Meritage Hospitality Group Inc.
Annual Disclosures

For Fiscal Year Ended January 1, 2017

Part A General Company Information

Item 1 The exact name of the issuer and its predecessor (if any).

The name of the Company is Meritage Hospitality Group Inc. (the "Company" or "Meritage").

Item 2 The address of the issuer's principal executive offices.

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

Item 3 The jurisdiction and date of the issuer's incorporation or organization.

The Company was incorporated under the laws of the State of Michigan in August 1986.

Part B Share Structure

Item 4 The exact title and class of securities outstanding.

The Company's Articles of Incorporation authorize 30,000,000 common shares (Par Value Per Share $0.01). There were 5,979,371 common shares outstanding at January 1, 2017. 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 852,850 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". 1,500,000 Series C Convertible Preferred Shares were authorized in 2016. There were no shares issued and outstanding as of January 1, 2017.

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

Common Shares: The Company paid a $0.01 cash dividend on its common shares in 2012, $0.02 cash dividends in 2013, $0.03 cash dividends in 2014, $0.06 cash dividends in 2015, and $0.07 cash dividends in 2016. The Company's Board of Directors will consider additional dividends on common shares in the future but has not adopted a dividend policy. State law and certain of the Company's governance documents and loan agreements may limit the Company's ability to declare cash dividends.

Series A Convertible Preferred Shares: The Company has 29,520 Series A Convertible Preferred Shares ("Series A Preferred Shares") outstanding. Each Series A Preferred Share has an annual dividend rate of $0.90 per share. The right to payment of dividends is cumulative. The dividend is payable in equal quarterly installments on the first day of each January, April, July and October to holders of record as of the 15th day of the preceding month. The holders may convert their Series 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. The Company may cause the Series A Preferred Shares to be converted at its option at any time if the average of the closing sale prices for the Company's common shares is at least 120 percent of the then effective conversion price for at least 20 trading days within the period of 30 consecutive trading days. Upon any dissolution or winding up, the holder of each Series A Preferred Share will be entitled to receive a liquidation value of $10.00 per Series A Preferred Share plus all accrued but unpaid dividends after the payment of all indebtedness of the Company and before any distributions to holders of common shares. No voting rights are provided except that should the Company miss six consecutive quarterly dividend payments, the holders of the Series A Preferred Shares, voting as a class with each Series A Preferred Share having one vote, would be entitled to elect two additional directors to the Company's Board of Directors, which members would remain on the Board as long as any dividend payment arrearages remain outstanding.

Series B Convertible Preferred Shares: The Company has 852,850 Series B Convertible Preferred Shares ("Series B Preferred Shares") outstanding. The Series B Preferred Shares have an annual dividend rate of $0.80 per share. The right to payment of dividends is cumulative. The dividend is payable in equal quarterly installments on the first day of each January, April, July and October to holders of record as of the 15th day of the preceding month. The holders may convert their Series B Preferred Shares into common shares at a conversion price of $5.57 per common share. The conversion rate is subject to adjustment in the event of stock splits, stock dividends, combinations, reclassifications and similar occurrences. The Company may, upon 15 days written notice, redeem all or part of the Series B Preferred Shares at a redemption price of $10.00 per Series B Preferred Share plus accrued but unpaid dividends. Upon any dissolution or winding up, the holder of each Series B Preferred Share will be entitled to receive a liquidation value of $10.00 per Series B Preferred Share plus all accrued but unpaid dividends after the payment of all indebtedness of the Company and before any distributions to holders of common shares. No voting rights are provided except as required by law and with the exception that, if at any time the Company fails to make six quarterly dividend payments, the holders of the Series B Preferred Shares, voting as a class with each Series B Preferred Share having one vote, would be entitled to elect two directors to the Board, which members would remain on the Board as long as any dividend payment arrearages remain outstanding.

Series C Convertible Preferred Shares: The Company has authorized 1,500,000 Series C Convertible Preferred Shares ("Series C Preferred Shares"). The Series C Preferred Shares have an annual dividend rate of $1.50 per share. The right to payment of dividends is cumulative. The dividend is payable in equal quarterly installments on the first day of each January, April, July and October to holders of record as of the 15th day of the preceding month. In one year from date of issuance, the holders may convert their Series C Preferred Shares into common shares at a conversion price of $13.50 per common share. The conversion rate is subject to adjustments for subdivisions and splits of common shares. During the first two years after the date of the offerings close, the Company may, at its option, redeem all or part of the Series C Preferred Shares at a redemption price of $26.00 per Series C Preferred Share plus accrued but unpaid dividends. After two years from the date of issuance, the redemption price is $28.00 per share plus any accrued and unpaid dividends thereafter. Upon any dissolution or winding up, the holder of each Series C Preferred Share will be entitled to receive a liquidation value of $25.00 per Series C Preferred Share plus all accrued but unpaid dividends after the payment of all indebtedness of the Company and before any distributions to holders of common shares. No voting rights are provided except as required by law and with the exception that, if at any time the Company fails to make six quarterly dividend payments, the holders of the Series C

Preferred Shares, voting as a class with each Series C Preferred Share having one vote, would be entitled to elect two directors to the Board, which members would remain on the Board as long as any dividend payment arrearages remain outstanding.

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.

	01/01/2017	01/03/2016
Common Shares		
Authorized:	30,000,000 shares	30,000,000 shares
Outstanding:	5,979,371 shares	5,651,242 shares
Freely Tradable (public float):	approx. 3,000,000 shs.	approx. 3,000,000 shs.
Number of beneficial holders owning at least 100 shares:	approx. 491	approx. 360
Number of record holders:	approx. 91	approx. 95
Preferred A		
Authorized:	200,000 shares	200,000 shares
Outstanding:	29,520 shares	29,520 shares
Freely Tradable (public float):	29,520 shares	29,520 shares
Number of record holders:	2	2
Preferred B		
Authorized:	1,350,000 shares	1,350,000 shares
Outstanding:	852,850 shares	856,000 shares
Freely Tradable (public float):	300,000 shares	300,000 shares
Number of record holders:	37	39
Preferred C		
Authorized:	1,500,000 shares	0 shares

Item 7 The name and address of the transfer agent.

American Stock Transfer and Trust Company, LLC
6201 15th Avenue
Brooklyn, NY 11219
Phone: (718) 921-8200

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

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 175 Wendy's quick-service restaurants. The Company's Wendy's restaurants are a franchisee of Quality Is Our Recipe, LLC, a subsidiary of The Wendy's Company. To simplify the language in this disclosure, Quality Is Our Recipe, LLC will hereafter be referred to as The Wendy's Company. The Company operates 43 Wendy's restaurants in Western and Southern Michigan, 50 in Northern Florida, 36 in the Atlanta, Georgia area, two in North Carolina, one in South Carolina, 10 in the Richmond, Virginia area, 15 in the Toledo, Ohio area, and 18 in the Oklahoma City, Oklahoma area. Through its development and acquisition efforts, the Company is one of the nation's largest Wendy's franchisees.

The Company also owns and operates six casual dining restaurants in Michigan, through four brands consisting of three Twisted Rooster locations, one Crooked Goose location, one Freighters Eatery & Taproom location, and one Wheelhouse Kitchen & Cocktails location. In 2010, the Company launched its own original concept, Twisted Rooster, a casual dining restaurant with a fresh look and dynamic menu focused on current customer trends. The emphasis is on fresh and local products prepared with a twist, including local beers, wines and liquors. In 2012 the Company opened Crooked Goose, a classic corner pub featuring old-school pub favorites with a twist. The Company opened Freighters Eatery & Taproom in 2013 with a come-as-you-are atmosphere that is warm and inviting, and locally-sourced art reflecting elements of the freighters passing by on the St. Clair river. In 2016, the Company opened the doors of its newest casual dining concept, Wheelhouse Kitchen & Cocktails, a contemporary American bistro featuring a twist on classic American bistro fare with seasonal recipes and artisan cocktails. All casual dining restaurants are committed to locally-sourced, Michigan-made products.

