisition expenses	399,366	242,862
Depreciation and amortization	1,604,924	1,354,823
Total Costs and Expenses	88,762,656	74,262,886
Income from Operations	3,178,908	3,240,951
Other Income (Expense)		
Interest expense	(1,377,658)	(781,831)
Equity in loss of unconsolidated investee	(644,957)	(583,125)
Other income (expense)	132,161	(119,866)
Total Other Expense	(1,890,454)	(1,484,822)
Income Before Income Taxes	1,288,454	1,756,129
Income Tax Benefit	1,498,238	662,801
Net Income from Continuing Operations	**$ 2,786,692**	**$ 2,418,930**
Discontinued Operations (net of income tax benefit of $347,140 in 2011 and $104,047 in 2010)	(520,712)	(156,070)
Net Income	**$ 2,265,980**	**$ 2,262,859**
Plus: Net Loss Attributable to Noncontrolling Interest	50,331	46,692
Net Income Attributable to Controlling Interest	**$ 2,316,311**	**$ 2,309,551**

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 Earnings and Members Interest	Noncontrolling Interest	Total
Balance - January 3, 2010	$ 295	$ 5,000	$ 54,519	$ 16,886,509	$ (17,746,885)	$ 149,508	$ (651,054)
Net income					2,309,551	(46,692)	2,262,859
Issuance of 20,734 shares of common stock			207	36,641			36,848
Investment in subsidiary				(2,141)			(2,141)
Preferred dividends declared				(426,568)			(426,568)
Stock option expense				246,134			246,134
Balance - January 2, 2011	$ 295	$ 5,000	$ 54,726	$ 16,740,574	$ (15,437,334)	$ 102,816	$ 1,466,077
Net income					2,316,311	(50,331)	2,265,980
Issuance of 23,571 shares of common stock			236	38,566			38,801
Preferred dividends declared				(426,568)			(426,568)
Stock option expense				136,924			136,924
Balance - January 1, 2012	$ 295	$ 5,000	$ 54,962	$ 16,489,496	$ (13,121,023)	$ 52,485	$ 3,481,215

See notes to consolidated financial statements

Meritage Hospitality Group Inc. and Subsidiaries

Consolidated Statement of Cash Flows

	Year Ended	
	January 1, 2012	January 2, 2011
Cash Flows from Operating Activities		
Net Income	$ 2,265,980	$ 2,262,859
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	1,644,347	1,420,016
Deferred income taxes	(2,012,333)	(1,095,333)
Amortization of deferred gain from sale and leaseback transactions	(970,594)	(816,785)
Compensation paid by issuance of common stock	30,851	36,848
Equity in earnings of unconsolidated investee	644,957	583,125
Loss on disposal of fixed assets	85,792	39,768
Loss on disposal of fixed assets related to discontinued operations	104,108	-
Stock option expense	136,924	246,134
Changes in operating assets and liabilities which provided (used) cash:		
Receivables	148,730	(80,320)
Inventories	(132,140)	(43,514)
Prepaid expenses and other current assets	(538,227)	(501,293)
Deposits and other assets	(139,788)	(506)
Accounts payable	634,881	626,410
Accrued liabilities	1,433,630	103,712
Other long-term liabilities	214,110	-
Accrued rent	218,830	238,900
Unearned vendor allowances	399,591	(279,284)
Net cash provided by operating activities	4,169,649	2,740,738
Cash Flows from Investing Activities		
Purchase of property and equipment	(5,109,372)	(888,156)
Purchase of intangible assets	(55,000)	(49,304)
Increase in other long term obligations	-	29,540
Investment in equity method investee	(432,217)	(538,249)
Business combination	(3,453,082)	-
Decrease in deposits and other assets	27,014	33,641
Net cash used in investing activities	(9,022,657)	(1,412,528)

See notes to consolidated financial statements

Meritage Hospitality Group Inc. and Subsidiaries

Consolidated Statement of Cash Flows Continued (Continued)

