

Meritage Hospitality Group Inc.

**Consolidated Financial Report
June 29, 2025 and June 30, 2024**

Consolidated Financial Statements

Balance Sheets	2
Statements of Operations and Comprehensive (Loss) Income	3 - 4
Statements of Equity	5
Statements of Cash Flows	6 - 7
Notes to Consolidated Financial Statements	8-13

Meritage Hospitality Group Inc.

Consolidated Balance Sheets		
(in thousands)		
	(unaudited) June 29, 2025	December 29, 2024
Assets		
Current Assets		
Cash	\$ 17,609	\$ 20,849
Receivables	2,490	4,111
Inventories	4,878	5,304
Prepaid expenses	4,804	4,269
Other current assets	3,332	2,433
Total Current Assets	33,113	36,966
Property and Equipment - Net	141,105	156,534
Goodwill	205,239	205,239
Intangible Assets - Net	7,385	7,391
Operating Lease Right-of-Use Assets - Net	390,261	388,748
Other Assets	13,124	15,287
Total Assets *	\$ 790,227	\$ 810,165
Liabilities and Equity		
Current Liabilities		
Trade accounts payable	\$ 22,686	\$ 26,878
Lines of credit	31,470	37,181
Current portion of long-term debt	18,529	21,523
Current portion of operating lease obligations payable	27,896	27,175
Accrued payroll	13,264	14,550
Accrued liabilities	12,622	9,303
Total Current Liabilities	126,467	136,610
Unearned Vendor Allowances	7,219	2,226
Operating Lease Obligations Payable - Net of current portion	368,506	367,647
Other Long-term Liabilities	14,046	14,283
Long-term Debt - Net of current portion and financing costs	137,334	145,005
Deferred Income Taxes	13,388	15,580
Total Liabilities *	\$ 666,960	\$ 681,351
Equity	123,267	128,814
Total Liabilities and Equity	\$ 790,227	\$ 810,165

See notes to consolidated financial statements.

* Total assets of the Variable Interest Entity were \$22,829 and \$26,586 as of June 29, 2025 and December 29, 2024, respectively. Total liabilities were \$19,547 and \$23,333 as of June 29, 2025 and December 29, 2024, respectively. See Note 4 for balance sheet information about the Variable Interest Entity.

Meritage Hospitality Group Inc.

Consolidated Statements of Operations and Comprehensive (Loss) Income (in thousands, except per share data)

	Three Months Ended (unaudited)	
	June 29, 2025	June 30, 2024
Food and Beverage Revenue	\$ 163,532	\$ 172,360
Expenses		
Food and beverage	42,671	44,405
Labor and related	52,938	53,971
Occupancy	22,287	22,682
Advertising	6,850	6,925
Franchise fees	6,356	6,664
Other operating	17,193	16,656
Total Operating Expenses	148,295	151,303
General and administrative	6,987	8,244
Preopening, acquisition and closing	633	1,313
Depreciation and amortization	4,616	4,763
Total Expenses	160,531	165,623
Income from Operations	3,001	6,737
Other Expense (Income)		
Interest	2,994	3,170
Other - Net	398	(783)
Total Other Expense	3,392	2,387
(Loss) Income Before Income Taxes	(391)	4,350
Income Tax (Benefit) Expense	(726)	1,323
Net Income	<u><u>\$ 335</u></u>	<u><u>\$ 3,027</u></u>
Net Income (Loss) Attributable to Noncontrolling Interest in Variable Interest Entity	10	(103)
Net Income Attributable to Controlling Interest	<u><u>\$ 325</u></u>	<u><u>\$ 3,130</u></u>
Other Comprehensive Loss - Net of Tax		
Change in interest rate swap valuation	(732)	(426)
Comprehensive (Loss) Income	<u><u>\$ (407)</u></u>	<u><u>\$ 2,704</u></u>
Earnings per share		
Basic	\$ (0.04)	\$ 0.39
Diluted	\$ (0.04)	\$ 0.33
Basic Weighted Average Shares Outstanding	6,662	6,613
Diluted Weighted Average Shares Outstanding	6,690	8,922

See notes to consolidated financial statements.

Meritage Hospitality Group Inc.

Consolidated Statements of Operations and Comprehensive (Loss) Income (in thousands, except per share data)

	Six Months Ended (unaudited)	
	June 29, 2025	June 30, 2024
Food and Beverage Revenue	\$ 318,062	\$ 335,209
Expenses		
Food and beverage	83,651	86,241
Labor and related	105,992	106,597
Occupancy	44,992	45,512
Advertising	13,061	13,460
Franchise fees	12,326	12,907
Other operating	33,278	32,403
Total Operating Expenses	293,300	297,120
General and administrative	14,404	16,026
Preopening, acquisition and closing	1,751	1,934
Depreciation and amortization	9,281	9,540
Total Expenses	318,736	324,620
(Loss) Income from Operations	(674)	10,589
Other Expense (Income)		
Interest	5,976	6,463
Other - Net	(487)	(1,724)
Total Other Expense	5,489	4,739
(Loss) Income Before Income Taxes	(6,163)	5,850
Income Tax (Benefit) Expense	(2,201)	1,242
Net (Loss) Income	\$ (3,962)	\$ 4,608
Net (Loss) Income Attributable to Noncontrolling Interest in Variable Interest Entity	(32)	165
Net (Loss) Income Attributable to Controlling Interest	\$ (3,930)	\$ 4,443
Other Comprehensive Loss - Net of Tax		
Change in interest rate swap valuation	(1,804)	(3)
Comprehensive (Loss) Income	\$ (5,734)	\$ 4,440
Earnings per share		
Basic	\$ (0.76)	\$ 0.50
Diluted	\$ (0.76)	\$ 0.44
Basic Weighted Average Shares Outstanding	6,656	6,582
Diluted Weighted Average Shares Outstanding	6,694	8,540

See notes to consolidated financial statements.