Meritage has over 5,700 employees, of which approximately 1,600 are full-time. The Company was assigned a primary SIC Code of 5812 (Retail-Eating Places). Meritage was incorporated under the laws of the State of Michigan in August 1986. The Company's consolidated financial statements include the accounts of Meritage Hospitality Group Inc. and all of its wholly-owned subsidiaries, consisting of MHG Food Service Inc., OCM Development, LLC, WM Limited Partnership-1998, Wen South, LLC, Wen Georgia LLC, Wen Carolina's LLC, Wen Virginia LLC, Wen Ohio LLC, Wen Oklahoma LLC, and its 98.5% owned subsidiary, RDG-MHG, LLC, ("RDG"). RDG is a 15% partner in TRG-Meritage Bahamas, LLC ("TRG"). All intercompany transactions and balances have been eliminated in consolidation. For convenience, Meritage and its subsidiaries are collectively referred to as "Meritage" or "the Company" throughout this report.

The Company operates on a 52/53 week fiscal year ending on the Sunday closest to December 31st of each year.

Risks and Governmental Regulations

Meritage is subject to numerous uncertainties and risk factors inherent in the food service industry. These include, among others: competition; changes in local and national economic conditions; changes in consumer tastes and eating habits; concerns about the nutritional quality of quick-service or casual dining menu items; concerns about consumption of beef or other menu items due to food-borne diseases; promotions and menu price discounting by competitors; severe weather; changes in travel patterns; road

construction; demographic trends; the cost of food, labor, fuel and energy; the availability and cost of suitable restaurant sites; the ability to finance expansion; fluctuating interest rates; insurance costs; the availability of an adequate number of managers and hourly-paid employees; directives issued by its franchisor regarding the Company's Wendy's operations; its franchisor's national marketing and advertising programs; its franchisor's advertised pricing; the general reputation of Meritage's and its franchisor's restaurants; legal claims; credit card fraud; 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 21% 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. The Company's restaurants are designed to be accessible to the disabled and are in substantial compliance with all current applicable regulations relating to restaurant accommodations for the disabled. The development and construction of additional restaurants will be subject to compliance with applicable zoning, land use and environment regulations.

Legal Proceedings

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

Stock Split and Other Listing Developments

In January 2007, a majority of outstanding common shares voted in favor of a delisting and deregistering transaction by means of a reverse stock split of the Company's issued and outstanding common shares at a ratio of 1-for-300, followed immediately by a 300-for-1 forward stock split of common shares (the "Transaction"). Each record shareholder of fewer than 300 common shares immediately prior to the reverse stock split had such shares cancelled and converted into the right to receive $5.25 for each common share held immediately prior to the reverse stock split. The common shares of each record shareholder of 300 or

more shares prior to the reverse stock split remained unchanged after the Transaction. As a result of the Transaction, the Company had fewer than 300 record common shareholders, allowing the Company to terminate its registration of common shares with the SEC under the Exchange Act.

In 2007, the Company's common shares were listed on the OTC Markets under the symbol "MHGU." The listing is under the OTCQX premium listing service intended to set apart a select group of issuers that the OTC Markets deem worthy of heightened consideration by investors. The OTCQX is designed to meet the needs of small to medium-sized, publicly-traded U.S. companies.

In 2012, the Company's Series B Preferred Shares were listed on the OTC Markets using the OTCQX premium listing service under the symbol "MHGUP".

Item 9 The nature of products or services offered.

Wendy's Operations

The Company operates Wendy's restaurants in Western and Southern Michigan, Northeast and Northwest Florida, Northwest Georgia, Southern North Carolina, Northern South Carolina, Northeast Virginia, Northern Ohio, and Central Oklahoma.

Menu

Each Wendy's restaurant offers a diverse menu of food items featuring hamburgers and chicken breast sandwiches, all of which are prepared to order with the customer's choice of condiments. The Wendy's menu also includes chili, baked and french fried potatoes, chicken nuggets, freshly prepared salads, soft drinks, "Frosty" desserts and children's meals. Each Wendy's restaurant features soft drink products supplied by the Coca Cola Company and its respective affiliates. The franchisor maintains significant discretion over the menu items offered in the Company's restaurants.

Restaurant Layout and Operation

The Company's Wendy's restaurants typically range from 2,100 to 3,800 square feet with seating capacity for 40 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 70% of total restaurant sales.

Marketing and Promotion

The franchisor requires at least 4% of the Company's restaurant sales be contributed to an advertising and marketing fund, 3.5% of which is used to benefit all Wendy's restaurants in national advertising programs. The Wendy's National Advertising Program uses these funds to develop advertising and sales promotion materials and concepts to be implemented nationally. The remainder is used on local advertising. The Company typically spends local advertising dollars in support of radio advertising, print media, local promotions and community goodwill projects.

Raw Materials and Energy

The Company's restaurants comply with uniform recipe and ingredient specifications provided by the franchisor. Food and beverage inventories and restaurant supplies are purchased from independent vendors that are approved by the franchisor. The Company has not experienced any significant shortages of food, equipment, fixtures or other products that are necessary to restaurant operations. While no such shortages are anticipated at this time, the Company believes that alternate suppliers are available if any shortage were to occur.

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

Seasonality

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

Relationship with Franchisor

Meritage operates its Wendy's restaurants pursuant to various agreements (including one franchise agreement for each restaurant) with its franchisor, The Wendy's Company. These agreements grant privileges to the Company such as the right to utilize trademarks, service marks, designs and other proprietary rights 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 1 to 30 years.

The franchise agreements provide, among other things, that a change in the operational control of the Wendy's operating entity, or the removal of a guarantor of the franchise agreements, cannot occur without the prior consent of the franchisor. In addition, any proposed sale of a Wendy's restaurant, ownership interests or franchise rights therein is subject to the consent of, and a right of first refusal by, the franchisor. These agreements also grant the franchisor wide discretion over many aspects of the restaurant operations, and often require the consent of the franchisor to carry out certain operational transactions pertaining to the Wendy's restaurants. If Meritage needs the consent of its franchisor to proceed with its business plans and such consent is not obtained, Meritage will not be able to proceed with its plans which, in turn, could adversely affect Meritage's growth strategy. If Meritage were to proceed without the franchisor's consent when required, the franchisor could terminate the franchise agreements or exercise its right to purchase the Wendy's restaurants.

In addition to monthly fees, Meritage is required to pay the franchisor a technical assistance fee upon the opening of a new Wendy's restaurant. Meritage is permitted to develop new Wendy's restaurants subject to the standard expandability criteria and site standards of the franchisor. While the franchise agreements are in place, Meritage is prohibited from acquiring or developing any other types of quick-service restaurants within its designated market area ("DMA"), or outside of them if the restaurant sells hamburgers, chicken sandwiches or products similar to the franchisor, and is located within a three mile radius of another Wendy's restaurant. For two years after the expiration or termination of the franchise agreements, Meritage is prohibited from participating in any quick-service restaurant business that sells hamburgers, chicken sandwiches or products similar to the franchisor, and is located within its DMA.

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

Casual Dining Operations

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

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

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

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

In 2016, the Company opened the its newest casual dining concept, Wheelhouse Kitchen & Cocktails in downtown Grand Rapids, Michigan. The multi-faceted concept is your neighborhood "go-to" for leisure or business. The large bar and porch make it the perfect place to unwind after work or enjoy a pre-concert cocktail. Additionally, the versatility of the dining room provides a relaxing space for an intimate dinner, featuring a seasonal menu and artisan cocktails.