	Year Ended	
	January 1, 2012	January 2, 2011
Cash Flows from Financing Activities		
Proceeds from long-term debt	9,666,406	-
Net Proceeds from revolving line of credit	150,000	-
Principal payments on long-term debt	(4,336,964)	(1,019,331)
Payments on financing costs	(227,643)	-
Payments on obligations under capital lease	(46,602)	(48,512)
Proceeds from sale of common stock	7,951	-
Preferred stock dividends paid	(426,568)	(426,568)
Net cash provided (used) in financing activities	4,786,580	(1,494,411)
Net Decrease in Cash	(66,428)	(166,202)
Cash - Beginning of year	1,829,754	1,995,956
Cash - End of period	$ 1,763,326	$ 1,829,754
Supplemental Disclosure of Cash Flow Information		
Cash paid for:		
Interest	$ 1,002,400	$ 803,965
Income taxes	461,827	515,819
Significant non-cash investing and financing transactions:		
Seller financed notes payable related to Wendy's acquisitions	$ 1,295,600	$ -

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 January 1, 2012, the Company operated 86 Wendy's Old Fashioned Hamburgers quick-service restaurants under franchise agreements with The Wendy's Company and three Twisted Rooster full-service casual dining restaurants. Operations of the Company are located in Michigan, Florida, and Georgia. The Company is also invested in approximately 760 acres of ocean-front real estate in the Bahamas for future development.

Principles of Consolidation - The consolidated financial statements include the accounts of Meritage Hospitality Group Inc., all of its wholly owned subsidiaries, and its 92.25% owned subsidiary, RDG-MHG, LLC., ("RDG"). RDG is a 50% 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, January 1, 2012 and January 2, 2011, 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 of services.

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. No interest was capitalized in either 2011 or 2010.

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. There were no impairments for the years ended January 1, 2012 and January 2, 2011.

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 4 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 4 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 year ended January 2, 2011 and the year ended January 1, 2012 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 $300,000 per claim stop-loss level and maximum aggregate claims of $603,313 per policy year. 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 January 1, 2012 and January 2, 2011, the Company received $1,210,000 and $384,000, respectively, in marketing and conversion funds that, in accordance with guidance, are being recognized as a reduction of cost of food and beverages as gallons of syrup are purchased.

Interest Rate Swap – The Company holds derivative financial instruments for the purpose of hedging risks relating to the variability of cash flows caused by interest rate fluctuations. The interest rate swap is recognized in the accompanying consolidated balance sheet at fair value and has not been designated as a cash flow hedge for financial reporting purposes.

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 is recognized as compensation expense over the expected life of the awards. The new requirements require the Company to recognize compensation cost for equity-based compensation for all new grants. 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 $3,672,000 and $3,094,000 for the years ended January 1, 2012 and January 2, 2011, 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 the deferred tax asset valuation allowance.

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

Deferred Gain – In previous years, the Company completed multiple sale and leaseback transactions. The gains recognized from these transactions are being amortized over the 20-year lease terms and recorded as a reduction of base rent expense.

Reclassification - Certain prior year amounts have been reclassified to conform to the current year presentation.

Subsequent Events - The financial statements and related disclosures include evaluation of events up through and including March 27, 2012, 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 January 1, 2012 and January 2, 2011. A total of 1,350,000 shares are designated as Series B convertible cumulative preferred stock, with 500,000 shares issued and outstanding as of January 1, 2012 and January 2, 2011.

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 issued in December 2003 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 Company has 30,000,000 authorized shares of $0.01 par value common stock, with 5,496,214 and 5,472,643 shares issued and outstanding as of January 1, 2012 and January 2, 2011, 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:

	2011	2010
Land and improvements	$ 11,409,198	$ 11,293,732
Buildings and improvements	12,246,880	10,312,473
Furnishings and equipment	17,341,592	14,889,211
Leasehold improvements	2,442,270	1,502,589
Leased property under capital leases	277,092	277,092
Construction in progress	273,061	272,646
Total cost	43,990,093	38,547,743
Accumulated depreciation	19,800,082	18,601,607
Net property and equipment	$ 24,190,010	$ 19,946,136

Depreciation expense was approximately $1,536,000 and $1,330,000 in 2011 and 2010 respectively.

Note 4 - Intangible Assets

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

	2011	2010
Franchise Costs	$ 1,285,000	$ 1,230,000
Financing costs	479,383	357,006
Total	1,764,383	1,587,006
Accumulated amortization	706,909	667,394
Net	$ 1,057,475	$ 919,612

Amortization expense for franchise costs in 2011 and 2010 was $42,400 and $41,500, respectively, and amortization expense for financing costs was $64,600 and $43,300 in 2011 and 2010, respectively.

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

2012	$	106,561
2013		91,682
2014		87,140
2015		82,091
2016		76,713
Thereafter		613,288

Note 5 - Note Receivable

The $300,000 note receivable is a non-interest bearing note, collateralized by the associated real estate and is due January 2014.