Meritage Hospitality Group Inc.
Consolidated Statements of Equity

(in thousands)

	Convertible Preferred Stock	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income	Retained Earnings	Noncontrolling Interest	Total
Balance - December 31, 2023	<u>\$ 15</u>	<u>\$ 65</u>	<u>\$ 33,577</u>	<u>\$ 6,342</u>	<u>\$ 81,144</u>	<u>\$ 897</u>	<u>\$ 122,040</u>
Net income	-	-	-	-	7,801	218	8,019
Issuance of common stock	-	1	121	-	-	-	122
Repurchase of common stock	-	-	(319)	-	-	-	(319)
Common stock dividends	-	-	-	-	(396)	-	(396)
Preferred stock dividends	-	-	-	-	(1,898)	-	(1,898)
Interest rate swap - net of tax	-	-	-	(1,307)	-	-	(1,307)
Company-owned stock	-	-	1,331	-	-	-	1,331
Stock option expense	-	-	1,196	-	-	-	1,196
Contributions	-	-	-	-	-	26	26
Balance - December 29, 2024	<u>\$ 15</u>	<u>\$ 66</u>	<u>\$ 35,906</u>	<u>\$ 5,035</u>	<u>\$ 86,651</u>	<u>\$ 1,141</u>	<u>\$ 128,814</u>
Net loss	-	-	-	-	(3,930)	(32)	(3,962)
Issuance of common stock	-	1	48	-	-	-	49
Repurchase of common stock	-	-	(61)	-	-	-	(61)
Preferred stock dividends	-	-	-	-	(948)	-	(948)
Interest rate swap - net of tax	-	-	-	(1,804)	-	-	(1,804)
Company-owned stock	-	-	641	-	-	-	641
Stock option expense	-	-	661	-	-	-	661
Distributions	-	-	-	-	-	(123)	(123)
Balance - June 29, 2025 (unaudited)	<u>\$ 15</u>	<u>\$ 67</u>	<u>\$ 37,195</u>	<u>\$ 3,231</u>	<u>\$ 81,773</u>	<u>\$ 986</u>	<u>\$ 123,267</u>

See notes to consolidated financial statements.

Meritage Hospitality Group Inc.

Consolidated Statements of Cash Flows (in thousands)

Six Months Ended (unaudited)	
June 29, 2025	June 30, 2024

Cash Flows from Operating Activities

Net (loss) income	\$	(3,962)	\$	4,608
Adjustments to reconcile net income to net cash from operating activities:				
Depreciation and amortization		9,281		9,540
Amortization of financing costs		364		333
Deferred income taxes		(1,712)		144
Loss on disposal of fixed assets		848		559
(Gain) loss on sale and leaseback transactions (Note 3)		(1,244)		1,247
Change in company-owned stock		641		107
Stock option expense		661		639
Gain on loan forgiveness		(46)		(286)
Changes in operating assets and liabilities which provided (used) cash:				
Receivables		1,621		(1,017)
Inventories		426		378
Prepaid expenses		(535)		187
Other current assets		(899)		505
Other assets		(126)		174
Trade accounts payable		(5,469)		(6,242)
Accrued payroll		(1,286)		(493)
Accrued liabilities		3,386		2,890
Unearned vendor allowances		4,993		4,663
Other long-term liabilities		(237)		(159)
Net cash provided by operating activities		<u>6,705</u>		<u>17,777</u>

Cash Flows from Investing Activities

Purchase of property and equipment	(13,579)	(10,530)
Purchase of intangible assets	(240)	(115)
Proceeds from sale of assets	<u>4,353</u>	<u>713</u>
Net cash used in investing activities	<u>(9,466)</u>	<u>(9,932)</u>

See notes to consolidated financial statements.

Meritage Hospitality Group Inc.