Menu

The Twisted Rooster menu features classic American fare with dynamic twists at a reasonable price. The menu is guided by fresh, seasonally local ingredients combined with bold flavors for simply twisted results. The goal of the local focus is to "Commit to the Mitt" by partnering with local vendors and suppliers to reinvest in the state of Michigan. The Twisted Rooster menu includes locally sourced steaks, signature sandwiches, fresh fish, pasta plates, Twisted Rooster's signature macaroni and cheese, fresh-cut salads with signature dressings and homemade desserts. Also offered are a wide variety of alcoholic beverages including beer, wine and cocktails. The restaurants serve lunch, dinner and special menu items including seasonal promotions, daily special selections and a special kid's menu. Twisted Rooster restaurants offer curbside takeout.

The Crooked Goose is a classic corner pub that features old-school pub favorites with a twist. Their wings, pizzas and burgers are just a few of the tantalizing menu options specially created by the Company's executive chef. Like its affiliate eatery, Twisted Rooster, Crooked Goose is committed to locally-sourced, Michigan-made products. The teammates are focused on creating a unique dining experience, complete with distinctive food and drinks in an energetic atmosphere. Its daily food and drink specials, dynamic wait staff and 15 flat screen televisions all come together in a plaid exterior. The restaurant features special menus for lunch and dinner.

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

The menu at Wheelhouse Kitchen & Cocktails features a contemporary twist on classic American bistro fare with seasonal recipes inspired by the Chef's ongoing partnership with local suppliers. The distinctive menu is complemented by a list of artisan cocktails, select wines and Michigan craft brews.

Restaurant Layout and Operation

Twisted Rooster's fresh look is intent on reflecting current customer trends and creating impeccable food and drinks in an energetic atmosphere. The buildings are freestanding brick structures with 5,000 to 6,000 square feet with awnings and attractive landscaping that accommodate between 190 and 245 guests, including 12 to 20 bar seats. The modern interior is designed to be fun and energetic, featuring contemporary pieces by local artists. The kitchen is designed to provide flexibility and efficiency as well as allow for continuing menu innovations.

The Crooked Goose was established as a neighborhood restaurant and bar. With its eclectic mix of antique bar and lighting, it was designed to make you feel at home. The 3,200 square foot end cap space will accommodate 120 patrons, including 15 bar seats.

Freighters Eatery & Taproom is incredibly unique with its large windows and outdoor patio featuring a stunning waterfront view for its guests. The 11,105 square foot restaurant also features 11 flat-screen TV's, a 21 seat bar and fireplace lounge for guests to enjoy. The come-as-you-are atmosphere is warm and inviting, with locally-sourced art reflecting elements of the freighters passing by.

Wheelhouse Kitchen & Cocktails, at 7,200 square feet, has a large bar with 30 seats and porch hosting 48 seats, making it the perfect place to unwind after work or enjoy a pre-concert cocktail. Additionally, the versatility of the dining room provides a relaxing space for an intimate dinner, featuring a menu that appeals to the foodie in all of us.

Marketing and Promotion

The advertising efforts for the Company's casual dining concepts are entirely focused on their local markets. Promotional efforts are aimed at building brand loyalty and emphasizing the distinctiveness of each location's food, service, atmosphere and commitment to supporting the local economy. Their "grassroots" campaigns include philanthropic community involvement, participation in local events and support of local media outlets among other initiatives. Social media, digital and mobile marketing also

play a large role in their advertising strategy, as the online conversation and consumer review systems grow larger.

Raw Materials and Energy

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

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

Competition and Industry Conditions

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

QSR Industry

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

Most of the Company's Wendy's restaurants are located in close proximity to their principal QSR competitors which are highly competitive on the basis of price and value perception, service, location, food quality, menu variety, quality and speed of service, attractiveness of facilities, and effectiveness of marketing and new product development. The Company also competes within the food service industry and the QSR restaurant sector not only for customers, but also for personnel and suitable real estate sites. The Company believes the competitive position of a Wendy's restaurant is ultimately enhanced by its unique qualities such as the use of fresh ground beef, a diverse menu, its promotional products, food prepared to order with an emphasis on quality, nutrition and taste, pleasant and speedy service and atmosphere. Wendy's continues to implement its reimaging program, which includes innovative exterior and interior restaurant designs, with plans for significantly more new and reimaged restaurants beginning in 2015 and continuing beyond. The program also differentiates the Company from its competitors by its emphasis on restaurant employees who provide friendly and engaged customer service.

Casual Dining Restaurant Industry

The Company operates its Twisted Rooster, Crooked Goose, Freighters, and Wheelhouse 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.

As with its Wendy's restaurants, the Company's casual dining restaurants are located in close proximity to their principal casual dining restaurant competitors who are highly competitive on the basis of price and value perception, service, location, food quality, menu variety, quality and speed of service, attractiveness of facilities, effectiveness of marketing and new product development.

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

Each Wendy's restaurant is built to the franchisor's specifications for exterior style and interior decor. Typical freestanding restaurants are one-story brick buildings constructed on sites of approximately 40,000 square feet, with parking for 40 to 60 vehicles. The restaurants typically have a food preparation area, a dining room with seating capacity for 40 to 130 guests, and a pick-up window for drive-through service.

The Company remains focused on reimaging its Wendy's restaurants with a goal of 60 percent of its portfolio upgraded by 2020. Reimaging costs inclusive of deferred maintenance items range from $100,000 to $750,000 per restaurant. Currently, 21 percent of the Company's Wendy's restaurant portfolio has been reimaged.

Of the 175 Wendy's restaurants it operates, the Company (i) owns the land and buildings comprising 14 restaurants, (ii) leases the land and buildings comprising 156 restaurants, and (iii) owns the building and leases the land comprising five restaurants. The remaining lease terms (including options to renew) range from 1 to 50 years. The structures are between one and approximately 43 years old. Meritage has performed major remodels on a number of its older Wendy's restaurants in the last several years. The land and buildings owned by the Company are held as collateral for financing.

The Company operates six casual dining restaurants, one that is owned, four that are leased, and one where the building is owned and the land is leased. The remaining term of the building and land leases (including options to renew) are between 20 and 44 years. The remaining term of the land lease (including options to renew) is 22 years. The building owned by the Company is held as collateral for financing.

Each Twisted Rooster casual dining restaurant is a freestanding structure with 5,400 to 7,200 square feet, accommodating 190 to 245 patrons, including 12 to 20 bar seats. The atmosphere is open with a partially exposed kitchen and unique décor. The exterior is brick with awnings and attractive landscaping. The interior is designed to be fun, current and energetic.

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

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

The Company's newest casual dining concept, Wheelhouse Kitchen & Cocktails, is a 7,200 square foot site on the ground floor of the new Arena Place building, constructed in 2016. The restaurant accommodates 296 patrons, including 30 bar seats and 48 porch seats. The downtown bistro is a great place to unwind after work or enjoy a pre-concert cocktail.

The Company leases office space at 45 Ottawa SW Suite 600, Grand Rapids, Michigan, which serves as the registered office and principal place of business of the Company. The lease term runs through July 2026 with three 5-year renewal options.

Part D Management Structure and Financial Information

Item 11 The name of the chief executive officer, members of the board of directors, as well as control persons.