Note 6 - Long-term Investment

RDG has a 50.0% investment in TRG accounted for using the equity method. Following is a summary of financial position and results of operations of TRG as of and for the years ended December 31, 2011 and December 31, 2010:

	2011	2010
Assets:		
Current Assets	$ 527,446	$ 516,165
Investment in real estate	13,874,182	13,874,182
Total Assets	14,401,628	14,390,347
Liabilities and Partners' Capital:		
Current liabilities	880,110	735,583
Debt	11,629,910	11,337,676
Partners' capital	1,891,608	2,317,088
Total Liabilities and Partners' Capital	$ 14,401,628	$ 14,390,347
Net Loss	$ 1,289,914	$ 1,166,250

50% of the TRG loss is reflected in the Company’s consolidated statement of operations and is a reduction to the carrying value of the long-term investment.

TRG’s bank debt totaling $7.0 million expires on April 30, 2012. Based on discussions with the bank, the Company believes the loan will be renewed. If the bank does not renew the loan, RDG could be subject to either a capital call or a dilution event as defined in the TRG operating agreement.

Note 7 - Accrued Liabilities

The following is a detail of accrued liabilities:

	2011	2010
Payroll and related payroll taxes	$ 2,265,272	$ 1,985,949
Property taxes	803,422	775,795
Other	1,311,915	185,234
Total	$ 4,380,609	$ 2,946,978

Note 8 – Other Long-term Obligations

Other long-term obligations consist of the following:

	2011	2010
Master lease obligation, expiring February 24, 2013 (See Note 17 - Related Party Transactions)	$ 33,933	$ 73,544
Restructuring benefits payable to terminated employees, due no later than December 31, 2012	-	199,225
Interest rate swap obligation (See Note 16 - Fair Value of Financial Instruments)	287,403	-
Deferred compensation obligations payable (See Note 12 - Employee Benefit Plans)	346,599	181,056
Total other long-term obligations	$ 667,935	$ 453,825

Note 9 - Long-term Debt

Long-term debt consists of the following:

	2011	2010
Mortgage notes payable - fixed rate, due in monthly installments totaling $88,665 including fixed interest rates ranging from 5.4 percent to 8.22 percent, maturing from December 2012 through October 2021	$ 7,217,846	$ 6,897,052
Mortgage notes payable - variable rate, due in monthly installments totaling $48,997 including interest ranging from 30-day LIBOR plus 2.55 percent (effective rate of 2.8 percent at January 1, 2012), prime rate (effective rate of 3.25 percent at January 1, 2012), and a swap rate (effective rate of 6.48 percent at January 1, 2012), maturing from March 2013 through June 2015	3,606,153	5,144,583
Mortgage note payable at 8.00 percent, with interest-only monthly payments of $2,200 through July 2014, refinanced in May 2011	-	330,000
Mortgage notes payable - SWAP fixed rate, due in monthly installments totaling $31,680 including interest of 7.08 percent, maturing from June 2018 through August 2018	3,280,000	-
Acquisition notes payable, unsecured - fixed rates, due in monthly installments totaling $37,015 including interest ranging from 6.00 percent to 6.45 percent, maturing from May 2016 through August 2018	2,273,427	
Acquisition notes payable, unsecured - interest only, monthly payments totaling $5,950 with interest rates of 6.00 percent, maturing from April 2014 through May 2014	1,190,000	
Equipment notes payable, due in monthly installments totaling $5,134 including interest ranging from 6.12 percent to 7.49 percent, maturing from July 2015 through June 2018	300,928	59,331
Equipment note payable, with interest-only monthly payments of $4,046 at 4.44 percent, converting to an amortized five year loan beginning in August 2012	1,123,052	-
Equipment note payable, with no interest and no payments, due in full January 2014	18,000	-
Total	19,009,406	12,430,966
Less current portion	1,853,628	2,072,731
Long-term portion	$ 17,155,778	$ 10,358,236

The total of the above debt matures as follows:

2012	$ 1,853,628
2013	2,357,322
2014	2,605,709
2015	2,285,213
2016	2,987,436
Thereafter	6,920,098
Total	$ 19,009,406

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

Loan covenants of the various loan agreements include requirements for the maintenance of certain financial ratios. At January 1, 2012, the Company was in compliance with these covenants.