Consolidated Statements of Cash Flows (in thousands)

Six Months Ended (unaudited)	
June 29, 2025	June 30, 2024

Cash Flows from Financing Activities

Principal payments on long-term debt	(10,853)	(13,339)
Proceeds from lines of credit	13,466	11,289
Payments on lines of credit	(4,748)	(966)
Proceeds from sale and leaseback transactions (Note 3)	17,298	6,992
Payments on lines of credit related to sale and leaseback transactions (Note 3)	(14,429)	(7,217)
Payments on financing costs	(130)	(152)
Repurchase of common stock	(61)	(286)
Proceeds from issuance of common stock	49	67
Common stock dividends paid	-	(396)
Preferred stock dividends paid	(948)	(949)
Contributions from noncontrolling interest	-	26
Distributions to noncontrolling interest	(123)	-
Net cash used in financing activities	(479)	(4,931)

Net (Decrease) Increase in Cash

Cash - Beginning of period

Cash - End of period

(3,240)	2,914
20,849	19,434
<u>\$ 17,609</u>	<u>\$ 22,348</u>

Supplemental Disclosure of Cash Flow Information

Cash paid for:

Interest	\$ 5,648	\$ 6,257
Income taxes	\$ 518	\$ 610

Significant non-cash investing and financing activities:

Non-cash purchases of property	\$ 1,277	\$ 817
Conversion of property and equipment to asset held for sale	\$ -	\$ (798)
Change in fair value of swap - net of tax	\$ (1,804)	\$ (3)

See notes to consolidated financial statements.

Meritage Hospitality Group Inc.

Notes to Consolidated Financial Statements (unaudited) (in thousands, except share data)

Note 1 – Nature of Business and Consolidation

Meritage Hospitality Group Inc., Subsidiaries and Affiliate, hereafter referred to as the "Company", conducts its business in the quick-service and casual dining restaurant industries across 15 states. As of June 29, 2025, the Company operated 376 Wendy's quick-service restaurants under franchise agreements with its franchisor, Quality Is Our Recipe, LLC, hereafter referred to as "The Wendy's Company" or "Wendy's," and five independent concept restaurants.

The Company operated seven Taco John's quick-service restaurants under franchise agreements with franchisor, Taco John's International, Inc., hereafter referred to as "Taco John's", until September 2024 when the Company permanently closed its locations and exited the franchise system effective November 2024 when all development and franchise agreements with Taco John's were terminated.

Principles of Consolidation - The consolidated financial statements include the accounts of Meritage Hospitality Group Inc., its wholly owned subsidiaries, and its affiliate variable interest entity ("VIE"), Restaurant Holdings, LLC ("Restaurant Holdings"), for which the Company is the primary beneficiary. The VIE is consolidated because the Company has the power to direct activities that impact the VIE's economic performance, as well as the right to receive benefits or the obligation to absorb losses from the VIE.

Earnings from Restaurant Holdings are reported as a noncontrolling interest in the accompanying consolidated statements of operations. All intercompany transactions and balances between the Company, its subsidiaries and Restaurant Holdings have been eliminated in consolidation.

Fiscal Period – The Company operates on a 52/53-week fiscal year ending on the Sunday closest to December 31 of each year. The three-month periods ended June 29, 2025 and June 30, 2024 both include 13 weeks. The six-month periods ended June 29, 2025 and June 30, 2024 both include 26 weeks.

Note 2 – Leases

The Company has operating lease agreements for unowned restaurants, the corporate office, and certain equipment. Land and building leases used in operations have remaining lease terms ranging from one to 20 years, some of which include options to renew for up to 50 years.

On the consolidated balance sheets, operating leases are included in operating lease right-of-use ("ROU") assets, operating lease obligations payable, and current portion of operating lease obligations payable.

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

Meritage Hospitality Group Inc.

Notes to Consolidated Financial Statements (unaudited) (in thousands, except share data)

The Company's leases do not provide an implicit rate. In determining present value of future minimum lease payments, the Company utilized an incremental borrowing rate congruent with its primary lending agreement, which is the rate for a fully collateralized, amortizing loan with the same term as the lease. The weighted average effective discount rates were 5.2% as of both June 29, 2025 and December 29, 2024, respectively.

Base rent expense includes non-lease components such as taxes, insurance, and maintenance when required under the lease agreements and is classified as occupancy expense in the consolidated statements of operations. The Company elected the practical expedient to not separate non-lease components from the lease components to which they relate. For certain equipment leases, the Company applies a portfolio approach to effectively account for the operating lease ROU assets and liabilities.

Variable rent expense components are expensed as incurred and represent rent escalators of which the majority are contingent upon changes in the Consumer Price Index. Variable rent expense also includes percentage rentals which represent additional rent due under certain leases for which the Company is required to pay a percentage of sales in excess of minimum prescribed amounts.

Rent expense from operating leases was recognized as follows:

	Three Months Ended		Six Months Ended	
	June 29, 2025	June 30, 2024	June 29, 2025	June 30, 2024
Operating lease costs:				
Fixed base lease expense - real estate	\$ 11,443	\$ 11,348	\$ 22,729	\$ 22,680
Fixed base lease expense - equipment	547	540	1,094	1,077
Variable lease expense	478	397	884	766
Total	<u>\$ 12,468</u>	<u>\$ 12,285</u>	<u>\$ 24,707</u>	<u>\$ 24,523</u>

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

	Three Months Ended		Six Months Ended	
	June 29, 2025	June 30, 2024	June 29, 2025	June 30, 2024
Cash paid for amounts included in the measurement of lease liabilities	\$ 11,946	\$ 11,821	\$ 23,740	\$ 23,620
Right-of-use assets obtained in exchange for lease obligations	\$ 6,440	\$ 1,414	\$ 19,548	\$ 4,573

There were no significant changes to future payments due under operating leases as of June 29, 2025 when compared to December 29, 2024, and the weighted-average remaining lease terms for operating leases were approximately 13 and 14 years as of June 29, 2025 and December 29, 2024, respectively.