Board of Director and Officers beneficial ownership percentages as of January 1, 2017 represented per Exchange Act Rule 13d-3(d)(1)(i) are as follows:

		Total Shares Beneficially Owned	
Name and Age	Position	Amount (1)	Percentage
Robert E. Schermer, Jr., 58	Chief Executive Officer	1,779,110	27.7%
Gary A. Rose, 54	President, Chief Operating Officer, and Corporate Secretary	451,549	7.2%
Tracey A. Smith, 42	Vice President, Chief Financial Officer, and Treasurer	57,471	1.0%
Robert E. Schermer, Sr., 81	Chairman of the Board of Directors	1,345,090	20.9%
James P. Bishop, 76	Director	177,754	2.9%
Duane F. Kluting, 67	Director	120,192	2.0%
Joseph L. Maggini, 77	Director	715,316	11.5%
Peter D. Wierenga, 62	Director	457,287	7.5%
All Current Executive Officers and Directors as a Group (8 persons)		5,103,769	65.9%

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

Robert E. Schermer, Jr. has been a director of the Company since 1996. He has been Chief Executive Officer of the Company since 1998. Mr. Schermer served as President of the Company from October 1998 through October 2000, and February 2004 through May 2017. Mr. Schermer's business address is 45 Ottawa SW, Suite 600, Grand Rapids, MI 49503.

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

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

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

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

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

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

Peter D. Wierenga has served as a director of the Company since 2010. He was the Vice President and director of Godwin Plumbing, Inc., a plumbing and mechanical contractor, from 1987 through 2015. Concurrently, Mr. Wierenga has also been the President and director of Godwin Hardware Stores, a retail hardware company, since 1988. Mr. Wierenga was a co-founder and currently serves as Vice President of Millennia Technology, Inc., a leader in VOIP telephony. Mr. Wierenga also serves as Chairman of the Board of FirsTime Design Limited, a Wisconsin manufacturer of wholesale clocks.

The non-employee directors are compensated in accordance with the compensatory plans outlined in Item 17 below. In fiscal 2016, each of the non-employee directors received an option grant of 10,000 common shares priced at $11.24 per share (the closing price on the date of the grant). In fiscal 2016, the non-employee directors received compensation for attendance at Board and Committee meetings as follows: Mr. Bishop: $18,000 (paid in 1,685 common shares); Mr. Kluting: $18,000 (paid in 1,685 common shares); Mr. Maggini: $4,000 (paid in 367 common shares); Mr. Schermer, Sr.: $8,000 (paid in 740 common shares); and Mr. Wierenga: $8,000 (paid in 740 common shares).

The Board of Directors establishes and oversees the Company's executive officer compensation policies and incentive awards. Mr. Schermer, Jr. earned a base salary of $215,000 plus an annual car allowance of $10,500. Mr. Rose earned a base salary of $190,000 plus an annual car allowance of $8,400. Mrs. Smith earned a base salary of $150,000. In fiscal 2016, Mr. Schermer, Jr. and Mr. Rose each also received 30,000 stock option grants priced at $10.99 per share (the closing price on the date of the grant). Mrs. Smith received 15,000 stock option grants priced at $10.99 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 2016 was approximately $282,000 for Mr. Schermer, Jr. and Mr. Rose. Deferred compensation earned and accrued in fiscal 2016 for Mrs. Smith was approximately $70,000. Bonuses earned and accrued in fiscal 2016 were approximately $565,000 for Mr. Schermer, Jr. and Mr. Rose. Bonus earned and accrued in fiscal 2016 for Mrs. Smith was approximately $186,000.

Legal/Disciplinary History

None.

Disclosure of Family Relationships

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

Related Party Transactions

The Company's CEO is a co-managing member of a real estate development project of which the Company owns 11.2 percent, having an investment value of $275,000.

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

Conflicts of Interest

None.

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

See audited consolidated financial statements for fiscal year ended January 1, 2017, 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 Meritage directors and officers as identified in Item 11 above, no other shareholders are believed by the Company to beneficially own 5% or more of the Company's outstanding common shares.

Item 15 The name, address, telephone number, and email address of each of the following outside providers that advise the issuer on matters relating to the operations, business development and disclosure:

Legal Counsel: Keating Muething & Klekamp PLL
c/o F. Mark Reuter, Esq.
One East Fourth Street, Suite 1400
Cincinnati, OH 45202-3752
(513) 579-6400
mreuter@kmklaw.com

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

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

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

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

Item 16 Management's Discussion and Analysis or Plan of Operations.

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

Overview

The Company reported revenues of $235.8 million in fiscal 2016 compared to revenues of $210.0 million in fiscal 2015, an increase of 12.3%. The increase in revenues was primarily the result of acquiring 24 Wendy's restaurants in 2015, and to a lesser extent, a result of 18 Wendy's restaurants acquired in 2016, three new Wendy's restaurants built in 2016 and the opening of the Company's new casual dining restaurant, Wheelhouse Kitchen & Cocktails, in May 2016. Additionally, total Company "same store sales" (i.e., food and beverage revenue for stores in full operation on a per period basis for both fiscal years) increased by 2.7%.

The Company continues to evaluate acquisition opportunities in the Wendy's and casual dining restaurant segments. Since 2009, the Company has acquired 127 Wendy's restaurants through 16 separate transactions.

Results of Operations

Meritage operates in the quick-service and casual dining restaurant industries. The Company has experienced significant growth through its acquisition efforts and the launch of its own independent concepts, Twisted Rooster, Crooked Goose, Freighters Eatery & Taproom, and Wheelhouse Kitchen & Cocktails. At January 1, 2017, the Company operated 175 Wendy's quick-service restaurants under franchise agreements with The Wendy's Company and six casual dining restaurants. Of the Wendy's, 43 are located in Michigan, 50 in Florida, 36 in Georgia, two in North Carolina, one in South Carolina, 10 in Virginia, 15 in Ohio, and 18 in Oklahoma. All six casual dining restaurants are located in Michigan.

A schedule of Company restaurants follows:

	Wendy's	Casual Dining	Total Restaurants
Restaurants as of December 28, 2014	137	5	142
Acquired restaurants	24	-	24
Newly opened restaurants	2	-	2
Closed restaurants	-2	-	-2
Restaurants as of January 3, 2016	161	5	166
Acquired restaurants	18	-	18
Newly opened restaurants	3	1	4
Closed restaurants	-7	-	-7
Restaurants as of January 1, 2017	175	6	181

Results of operations are summarized below:

	(000's) 2016		(000's) 2015	
Food and Beverage Revenue	$ 235,771	100.0%	$ 209,996	100.0%
Costs and Expenses				
Cost of food and beverages	61,476	26.1%	57,363	27.3%
Labor and related expenses	69,382	29.4%	60,803	29.0%
Advertising expenses	9,901	4.2%	8,730	4.2%
Other operating expenses	60,953	25.9%	54,379	25.9%
Total Operating Expenses	201,712	85.6%	181,274	86.3%
General and administrative expenses	13,167	5.6%	11,670	5.6%
Preopening and acquisition expenses	2,759	1.2%	1,158	0.6%
Closing and disposition expenses	821	0.3%	702	0.3%
Depreciation and amortization	5,941	2.5%	4,358	2.1%
Total Costs and Expenses	224,401	95.2%	199,161	94.8%
Income from Operations	11,370	4.8%	10,834	5.2%
Other Expense (Income)				
Interest expense	3,258	1.4%	2,608	1.2%
Other income	(570)	-0.2%	(1,825)	-0.9%
Total Other Expense	2,688	1.1%	783	0.4%
Income Before Income Taxes	8,682	3.7%	10,051	4.8%
Income Tax Expense	2,233	0.9%	3,025	1.4%
Net Income	6,450	2.8%	7,026	3.3%

Food and Beverage Revenue

In fiscal 2016, revenues increased $25.8 million, or 12.3%, to $235.8 million, from $210.0 million in fiscal 2015.