Note 10 - Income Taxes

Deferred income tax assets and liabilities:

	2011	2010
Deferred income tax assets:		
Accrued rents	$ 474,092	$ 386,947
Deferred gains on sale leaseback transactions	6,390,924	6,504,940
Work Opportunity Tax Credits	699,893	-
Other	1,660,066	292,644
Total deferred tax assets	$ 9,224,975	$ 7,184,531
Deferred income tax liabilities:	2011	2010
Depreciation, amortization, and basis differences	(3,222,632)	(2,097,644)
Other	(543,343)	(373,242)
Total deferred tax liabilities	(3,765,975)	(2,470,886)
Valuation allowance:	(1,593,334)	(3,186,667)
Net deferred income tax assets	$ 3,865,667	$ 1,526,978

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 income tax provision reconciled to the tax computed at the statutory state and federal rates for the years ended January 1, 2012 and January 2, 2011 was as follows:

	2011	2010
Tax expense at statutory rates applied to income before income taxes	$ 515,381	$ 702,452
Permanent differences	246,730	101,740
Impact of tax credits	(608,873)	(264,305)
Change in valuation allowance	(1,593,333)	(1,593,333)
Impact of state taxes, change in prior year estimates and other - net	(58,143)	390,645
Income tax benefit	$ (1,498,238)	$ (662,801)

The provision for income taxes consists of the following:

	2011	2010
Current tax expense	259,009	432,532
Deferred tax benefit	(1,757,247)	(1,095,333)
Total income tax benefit	$ (1,498,238)	$ (662,801)

Note 11 - Lease Commitments

The Company leases land and buildings used in operations under operating agreements, with remaining lease terms (including options to renew) ranging from 12 to 49 years. At January 1, 2012, 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 January 1, 2012 and January 2, 2011 were as follows:

	2011	2010
Base rent expense	$ 7,124,098	$ 6,118,229
Deferred gain amortization	(798,865)	(798,865)
Percentage rentals	23,136	19,077
Straight-line rent expense	221,029	230,452
Total	$ 6,569,398	$ 5,568,893

Minimum future rentals on noncancelable leases as of January 1, 2012 for each of the next five years and in the aggregate are as follows:

Fiscal Year Ending	Amount
2012	$ 7,100,603
2013	7,105,550
2014	6,655,190
2015	6,609,505
2016	6,471,281
Thereafter	66,157,123
	100,099,252

Note 12 - Employee Benefit Plans

The Company has a deferred compensation plan (the "Plan") for certain employees. The arrangement provides for the payment of benefits for an elected period of up to ten years. Deferred compensation expense was $185,816 for the year ended January 1, 2012 and $177,851 for the year ended January 2, 2011. Other long-term obligations include $346,599 and $181,055 as of January 1, 2012 and January 2, 2011 respectively, related to deferred compensation under the Plan. The participants are fully vested. The Company has funded the Plan with Company-owned life insurance policies which have a cash surrender value of $292,449 at January 1, 2012 and $151,516 at January 2, 2011, which is included in other assets.

Note 13 - 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 $136,924 and $246,134 in fiscal 2011 and fiscal 2010, respectively. The total income tax benefit recognized in the consolidated statement of operations for share-based compensation arrangements was $0 for both fiscal 2011 and fiscal 2010.

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 compensation committee of 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 compensation committee which administers the plans and the options may have a term from 1 to 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 on such terms and conditions as adopted by the compensation committee that administers the plan. Options granted under the plan have a term of 10 years and 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 1.80 percent to 1.98 percent in 2011 and 2.11 percent to 2.39 percent in 2010; expected life of approximately 4.85 years to 6.00 years in 2011 and 4.70 years to 5.25 years in 2010; and expected volatility of 38.22 percent in 2011 and 94.98 percent to 99.72 percent in 2010. 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 January 1, 2012 and January 2, 2011 is presented below:

Options	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in Years)
Outstanding at January 3, 2010	916,913	$ 3.73	-
Granted	150,000	1.60	-
Forfeited or expired	(2,500)	2.25	-
Outstanding at January 2, 2011	1,064,413	3.43	5.2
Outstanding at January 2, 2011	1,064,413	$ 3.43	-
Granted	140,000	1.64	-
Exercised	(6,750)	2.23	
Forfeited or expired	(43,525)	2.28	-
Outstanding at January 1, 2012	1,154,138	3.27	4.8

The breakdown of outstanding options as of January 1, 2012 is as follows:

Options	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in Years)
Options excercisable	909,888	$ 3.77	3.9
Nonvested options	244,250	1.42	8.1

There were 6,750 options exercised in 2011 and no options exercised in 2010. Cash used to settle equity instruments granted under share-based payment arrangements was $0 during the year ended 2011 and 2010. As of January 1, 2012, total unrecognized compensation expense related to non-vested options was $84,892. This expense will be recognized over approximately 2.1 years.