Meritage Hospitality Group Inc.

Notes to Consolidated Financial Statements (unaudited) (in thousands, except share data)

Note 3 – Sale and Leasebacks

The Company completed seven sale and leaseback transactions for the six months ended June 29, 2025, and three sale and leaseback transactions for the six months ended June 30, 2024. Through these transactions, the Company netted proceeds of \$17,298 and \$6,992, paid down indebtedness of \$14,429 and \$7,217, and recorded a net gain of \$1,244 and a net loss of \$1,247 for the six months ended June 29, 2025 and June 30, 2024, respectively. Resulting gains and losses were recorded in other income on the consolidated statements of operations.

Note 4 – Information About Variable Interest Entity

Restaurant Holdings was formed to provide a source of capital to fund and facilitate real estate transactions where the Company has potential economic benefits in future sale and leaseback transactions. Upon acquisition of real estate, Restaurant Holdings leases such real estate to the Company and utilizes rent revenue to pay the interest expense on its bank debt. This variable interest entity ("VIE") is owned by related parties and not directly by the Company.

Restaurant Holdings leverages a revolving credit facility with a bank other than the Company's senior lender that allows for borrowings up to \$35,000 less the outstanding balance on the entity's term note payable of \$1,750. The facility is secured by its interest in the associated real estate, personal guarantees of owners, and a commercial guarantee of the Company for certain properties through December 31, 2025.

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Meritage Hospitality Group Inc.

Notes to Consolidated Financial Statements (unaudited)

(in thousands, except share data)

Included in the consolidated balance sheets as of June 29, 2025 and December 29, 2024 are the following amounts related to Restaurant Holdings, before eliminating entries:

	(unaudited) June 29, 2025	December 29, 2024
Assets:		
Current assets	\$ 1,095	\$ 1,296
Property and equipment - net	15,589	19,206
Other assets	798	798
Investment in MHGI preferred stock	5,000	5,000
Investment in MHGI common stock	347	286
Total Assets	<u>\$ 22,829</u>	<u>\$ 26,586</u>
Liabilities:		
Current liabilities	\$ 4,404	\$ 5,165
Current portion of long-term debt	1,750	1,875
Revolving line of credit	12,803	15,692
Long-term debt	590	601
Total Liabilities	<u>19,547</u>	<u>23,333</u>
Equity - Noncontrolling interest	<u>3,282</u>	<u>3,253</u>
Total Liabilities and Equity	<u>\$ 22,829</u>	<u>\$ 26,586</u>

Note 5 – Commitments and Contingencies

The Company is involved in certain legal proceedings which the Company believes will be incidental to its business. Any potential liability of the Company with respect to these legal actions or an individual claim, in the aggregate, is not expected to be material to the consolidated financial statements. The Company maintains various types of insurance standard to the industry that would cover most liabilities incurred by actions brought against the Company.

As part of the Company's ongoing franchise relationship with The Wendy's Company, the Company entered into agreements which contain certain restaurant reimagining and development requirements, as well as agreed-upon improvements to acquired facilities. Through these agreements, the Company committed to develop 52 new restaurants by November 30, 2025 and to reimage 100% of its portfolio by December 31, 2028. Pursuant to these agreements, the Company is entitled to receive significant economic incentives which include discounted royalty and national marketing fees. As of June 29, 2025, the Company has reimaged approximately 75% of its portfolio and has completed 42 of the new restaurant development commitments. Based on current costs, the Company estimates it will invest approximately \$101,000 to fulfill the remaining commitments.

Meritage Hospitality Group Inc.

Notes to Consolidated Financial Statements (unaudited) (in thousands, except share data)

Note 6 – Equity

The Company has 5,000,000 authorized shares of \$0.01 par value preferred stock. As of June 29, 2025 and December 29, 2024, preferred stock was designated as follows:

	June 29, 2025	December 29, 2024
Preferred B:		
Authorized:	1,350,000	1,350,000
Outstanding:	805,400	805,400
Treasury:	3,467	3,467
Preferred C:		
Authorized:	200,000	200,000
Outstanding:	160,360	160,360
Preferred D:		
Authorized:	600,000	600,000
Outstanding:	310,293	310,293
Preferred E:		
Authorized:	800,000	800,000
Outstanding:	126,744	128,744
Preferred F:		
Authorized:	1,000,000	1,000,000
Outstanding:	130,606	130,606

The Company's preferred stock ranks senior to the Company's common stock with respect to payment of dividends and distributions upon liquidation or dissolution.

The Company has 30,000,000 authorized shares of \$0.01 par value common stock, with 6,651,147 and 6,627,989 shares issued and outstanding as of June 29, 2025 and December 29, 2024, respectively. There were 605,250 treasury shares as of June 29, 2025 and December 29, 2024. The common shares of the Company are quoted on the OTC Markets under the symbol "MHGU."

Note 7 – Reclassification

Certain 2024 amounts have been reclassified to conform with the 2025 presentation.

Note 8 – Subsequent Events

The consolidated financial statements and related disclosures include evaluation of events up through and including August 12, 2025, the date the consolidated financial statements were issued.