The Company's Wendy's restaurants reported sales of $221.5 million in fiscal 2016, an increase of 13.3% over the prior year's sales. The most significant contributing factors to the increase were the acquisition of 24 Wendy's restaurants in 2015, 18 Wendy's restaurants acquired in 2016, three new Wendy's restaurants built in 2016 and the opening of the Company's new casual dining restaurant, Wheelhouse Kitchen & Cocktails, in May 2016. The Company's Wendy's restaurants experienced a "same store sales" increase of 3.7% in 2016 over prior year's sales.

The Company's casual dining restaurant sales were $14.3 million, a decrease of 1.1% from prior year sales of $14.4 million, and a "same store sales" decrease of 10.6% from prior year, reflecting an overall national downward trend in the casual dining segment, as well as increased competitive intrusion.

Cost of Food and Beverages

Food and beverage costs as a percentage of revenue was 26.1% in 2016, compared to food and beverage costs of 27.3% in 2015. The decrease in cost of food and beverage as a percentage of revenues was due to

strategic market level price increases, coupled with a 24.9% decrease in average beef costs to $1.90 per pound in 2016, from $2.53 per pound in 2015.

Labor and Related Expenses

Labor and related expenses increased to 29.4% of revenues in 2016 from 29.0% of revenues in 2015. The increase of 0.4% is primarily attributed to the overall increase in minimum wage, increases in labor related insurances, as well as additional labor required for Wendy's value meal promotion, "Four-for-Four", which offered four items for four dollars.

Other Operating Expenses

Other operating expenses remained consistent as a percent of revenues when compared to the prior year.

General and Administrative Expenses

General and administrative expenses remained consistent as a percent of revenues when compared to the prior year.

Preopening and Acquisition Expenses

Preopening and acquisition expenses for 2016 include costs associated with the acquisition of 18 Wendy's restaurants in 2016, reimaging efforts, the opening of three newly built Wendy's restaurants, and the opening of the Wheelhouse Kitchen & Cocktails. Preopening and acquisition expenses for 2015 were primarily related to the acquisition of 24 Wendy's restaurants, reimaging efforts and two newly built Wendy's restaurants.

Closing and Disposition Expenses

Closing and disposition expenses represent actual and estimated costs related to the closure of under-performing restaurants. Closing and disposition expenses are expected to be an ongoing expense from continuing efforts to improve our overall restaurant portfolio.

Depreciation and Amortization

The increase in depreciation and amortization expense was due to significant asset purchases in 2016 and 2015, primarily as a result of acquisitions, reimaging efforts, and new restaurant construction.

Interest Expense

The increase in the amount of interest expense was primarily due to financings associated with the acquisition of 18 Wendy's restaurants in 2016, as well as 24 Wendy's restaurants in 2015. In addition, in 2016, the Company entered into a new credit facility, and a related $40.0 million swap agreement in an effort to consolidate its overall outstanding debt and reduce interest expense. The Company measures interest rate swaps at fair value, and accordingly recorded a balance sheet obligation and corresponding interest expense of approximately $135,000 in 2016.

Other Income

Other income was primarily related to gains on real estate transactions completed throughout the year, mitigated by $1.0 million in other expenses resulting from the cost of refinance.

Income Tax Expense

Income tax expense is summarized as follows:

	2016 (000's)	2015 (000's)
Federal income tax expense	420	725
State and local income tax expense	357	528
Change in deferred tax asset	1,456	1,772
Income tax expense	$ 2,233	$ 3,025

The Company had net deferred tax assets totaling $900,000 and $2.3 million at January 1, 2017 and January 3, 2016, respectively. The Company regularly assesses the ability to realize its deferred tax assets and the related need for, and amount of, a valuation allowance. Management considers many factors in determining the likelihood of future realization of deferred tax assets including recent cumulative earnings and loss experiences and future reversals of timing differences. The Company had no valuation allowance as of January 1, 2017 and January 3, 2016.

The Company's federal income tax expense was reduced by tax credits of $1,409,000 and $1,384,000 in 2016 and 2015, respectively.

Financial Condition

Management monitors short- and long-term cash needs and believes at this time, that with its ongoing operations and current cash balances, the Company has sufficient capital to meet its ongoing obligations. During 2016 the company refinanced existing debt and obtained flexible development lines of credit to be used for continued reimaging and expansion. Loan covenants of the Company's various loan agreements include requirements for the maintenance of certain financial ratios. At January 1, 2017 and January 3, 2016, the Company was in compliance with these covenants.

Off-Balance Sheet Arrangements

There were no off-balance sheet arrangements as of January 1, 2017.

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 2015 and 2016:

Transaction	Date	Amount
Director Comp – 1st Quarter 2015	3/29/2015	1,609
Director Comp – 2nd Quarter 2015	6/28/2015	1,078
Director Comp – 3rd Quarter 2015	9/27/2015	1,033
Director Comp – 4th Quarter 2015	1/3/2016	817
Director Comp – 1st Quarter 2016	4/3/2016	875
Director Comp – 2nd Quarter 2016	7/3/2016	830
Director Comp – 3rd Quarter 2016	10/2/2016	1550
Director Comp – 4th Quarter 2016	1/1/2017	1962

Management Compensation Plans

2009 Directors' Compensation Plan ("2009 Plan"). The 2009 Plan was adopted by the Board of Directors in December 2008. Pursuant to the Plan, all non-employee directors receive a fee of $1,000 for attendance at meetings of the Board of Directors and $2,000 for attendance at meetings of the audit committee of the Board. Effective May 17, 2016, the compensation plan was amended to increase Board of Director fees to $2,000 per meeting attended, and audit committee of the Board fees increased to $4,000 per meeting attended. 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.

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.

2002 Management Equity Incentive Plan ("2002 Incentive Plan") and 2008 Management Equity Incentive Plan ("2008 Incentive Plan"). The 2002 Incentive Plan authorized up to 1,000,000 common shares for use in the 2002 Incentive Plan. The 2008 Incentive Plan was adopted by the Board of Directors in March 2008 and authorized up to 750,000 common shares for use in the 2008 Incentive Plan. The purpose of these Plans is to (i) further the long-term growth of Meritage by offering competitive incentive compensation related to long-term performance goals to employees who are largely responsible for planning and directing such growth, (ii) reinforce the commonality of interest between Meritage's shareholders and its employees and (iii) aid in attracting and retaining employees of outstanding abilities and specialized skills. These Plans allow for the award of (i) incentive and non-qualified stock options, (ii) stock appreciation rights which may be issued in tandem with stock options or as freestanding rights, (iii) restricted and unrestricted stock, (iv) performance shares conditioned upon meeting performance criteria, and (v) other awards based in whole or in part by reference to, or otherwise based on, securities of Meritage. The 2002 Incentive Plan terminated pursuant to its terms on May 21, 2012. The 2008 Incentive Plan will terminate pursuant to its terms on May 21, 2018.

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, 2017:

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 01/04/16-01/31/16	0	---	---	290,716
Month #2 02/01/16-03/06/16	0	---	---	290,716
Month #3 03/07/16-04/03/16	0	---	---	290,716
Month #4 04/04/16-05/01/16	0	---	---	290,716
Month #5 05/02/16-06/05/16	0	---	---	290,716
Month #6 06/06/16-07/03/16	0	---	---	290,716
Month #7 07/04/16-07/31/16	0	---	---	290,716
Month #8 08/01/16-09/04/16	0	---	---	290,716
Month #9 09/05/16-10/02/16	0	---	---	290,716
Month #10 10/03/16-10/30/16	0	---	---	290,716
Month #11 10/31/16-12/04/16	0	---	---	290,716
Month #12 12/05/16-01/01/17	0	---	---	290,716

(1) The Board of Directors authorized the Company to repurchase from time to time, subject to capital availability, up to 550,000 shares of Meritage's common stock through open market transactions or otherwise. There is no expiration date relating to this program, but the Board is permitted to rescind the program at any time.