A summary of option activity under the directors' plans for the years ended January 1, 2012 and January 2, 2011 is presented below:

Options	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in Years)
Outstanding at January 3, 2010	296,000	$ 3.44	-
Granted	60,000	1.75	-
Forfeited or expired	(4,000)	2.25	-
Outstanding at January 2, 2011	352,000	3.16	5.6
Outstanding at January 2, 2011	352,000	$ 3.16	-
Granted	60,000	2.50	-
Forfeited or expired	(14,000)	2.41	-
Outstanding at January 1, 2012	398,000	3.09	5.3

There were no options exercised in 2011 or 2010. Cash used to settle equity instruments granted under share-based payment arrangements was $0 during the years ended 2011 and 2010. As of January 1, 2012, total unrecognized compensation expense related to non-vested options was $42,019. This expense will be recognized over approximately 2.4 years.

Note 14 - Related Party Transactions

The Company’s interest in RDG is pledged as collateral for a $2.3 million mezzanine loan to TRG from the Company’s chairman of the board.

In 2008, the Company sold a retail center to the Company’s CEO. The Company entered into a non-transferable five year master lease relating to non-leased space in the retail center at the time of sale, which was subsequently leased for less than the master lease obligation. A portion of the gain on the sale representing the estimated present value of the remaining master lease obligation was deferred until all remaining obligations under the master lease are fulfilled. The current value of the master lease obligation was $33,933 as of January 1, 2012. The obligation is being amortized as future payment obligations are made on the master lease agreement by the Company.

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.

Note 15 - Guarantees, Commitments, and Contingencies

In 2010, the Company signed an agreement with O'Charley's, Inc. terminating its O'Charley's development agreement and requiring the termination of all its O'Charley's restaurant operating agreements no later than April 30, 2011. Accordingly, the Company launched its own newly created concept in 2010 called Twisted Rooster. Twisted Rooster offers a fresh new look with a dynamic menu focused on current customer trends and an emphasis on local products, done with a twist. The first converted location opened in 2010 and the remaining locations were converted (two locations) or permanently closed (one location) (see Note 18 – Discontinued Operations) in 2011.

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 16 – 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 measures interest rate swaps at fair value on a recurring basis. The fair value of these swaps is based primarily on inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

The Company has assets that are subject to measurement at fair value on a nonrecurring basis, including goodwill. The Company has estimated the fair values of goodwill based primarily on unobservable inputs, including management's best estimates of the fair values of assets acquired at the date of the acquisitions.

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 the revolving credit facility, approximate the carrying amounts in the accompanying consolidated financial statements due to the short maturity of such instruments.

Long-term Obligations – The fair value of long-term debt obligations approximates carrying value at January 1, 2012 and January 2, 2011. The fair value of the long-term obligations approximates carrying value based on estimated rates currently available to the Company at January 1, 2012 and debt obligations with similar terms and maturities.

Note 17 – Acquisition of Wendy's Restaurants

In 2011, the Company acquired 16 Wendy's restaurants through various transactions. The purchases included the business, equipment and leasehold interests of all locations. 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 assumed existing or entered into new franchise agreements with the franchisor, The Wendy's Company. The Company also assumed or entered into new leases on all properties. The acquisitions were financed with approximately $2,378,000 of new debt, $1,295,000 of seller financing and $1,072,000 of cash. The transactions resulted in the recording of approximately $3,935,000 of goodwill and $813,000 of property and equipment.

The Company expensed $143,000 of acquisition and preopening costs in 2011 related to the transactions.

The goodwill of approximately $3,935,000 arising from the acquisition consists largely of synergies and economies of scale expected from combining the operations of the new locations with Meritage. All of the goodwill is expected to be deductible for tax purposes.

Note 18 – Discontinued Operations

In March 2011, the Company closed one of its casual dining restaurants, at which time all activities ceased and the property and related fixed assets were returned to the landlord. Discontinued operations expense includes costs associated with the closure and estimated lease termination settlement costs.