Subsequent to the quarter, the Company completed nine sale and leaseback transactions. Through these transactions, the Company netted proceeds of \$19,086, paid down indebtedness of \$15,920, and recorded a net loss of \$1,501. The resulting net loss was recorded in other income on the consolidated statements of operations.

Meritage Hospitality Group Inc.

Notes to Consolidated Financial Statements (unaudited) (in thousands, except share data)

On July 31, 2025, the Company entered into a Development Agreement with an additional restaurant brand. Subject to certain terms and conditions, the Company committed to build 15 new restaurants by April 30, 2031 and estimates it will invest approximately \$34,170 in the 15-store roll-out.

Meritage Hospitality Group Inc.

Incorporated in Michigan
45 Ottawa Ave SW, Suite 600
Grand Rapids, MI 49503

Telephone: 616.776.2600
Corporate Website: www.meritagehospitality.com
Company Email: rschermer@mhgi.net

SIC Code: 5812

Quarterly Report

For the period ending June 29, 2025
(the "Reporting Period")

The number of shares outstanding of our Common Stock is 6,651,147 as of June 29, 2025.

The number of shares outstanding of our Common Stock was 6,627,989 as of December 29, 2024.

Indicate by check mark whether the company is a shell company (as defined in Rule 405 of the Securities Act of 1933 and Rule 12b-2 of the Exchange Act of 1934):

Yes: ☐ No: ☒

Indicate by check mark whether the company's shell status has changed since the previous reporting period:

Yes: ☐ No: ☒

Indicate by check mark whether a Change in Control⁴ of the company has occurred over this reporting period:

Yes: ☐ No: ☒

⁴ "Change in Control" shall mean any events resulting in:

(i) Any "person" (as such term is used in Sections 13(d) and 14(d) of the Exchange Act) becoming the "beneficial owner" (as defined in Rule 13d-3 of the Exchange Act), directly or indirectly, of securities of the Company representing fifty percent (50%) or more of the total voting power represented by the Company's then outstanding voting securities;

(ii) The consummation of the sale or disposition by the Company of all or substantially all of the Company's assets;

(iii) A change in the composition of the Board occurring within a two (2)-year period, as a result of which fewer than a majority of the directors are directors immediately prior to such change; or

(iv) The consummation of a merger or consolidation of the Company with any other corporation, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or its parent) at least fifty percent (50%) of the total voting power represented by the voting securities of the Company or such surviving entity or its parent outstanding immediately after such merger or consolidation.

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

Name of the Company or Issuer:

Meritage Hospitality Group Inc. (the "Company" or "Meritage").

Address of Principal Office:

45 Ottawa Ave SW, Suite 600

Grand Rapids, MI 49503

Telephone: 616.776.2600

Facsimile: 616.328.6925

Web: www.meritagehospitality.com

Item 2 Shares outstanding.

<u>Common Shares</u>	<u>06/29/25</u>	<u>12/29/24</u>	<u>12/31/23</u>
Authorized:	30,000,000 shares	30,000,000 shares	30,000,000 shares
Outstanding:	6,651,147 shares	6,627,989 shares	6,517,965 shares
Freely Tradable (public float):	approx. 3,000,000 shs.	approx. 3,000,000 shs.	approx. 3,000,000 shs.
Number of beneficial holders owning at least 100 shares:	approx. 620	approx. 625	approx. 655
Number of record holders:	approx. 59	approx. 60	approx. 56
<u>Preferred B</u>			
Authorized:	1,350,000 shares	1,350,000 shares	1,350,000 shares
Outstanding:	805,400 shares	805,400 shares	805,400 shares
Freely Tradable (public float):	300,000 shares	300,000 shares	300,000 shares
Number of record holders:	18 holders	18 holders	18 holders
<u>Preferred C</u>			
Authorized:	200,000 shares	200,000 shares	200,000 shares
Outstanding:	160,360 shares	160,360 shares	160,360 shares
Number of record holders:	7 holders	7 holders	7 holders
<u>Preferred D</u>			
Authorized:	600,000 shares	600,000 shares	600,000 shares
Outstanding:	310,293 shares	310,293 shares	310,293 shares
Number of record holders:	24 holders	24 holders	24 holders
<u>Preferred E</u>			
Authorized:	800,000 shares	800,000 shares	800,000 shares
Outstanding:	126,744 shares	128,744 shares	128,744 shares
Number of record holders:	12 holders	13 holders	13 holders
<u>Preferred F</u>			
Authorized:	1,000,000 shares	1,000,000 shares	1,000,000 shares
Outstanding:	130,606 shares	130,606 shares	130,606 shares
Number of record holders:	7 holders	7 holders	7 holders

Item 3 Interim financial statements.

See the unaudited consolidated financial report for the quarter ended June 29, 2025 attached to this report. The unaudited consolidated financial statements include the following reports:

- (1) balance sheets;
- (2) statements of operations and comprehensive (loss) income;
- (3) statements of equity;
- (4) statements of cash flows; and
- (5) notes to consolidated financial statements.

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

Overview

Meritage operated a total of 381 quick-service and casual dining restaurants as of June 29, 2025. The Company has experienced significant growth through acquisitions, newly built locations, reimagining campaigns, and investment in independent concept restaurants.