(2) 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, 2017

Robert E. Schermer, Jr.
Chief Executive Officer

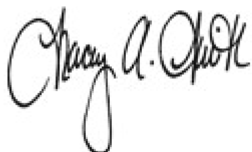
I, Tracey A. Smith, Chief Financial Officer, certify that:

1. I have reviewed this annual disclosure statement of Meritage Hospitality Group Inc.;

2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and

3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

March 21, 2017



Tracey A. Smith
Chief Financial Officer

FORWARD-LOOKING STATEMENTS

Certain statements contained in this report that are not historical facts constitute forward-looking statements. These may be identified by words such as "estimates," "anticipates," "hopes," "projects," "plans," "expects," "believes," "should," 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; Meritage's ability to consummate acquisitions or, if consummated, to successfully integrate acquired businesses into Meritage's operations; credit card fraud; and the recurring need for renovation and capital improvements. Meritage is also subject to extensive government regulations relating to, among other things, zoning, public health, sanitation, alcoholic beverage control, environment, food preparation, minimum and overtime wages and tips, employment of minors, citizenship requirements, working conditions, and the operation of its restaurants. Because Meritage's operations are concentrated in certain areas of Michigan, Florida, Georgia, North and South Carolina, Virginia, Ohio and Oklahoma, significant economic changes in these states, or in the local economies where our restaurants are located, could adversely affect our operations. Additionally, with Meritage's expansion into Florida and Oklahoma, the Company could be adversely affected by tropical storms, hurricanes, or tornadoes. The Company's news releases and public reports are not intended to constitute an offer to sell or a solicitation of an offer to buy any securities of the Company or otherwise engage in a transaction with the Company.

Meritage Hospitality Group Inc. and Subsidiaries

Consolidated Financial Report
January 1, 2017 and January 3, 2016

Meritage Hospitality Group Inc. and Subsidiaries

Contents

Consolidated Financials Statements

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plante moran

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Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of Meritage Hospitality Group Inc. and Subsidiaries (the "Company"), which comprise the consolidated balance sheet as of January 1, 2017 and January 3, 2016, and the related consolidated statements of operations, equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Meritage Hospitality Group Inc. and Subsidiaries as of January 1, 2017 and January 3, 2016, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 18 to the financial statements, the Company adopted the provisions of ASU No. 2015-3, *Interest - Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs*, as of January 3, 2016. Our opinion is not modified with respect to this matter.

March 21, 2017

Praxity MEMBER
GLOBAL ALLIANCE OF INDEPENDENT FIRMS

Meritage Hospitality Group Inc. and Subsidiaries

Consolidated Balance Sheet

	January 1, 2017	January 3, 2016
Assets		
Current Assets		
Cash	$ 9,835,808	$ 6,587,845
Receivables	739,023	428,196
Inventories	1,547,208	1,401,707
Prepaid expenses and other current assets	1,371,945	2,515,490
Total Current Assets	13,493,984	10,933,238
Property and Equipment - Net	64,503,125	49,072,061
Goodwill	48,228,488	38,016,614
Intangible Assets	841,397	880,578
Deferred Income Taxes	876,168	2,332,186
Other Assets		
Notes receivable	548,215	548,215
Long-term investments	5,503,002	5,261,724
Deposits and other assets	3,028,245	1,975,441
Total Assets	**$ 137,022,624**	**$ 109,020,057**
Liabilities and Equity		
Current Liabilities		
Trade accounts payable	$ 10,356,673	$ 10,027,501
Lines of credit	14,303,182	6,792,864
Current portion of long-term debt	5,367,229	6,586,265
Accrued liabilities	9,473,109	9,512,562
Total Current Liabilities	39,500,193	32,919,192
Unearned Vendor Allowances	225,358	565,906
Accrued Rent	3,092,784	2,664,792
Other Long-term Liabilities	2,958,985	1,780,525
Long-term Debt - Net of current portion	55,932,940	40,722,124
Deferred Gain - Sale and leaseback transactions	9,185,957	9,834,161
Equity	26,126,407	20,533,357
Total Liabilities and Equity	**$ 137,022,624**	**$ 109,020,057**

See notes to consolidated financial statements

Meritage Hospitality Group Inc. and Subsidiaries

Consolidated Statement of Operations

	Fiscal Year Ended	
	January 1, 2017	January 3, 2016
Food and Beverage Revenue	$ 235,771,186	$ 209,995,561
Costs and Expenses		
Cost of food and beverages	61,475,606	57,362,836
Labor and related expenses	69,381,709	60,802,769
Advertising expenses	9,901,338	8,729,519
Other operating expenses	60,953,394	54,378,585
Total Operating Expenses	201,712,047	181,273,709
General and administrative expenses	13,167,360	11,670,420
Preopening and acquisition expenses	2,759,385	1,157,724
Closing and disposition expenses	821,143	701,661
Depreciation and amortization	5,940,768	4,357,892
Total Costs and Expenses	224,400,703	199,161,406
Income from Operations	11,370,483	10,834,155
Other Expense (Income)		
Interest expense	3,257,847	2,608,155
Other income	(570,137)	(1,825,211)
Total Other Expense	2,687,710	782,944
Income Before Income Taxes	8,682,773	10,051,211
Income Tax Expense	2,232,795	3,024,917
Net Income	**$ 6,449,978**	**$ 7,026,294**

See notes to consolidated financial statements

Meritage Hospitality Group Inc. and Subsidiaries

Consolidated Statement of Equity

	Series A Convertible Preferred Stock	Series B Convertible Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Total
Balance - December 28, 2014	$ 295	$ 7,460	$ 56,075	$ 17,371,126	$ (4,403,304)	$ 13,031,652
Net income					7,026,294	7,026,294
Issuance of 110,000 shares of preferred stock		1,100		1,098,900		1,100,000
Issuance of 43,720 shares of common stock			437	51,522		51,959
Common stock dividends				(337,781)		(337,781)
Preferred stock dividends				(657,564)		(657,564)
Stock option expense				318,797		318,797
Balance - January 3, 2016	$ 295	$ 8,560	$ 56,512	$ 17,845,000	$ 2,622,990	$ 20,533,357
Net income					6,449,978	6,449,978
Issuance of 322,472 shares of common stock			3,225	179,365		182,590
Preferred stock conversion		(32)	57	(25)		-
Common stock dividends				(409,776)		(409,776)
Preferred stock dividends				(710,108)		(710,108)
Company owned stock				(476,525)		(476,525)
Stock option expense				556,891		556,891
Balance - January 1, 2017	$ 295	$ 8,528	$ 59,794	$ 16,984,822	$ 9,072,968	$ 26,126,407

See notes to consolidated financial statements

Meritage Hospitality Group Inc. and Subsidiaries

Consolidated Statement of Cash Flows

	Fiscal Year Ended	
	January 1, 2017	January 3, 2016
Cash Flows from Operating Activities		
Net Income	$ 6,449,978	$ 7,026,294
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	5,940,768	4,357,892
Amortization of financing costs	190,396	158,986
Deferred income taxes	1,456,018	1,771,966
Amortization of deferred gain from sale and leaseback transactions	(874,388)	(860,517)
Recognition of deferred gain on sale and leaseback transactions	(729,085)	(1,015,992)
Change in fair market value of swap	134,575	-
Compensation paid by issuance of common stock	55,965	36,042
Loss on disposal of financing costs	387,978	-
Loss on disposal of fixed assets	1,294,724	102,568
Change in value of assets held for sale	83,092	-
Gain on debt restructure	-	(225,777)
Stock option expense	556,891	318,797
Changes in operating assets and liabilities which (used) provided cash:		
Receivables	(310,827)	(190,309)
Inventories	(34,945)	29,771
Prepaid expenses and other current assets	1,143,545	(1,157,673)
Deposits and other assets	(1,140,507)	(314,578)
Accounts payable	329,172	3,676,061
Accrued liabilities	(152,774)	2,077,283
Deferred compensation	1,043,885	266,326
Accrued rent	427,992	229,733
Unearned vendor allowances	(588,797)	(689,413)
Net cash provided by operating activities	15,663,656	15,597,460
Cash Flows from Investing Activities		
Purchase of property and equipment	(25,869,357)	(22,709,099)
Purchase of intangible assets	(119,678)	(67,499)
Change in long term investments	(241,278)	(478,086)
Proceeds from the sale of assets	187,257	-
Acquisitions, net	(11,051,149)	(15,724,911)
Net cash used in investing activities	(37,094,205)	(38,979,595)