As of June 29, 2025, the Company operated 376 Wendy's quick-service restaurants under franchise agreements with The Wendy's Company. Of the Wendy's restaurants, eight are located in Arkansas, 32 in Connecticut, 58 in Florida, 50 in Georgia, 13 in Indiana, 13 in Massachusetts, 58 in Michigan, eight in Mississippi, four in Missouri, 22 in North Carolina, 15 in Ohio, 29 in Oklahoma, 34 in Tennessee, 17 in Texas, and 15 in Virginia.

The Company has committed significant capital resources to the Wendy's brand initiatives, including a commitment to build 52 new restaurants by November 30, 2025 under a development agreement with Wendy's. As of June 29, 2025, the Company has completed 42 of the new restaurant commitments. Additionally, since 2009, the Company has acquired 295 Wendy's restaurants through 28 separate transactions making it one of the largest franchisees in the Wendy's system. The Company continues to evaluate acquisition, development, and other growth opportunities in the restaurant industry.

The Company additionally operated five independent restaurants under its two concepts, Morning Belle and Blue Porch Bar & Grill. All five restaurants are located in Michigan.

The Company operated seven Taco John's quick-service restaurants under franchise agreements with Taco John's International, Inc. until September 2024 when the Company closed all seven of its locations and exited the Taco John's system. Effective November 2024, all development and franchise agreements with Taco John's were terminated. As of the date of this report, the Company sold six of the vacant properties.

Effective July 2025, the Company entered into a Development Agreement with an additional restaurant brand. Subject to certain terms and conditions, the Company committed to build 15 new restaurants by April 30, 2031.

A schedule of Company restaurants is as follows:

	<u>Wendy's</u>	<u>Independent Concepts</u>	<u>Taco John's</u>	<u>Total Restaurants</u>
Restaurants as of December 31, 2023	376	6	6	388
Newly opened restaurants	5	-	1	6
Closed restaurants	(4)	(1)	(7)	(12)
Sold restaurants	(3)	-	-	(3)
Restaurants as of December 29, 2024	374	5	-	379
Newly opened restaurants	3	-	-	3
Closed restaurants	(1)	-	-	(1)
Restaurants as of June 29, 2025	376	5	-	381

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Results of Operations

Results of operations are summarized as follows:

	Three Months Ended (in thousands)				Six Months Ended (in thousands)			
	June 29, 2025		June 30, 2024		June 29, 2025		June 30, 2024	
Food and Beverage Revenue	\$ 163,532	100.0%	\$ 172,360	100.0%	\$ 318,062	100.0%	\$ 335,209	100.0%
Expenses								
Food and beverage	42,671	26.1%	44,405	25.8%	83,651	26.3%	86,241	25.7%
Labor and related	52,938	32.4%	53,971	31.3%	105,992	33.3%	106,597	31.8%
Occupancy	22,287	13.6%	22,682	13.2%	44,992	14.1%	45,512	13.6%
Advertising	6,850	4.2%	6,925	4.0%	13,061	4.1%	13,460	4.0%
Franchise fees	6,356	3.9%	6,664	3.9%	12,326	3.9%	12,907	3.9%
Other operating	17,193	10.5%	16,656	9.7%	33,278	10.5%	32,403	9.7%
Total Operating Expenses	148,295	90.7%	151,303	87.9%	293,300	92.2%	297,120	88.7%
General and administrative	6,987	4.3%	8,244	4.8%	14,404	4.5%	16,026	4.8%
Preopening, acquisition and closing	633	0.4%	1,313	0.8%	1,751	0.6%	1,934	0.6%
Depreciation and amortization	4,616	2.8%	4,763	2.8%	9,281	2.9%	9,540	2.8%
Total Expenses	160,531	98.2%	165,623	96.3%	318,736	100.2%	324,620	96.9%
Income (Loss) from Operations	3,001	1.8%	6,737	3.7%	(674)	(0.2%)	10,589	3.1%
Other Expense (Income)								
Interest	2,994	1.8%	3,170	1.8%	5,976	1.9%	6,463	1.9%
Other - Net	398	0.2%	(783)	(0.5%)	(487)	(0.2%)	(1,724)	(0.5%)
Total Other Expense	3,392	2.0%	2,387	1.3%	5,489	1.7%	4,739	1.4%
(Loss) Income Before Income Taxes	(391)	(0.2%)	4,350	2.4%	(6,163)	(1.9%)	5,850	1.7%
Income Tax (Benefit) Expense	(726)	(0.4%)	1,323	0.8%	(2,201)	(0.7%)	1,242	0.4%
Net Income (Loss)	\$ 335	0.2%	\$ 3,027	1.6%	\$ (3,962)	(1.2%)	\$ 4,608	1.3%
Net Income (Loss) Attributable to Noncontrolling Interest in Variable Interest Entity	10	0.0%	(103)	(0.1%)	(32)	0.0%	165	0.0%
Net Income (Loss) Attributable to Controlling Interest	\$ 325	0.2%	\$ 3,130	1.5%	\$ (3,930)	(1.2%)	\$ 4,443	1.3%
Other Comprehensive Loss - Net of Tax Change in interest rate swap valuation	(732)	(0.4%)	(426)	(0.2%)	(1,804)	(0.6%)	(3)	0.0%
Comprehensive (Loss) Income	\$ (407)	(0.2%)	\$ 2,704	1.3%	\$ (5,734)	(1.8%)	\$ 4,440	1.3%

Food and Beverage Revenue

The Company reported revenue of \$163.5 and \$318.1 million for the three and six months ended June 29, 2025, representing a decrease of 5.1% over prior year's sales of \$172.4 and \$335.2 million for the three and six months ended June 30, 2024. Total Company "same store sales" (i.e., food and beverage revenue for stores in full operation on a per period basis for both fiscal years) decreased 4.4% and 4.5% for the three and six months ended June 29, 2025, when compared to the same period in the prior year.

The Company's Wendy's restaurants reported sales of \$161.9 and \$314.8 million for the three and six months ended June 29, 2025, a decrease of 4.8% and 4.7% over the prior year's sales of \$170.0 and \$330.2 million for the three and six months ended June 30, 2024. The Company's Wendy's restaurants experienced a "same store sales" decrease of 4.5% and 4.6% for the three and six months ended June 29, 2025 when compared to the same period in the prior year. The decrease in "same store sales" represents a general decline in transactions due to waning consumer sentiment throughout the Wendy's system and QSR industry as well as the impact of significant weather conditions across all the Company's markets in the first quarter of 2025.

The Company's independent concept restaurants reported sales of \$1.7 and \$3.3 million for the three and six months ended June 29, 2025, representing an increase of 36.6% and 41.9% from prior year sales of \$1.2 and \$2.3 million for the three and six months ended June 30, 2024. Independent concept restaurants experienced a "same store sales" increase of 16.9% and 16.0% for the three and six months ended June 29, 2025 when compared to the same period in the prior year.

In September 2024, the Company closed all seven of its Taco John's locations. The Company exited the franchise system effective November 2024, when all development and franchise agreements with Taco John's were terminated. The Company's Taco John's restaurants reported sales of \$1.2 and \$2.7 million for the three and six months ended June 30, 2024.

Cost of Food and Beverage

The cost of food and beverage increased to 26.1% and 26.3% of revenue for the three and six months ended June 29, 2025 from 25.8% and 25.7% for the three and six months ended June 30, 2024. The increase in food cost as a percent of revenue represents reduced margin on select value items associated with certain Wendy's national promotions. The increase in food cost additionally reflects an increase of 10.7% and 22.5% in the average cost of beef for the three and six months ended June 29, 2025 when compared to the same periods in the prior year.

Labor and Related Expenses

Labor and related expenses increased to 32.4% and 33.3% of revenue for the three and six months ended June 29, 2025 from 31.3% and 31.8% of revenue for the three and six months ended June 30, 2024. The increase primarily represents the impact of maintaining minimum staffing levels during periods of reduced transactions.

Occupancy Expenses

Occupancy expenses increased to 13.6% and 14.1% of revenue for the three and six months ended June 29, 2025 from 13.2% and 13.6% of revenue for the three and six months ended June 30, 2024. The increase as a percent of revenue reflects the impact of certain fixed costs, such as rent and property taxes, on reduced sales when compared to the prior year.

Other Operating Expenses

Other operating expenses increased to 10.5% of revenue for the three and six months ended June 29, 2025 from 9.7% of revenue for the three and six months ended June 30, 2024. The increase as a percent of revenue primarily represents the negative impact of coupons associated with certain Wendy's national promotions, such as "\$3 Son of a Baconator", and various digital based promotions. Other operating expense is summarized as follows:

	Three Months Ended (in thousands)		Six Months Ended (in thousands)	
	June 29, 2025	June 30, 2024	June 29, 2025	June 30, 2024
Cleaning supplies	\$ 2,013	\$ 1,941	\$ 3,831	\$ 3,839
Discounts and premiums	3,013	2,292	5,602	4,410
E-pay fees	2,770	2,796	5,299	5,375
Paper costs	4,265	4,453	8,238	8,571
Repair and maintenance - equipment	2,323	2,359	4,751	4,627
Technology	1,356	1,256	2,709	2,477
Other operating	1,453	1,559	2,848	3,104
Total other operating expense	<u>\$ 17,193</u>	<u>\$ 16,656</u>	<u>\$ 33,278</u>	<u>\$ 32,403</u>

General and Administrative Expenses

General and administrative expenses decreased to 4.3% and 4.5% of revenue for the three and six months ended June 29, 2025 from 4.8% of revenue for the three and six months ended June 30, 2024. The change is primarily due to decreased incentive compensation accruals which are based on financial performance.

Preopening, Acquisition and Closing Expenses

Preopening and acquisition expenses generally represent costs associated with opening new locations, concepts, or product lines in addition to restaurant reimagining and acquisitions.

Closing expenses generally represent actual and estimated costs related to the closure of under-performing restaurants which are subject to standard approvals by the franchisor, The Wendy's Company. These strategic closures are expected to be ongoing in a continued effort to position the Company's portfolio for stronger earnings growth going forward. Closing expenses in the current year also include residual disposition costs related to the permanent closure of the Company's seven Taco John's locations in 2024. The Company anticipates any ongoing disposition costs incurred to be immaterial.