See notes to consolidated financial statements

Meritage Hospitality Group Inc. and Subsidiaries

Consolidated Statement of Cash Flows (Continued)

	Fiscal Year Ended	
	January 1, 2017	January 3, 2016
Cash Flows from Financing Activities		
Repayments from note receivable	-	500,000
Proceeds from long-term debt	76,971,018	17,800,443
Proceeds from sale leaseback transactions	6,170,157	12,755,498
Proceeds from lines of credit - net	12,617,382	9,585,124
Payments on line of credit related to sale leaseback transactions	(5,107,063)	(10,011,207)
Principal payments on long-term debt	(63,600,017)	(5,659,458)
Principal payments on capital leases	(468,702)	(204,924)
Payments on financing costs	(911,004)	(116,969)
Proceeds from sale of common stock	126,625	15,917
Proceeds from issuance of preferred stock	-	1,100,000
Common stock dividends paid	(409,776)	(337,781)
Preferred stock dividends paid	(710,108)	(657,564)
Net cash provided by financing activities	24,678,512	24,769,079
Net Increase in Cash	3,247,963	1,386,944
Cash - Beginning of year	6,587,845	5,200,901
Cash - End of year	$ 9,835,808	$ 6,587,845
Supplemental Disclosure of Cash Flow Information		
Cash paid for:		
Interest	$ 3,089,780	$ 2,398,263
Income taxes	$ 628,376	$ 895,434
Significant non-cash investing and financing transactions:		
Deferred gain on sale leaseback transactions	$ 955,269	$ 1,078,603
Acquisition of equipment through capital lease	$ 1,422,111	$ -

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, 2017, the Company operated 175 Wendy's Old Fashioned Hamburgers quick-service restaurants under franchise agreements with The Wendy's Company, three Twisted Rooster, one Crooked Goose, one Freighters Eatery & Taproom, and one Wheelhouse Kitchen & Cocktails full-service casual dining restaurants. Operations of the Company are located in Michigan, Florida, Georgia, North Carolina, South Carolina, Virginia, Ohio and Oklahoma.

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

Fiscal Period – The Company operates on a 52/53 week fiscal year ending on the Sunday closest to December 31st of each year. Fiscal year 2016 ended January 1, 2017 contained 52 weeks. Fiscal year 2015 ended January 3, 2016 contained 53 weeks.

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

Receivables - Receivables consist of trade receivables and other receivables. Trade receivables consist of gift cards sold by the Company, its franchisers, and other franchisees that have been redeemed at the Company's restaurants, and amounts due from unsettled debit and credit card sales. No allowance for doubtful accounts is deemed necessary.

Inventories - Inventories are stated at the lower of cost or market, with cost determined on the first-in, first-out (FIFO) method, and consist of restaurant food items, beverages, and paper supplies.

Property and Equipment - Property and equipment are stated at cost. Depreciation is computed principally using the straight-line method based upon estimated useful lives ranging from 3 to 15 years for furniture and equipment and up to 30 years for buildings. Leasehold improvements are amortized over the shorter of their estimated useful lives or the terms of the various leases, including renewal periods when there is a compulsion to renew as the result of a penalty. Repairs and maintenance costs that do not add to the value or increase the life of an asset are expensed when incurred. Interest costs on borrowings are capitalized during the construction period of new restaurants. Interest of $100,000 and $85,000 was capitalized in 2016 and 2015, respectively.

Goodwill - The Company tests goodwill for impairment annually in the fourth quarter of each fiscal year. The Company determines its reporting units for goodwill based on its operating business segments. For the years ended January 1, 2017 and January 3,

2016 the tests indicated no goodwill impairment. The fair value was calculated using the discounted cash flow approach.

Franchise Agreement Costs - Franchise agreement costs, capitalized in connection with the Company's Wendy's restaurants, are amortized using the straight-line method over the terms of each individual franchise agreement, including options, given the Company's historical pattern and economic compulsion to renew (see Note 5 for capitalized franchise agreement costs).

Financing Costs - Financing costs are capitalized and amortized using the straight-line method, which approximates the effective interest rate method, over the terms of the various loan agreements (see Note 9 for capitalized financing costs).

Liquor Licenses - Costs incurred to obtain liquor licenses are capitalized and amortized using the straight-line method over 20 years and presented within deposits and other assets on the balance sheet as of January 1, 2017 and January 3, 2016. Annual costs to renew existing liquor licenses are expensed as incurred.

Long Term Investments – Investments in entities in which the Company has less than a 20 percent interest or is not able to exercise significant influence are carried at cost. Impairment losses due to a decline in the value of the investment that is other than temporary are recognized when incurred. Investments are reviewed only when impairment indicators are present by comparing carrying value to fair market value, as determined by appraisals, present value of estimated future cash flows or similar third-party transactions. If the carrying value exceeds fair market value, an impairment is recognized for the amount by which the carrying amount of the asset exceeds the fair market value. There were no impairments for the years ended January 1, 2017 and January 3, 2016.

Self-insurance – The Company's Wendy's restaurants in Michigan are self-insured for workers' compensation claims up to a $500,000 per claim stop-loss level and maximum aggregate claims of $5,000,000 on an annual basis. The Company determines its liability based on estimated loss reserves provided by the Company's third-party administrator and on management's knowledge of open claims.

Unearned Vendor Allowances - Up-front consideration received from vendors linked to future purchases is initially deferred, and then recognized as earned income as the purchases occur over the term of the vendor arrangement in accordance with guidance on accounting by a customer for certain consideration received from a vendor. During the years ended January 1, 2017 and January 3, 2016, the Company received $3,081,000 and $2,261,000, respectively, in marketing and conversion funds that, in accordance with guidance, are being recognized as a reduction of cost of food and beverages as products are purchased.

Interest Rate Swaps – The Company 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 swaps are recognized in the accompanying consolidated balance sheets at fair value and have not been designated as a cash flow hedge for financial reporting purposes. Changes in the fair value of the interest rate swap as well as realized gains and losses are recognized as a component of interest expense.

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

Advertising Costs and Other Franchise Fees - Advertising costs and fees due under the Company's franchise agreements are based primarily on a percentage of monthly food and beverage revenue. These costs are charged to operations as incurred. Advertising expense was approximately $9,901,000 and $8,730,000 for the years ended January 1, 2017 and January 3, 2016, respectively.

Income Taxes - A current tax liability or asset is recognized for the estimated taxes payable or refundable on tax returns for the year. Deferred tax liabilities or assets are recognized for the estimated future tax effects of temporary differences between financial reporting and tax accounting.

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

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. The Company bases its estimates on historical experience and on various other assumptions believed to be reasonable under the circumstances; however, actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the assessment of impairment of long-lived assets, goodwill, and deferred tax assets.