Depreciation and Amortization

Depreciation and amortization as a percent of revenue remained consistent for both the three and six months ended June 29, 2025 when compared to the same periods in the prior year.

Interest Expense

Interest expense as a percent of revenue remained consistent for both the three and six months ended June 29, 2025 when compared to the same periods in the prior year.

Other Income

Other income generally represents the gain or loss on real estate transactions completed throughout the year as well as stock option expense. The Company's current year real estate transactions resulted in improved profitability when compared to the prior year. This improvement was offset by rebate income included in and exclusive to the prior year.

Income Tax (Benefit) Expense

Income tax (benefit) expense is summarized as follows:

	Three Months Ended (in thousands)		Six Months Ended (in thousands)	
	June 29, 2025	June 30, 2024	June 29, 2025	June 30, 2024
Federal income tax (benefit) expense	\$ 284	\$ 321	\$ (495)	\$ 447
State and local income tax expense	61	581	6	651
Change in deferred income taxes	(1,071)	421	(1,712)	144
Income tax (benefit) expense	<u>\$ (726)</u>	<u>\$ 1,323</u>	<u>\$ (2,201)</u>	<u>\$ 1,242</u>

Financial Condition

Recent trends exhibit a general decline in transactions across the QSR industry as consumers grapple with economic uncertainty and increasingly competitive environment. The Company is cautious of this elevated uncertainty but encouraged by the recent changes in Wendy's senior leadership team and is hopeful their strategic plan to focus on brand relevance, menu simplification, marketing collaborations and franchisee partnerships will improve the overall performance of the business. The Company is confident in the brand's ability to deliver long-term profitable growth despite the challenging environment. Management is currently deploying a plan to reduce administrative costs and is engaged with its bank and franchisor on adjusted contractual requirements. Loan covenants of the Company's various loan agreements include requirements for the maintenance of certain financial ratios. As of the date of this report, the Company was in compliance with its adjusted covenants.

Off-Balance Sheet Arrangements

There were no off-balance sheet arrangements as of June 29, 2025.

Item 5 Legal proceedings.

The Company is involved in certain legal proceedings which the Company believes will be incidental to its business. Any potential liabilities of the Company with respect to these legal actions or an individual claim, in the aggregate, are not expected to be material to the consolidated financial statements. The Company maintains various types of insurance standard to the industry that would cover most liabilities incurred by actions brought against the Company.

Item 6 Defaults upon senior securities.

None.

Item 7 Other information.

None.

Item 8 Exhibits.

None.

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Item 9 Certifications.

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

1. I have reviewed this quarterly disclosure statement of Meritage Hospitality Group Inc.;
2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

August 12, 2025



Robert E. Schermer, Jr.
Chief Executive Officer

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

1. I have reviewed this quarterly disclosure statement of Meritage Hospitality Group Inc.;
2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

August 12, 2025



Tracey A. Smith
Chief Financial Officer

FORWARD-LOOKING STATEMENTS

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

Statements concerning expected financial performance, business strategies and actions which Meritage intends to pursue to achieve its strategic objectives, constitute forward-looking statements. Implementation of strategies and achievement of 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; trends involving a general decline in consumer transactions across the QSR industry due to economic uncertainty or otherwise; changes in consumer preferences, tastes and eating habits; concerns about the nutritional quality of our restaurant menu items; concerns about the nutritional quality of our restaurant menu items; economic uncertainty, recessions, disruptions to or reductions in business operations, liquidity, prospects or supply chains due to pandemics, epidemics, widespread health emergencies, or outbreaks of infectious diseases, its variants and developments related to these types of events; concerns about the consumption of beef or other menu items due to diseases or other food safety issues, including, without limitation, E. coli bacteria; promotions and price discounting by competitors; atypical or severe weather and natural disasters including, without limitation, tropical storms, hurricanes, or tornadoes; changes in travel patterns; road construction; demographic trends; failure to manage social media trends; inflation, including related increases in the cost of food, labor and energy; supply chain interruptions; the availability and cost of suitable restaurant sites; the ability to finance expansion; interest rates; insurance costs; the availability of adequate managers and hourly-paid employees; risks associated with leasing real property; directives issued by the franchisor regarding operations, menu pricing, advertised pricing, national marketing, advertising, digital programs, and capital commitments; the general reputation of Meritage's and its franchisors' restaurants; the relationships between Meritage and its franchisors; legal claims and proceedings, including claims that may result in judgments against the Company requiring the payment of damages or other financial obligations; security, including cyber security and information technology security; credit card fraud; Meritage's ability to consummate acquisitions or, if consummated, to successfully integrate acquired businesses into Meritage's operations; Meritage's execution of growth initiatives; the recurring need for restaurant renovation and capital improvements; government regulations relating to, among other things, zoning, public health, sanitation, alcoholic beverage control, environment, food preparation, minimum and overtime wages and tips, employment of minors, citizenship requirements, working conditions, other labor and employment matters, and the operation of its restaurants; economic changes in the state and local economies where our restaurants are located including, without limitation, Arkansas, Connecticut, Florida, Georgia, Indiana, Massachusetts, Michigan, Mississippi, Missouri, North Carolina, Ohio, Oklahoma, Tennessee, Texas and Virginia.