Subsequent Events - The financial statements and related disclosures include evaluation of events up through and including March 21, 2017, 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 nonvoting convertible cumulative preferred stock, with 29,520 shares issued and outstanding as of January 1, 2017 and January 3, 2016. A total of 1,350,000 shares are designated as Series B nonvoting convertible cumulative preferred stock, with 852,850 shares issued and outstanding as of January 1, 2017, and 856,000 shares issued and outstanding as of January 3, 2016. A total of 1,500,000 shares are designated as Series C nonvoting convertible cumulative preferred stock, with no shares issued as of January 1, 2017.

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 cumulative preferred stock has an annual dividend rate of $0.80 per share which is cumulative. The preferred shares are convertible into common shares at the conversion price of $5.57 per share based on a liquidation value of $10.00 per share. The Company may (but is not required to) redeem the preferred shares at a price of $10.00 per share plus accrued but unpaid dividends. The Series B Preferred shares of the Company are quoted on the OTC Markets under the symbol "MHGUP".

On February 16, 2016, the Company authorized 1,500,000 shares of Series C nonvoting convertible preferred stock. The Series C nonvoting convertible preferred stock has an annual dividend rate of $1.50 per share which is cumulative. The shares are convertible by the shareholders into common shares at the conversion price of $13.50 per share and have a liquidation value of $25.00 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 Company has 30,000,000 authorized shares of $0.01 par value common stock, with 5,979,371 and 5,651,242 shares issued and outstanding as of January 1, 2017 and January 3, 2016, 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:

	2016	2015
Land and improvements	$ 15,688,735	$ 13,669,205
Buildings and improvements	25,504,864	16,208,633
Furnishings and equipment	38,222,913	33,284,588
Leasehold improvements	6,437,002	5,144,837
Leased property under capital leases	1,422,111	1,135,700
Construction in progress	5,728,364	5,985,576
Total cost	93,003,989	75,428,539
Accumulated depreciation	28,500,864	26,356,478
Net property and equipment	$ 64,503,125	$ 49,072,061

Depreciation expense was approximately $5,878,000 and $4,296,000 in fiscal 2016 and fiscal 2015, respectively.

As of January 3, 2016, the Company owned a building from a permanently closed location classified as an asset held for sale. The building had approximate value of $59,000, and was sold for a gain during the year. Subsequent to this transaction, the Company permanently closed another location with an owned building. As of January 1, 2017, the building is classified as an asset held for sale, and is carried at fair market value of approximately $430,000. The $211,000 loss associated with the write-down to fair value is recognized in closing and disposition expenses within the statement of operations. As of fiscal year-end this balance was transferred to Other Assets, and is currently listed for sale.

Note 4 - Goodwill

Changes to goodwill for the fiscal years ended 2016 and 2015 are as follows:

Balance - December 28, 2014	$ 25,675,350
Acquisitions	12,341,264
Balance - January 3, 2016	38,016,614
Acquisitions	10,211,874
Balance - January 1, 2017	$ 48,228,488

Note 5 - Intangible Assets

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

	2016	2015
Franchise costs	$ 1,475,790	$ 1,567,567
Accumulated amortization	634,393	686,989
Net	$ 841,397	$ 880,578

Amortization expense in 2016 and 2015 was approximately $52,000. The weighted average remaining life through next renewal period is 9.36 years.

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

2017	$	49,831
2018		49,831
2019		49,831
2020		49,831
2021		49,831
Thereafter		592,242
Total	$	841,397

Note 6 - Notes Receivable

Notes receivable consist of the following:

		2016		2015
Non-interest bearing note, collateralized by the associated real estate, due January 2018	$	300,000	$	300,000
Promissory note receivable, bearing interest of 7.20 percent, maturing August 2032		248,215		248,215
Total Notes Receivable	$	548,215	$	548,215

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

Note 7 - Long-term Investments

Long-term investments consist of the following:

	2016	2015
Investment in TRG	$ 2,805,375	$ 2,564,097
Priority interest in TRG	2,422,627	2,422,627
Other investment	275,000	275,000
Total Long-term Investments	$ 5,503,002	$ 5,261,724

Investment in TRG - RDG holds a 15.0 percent investment in TRG, which owns approximately 760 acres of ocean-front real estate in the Bahamas, for future development.

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

Note 8 - Accrued Liabilities

The following is a detail of accrued liabilities:

	2016	2015
Payroll and related payroll taxes	$ 6,953,304	$ 6,739,670
Property taxes	514,374	365,517
Other	2,005,431	2,407,375
Total	$ 9,473,109	$ 9,512,562

Note 9 - Long-term Debt and Revolving Line of Credit

On October 20, 2016, the Company closed on a five year $97.0 million credit facility with a bank described in further detail below. The refinance included $59.4 million in long-term debt, $8.4 million in short-term debt, and $29.1 million of available credit.

Long-term debt consists of the following:

	2016	2015
Mortgage note payable, variable rate, due in monthly installments annually increasing from $17,958 to $21,113 plus interest of Libor plus a margin ranging from 2.25 through 2.75 (effective rate of 3.33 percent at January 1, 2017), maturing in November 2021	$ 6,484,542	$ -
Term note payable, variable rate, due in monthly installments totaling $365,275 plus interest of Libor plus a margin ranging from 2.25 through 2.75 (effective rate of 3.33 percent at January 1, 2017), maturing in November 2021	52,576,341	-
Mortgage notes payable - fixed rate, due in monthly installments totaling $44,663 including fixed interest rates ranging from 5.40 percent to 8.00 percent, maturing from December 2017 through September 2023. Remaining principal balance was paid in full as a result of the refinance	-	1,764,340
Mortgage notes payable - variable rate, due in monthly installments totaling $67,028 including interest of Libor plus 4.25 percent (effective rate of 4.67 percent at January 3, 2016), maturing from August 2021 through December 2022. Remaining principal balance was paid in full as a result of the refinance	-	8,101,266
Acquisition notes payable, unsecured - fixed rates, due in monthly installments totaling $234,622 including interest ranging from 4.95 percent to 8.00 percent, maturing from October 2017 through January 2020. Remaining principal balance was paid in full as a result of the refinance	-	11,903,037
Acquisition notes payable, unsecured - variable rates, due in monthly installments totaling $128,155 including interest ranging from 4.67 percent to 8.00 percent, maturing from December 2017 to July 2022. Remaining principal balance was paid in full as a result of the refinance	-	12,368,764

	2016	2015
Acquisition notes payable, unsecured - interest only, monthly payments totaling $3,450 with an interest rate of 6.00 percent, maturing in March 2016. Remaining principal balance was paid in full as a result of the refinance	-	690,000
Equipment notes payable, with fixed interest rates, due in monthly installments totaling $45,629 including interest ranging from 5.53 percent to 6.087 percent, maturing from November 2019 through September 2020	1,693,460	5,586,545
Equipment notes payable, with variable interest rates, due in monthly installments totaling $67,415 including interest ranging from 4.75 percent to 4.79 percent, maturing from August 2021 through October 2022. Remaining principal balance was paid in full as a result of the refinance	-	5,904,671
Equipment note payable, with interest-only monthly payments of $12,093 including interest at 7.5 percent, maturing September 2019. Remaining principal balance was paid in full as a result of the refinance	-	463,150
Other note payable, with fixed interest rate, due in monthly payments of $6,661 at interest ranging from 6.00 percent to 7.00 percent, maturing in May 2022. Remaining principal balance was paid in full as a result of the refinance	-	584,597
Other notes payable, with fixed interest, due in monthly payments of $32,775 including interest of 4.953 percent to 5.001 percent, maturing December 2020	1,380,954	444,517
Total	62,135,297	47,810,887
Less unamortized financing costs	835,128	502,498
Less current portion	5,367,229	6,586,265
Long-term portion	$ 55,932,940	$ 40,722,124

The total of the above debt matures as follows:

2017	$ 5,367,229
2018	5,641,342
2019	5,884,353
2020	5,810,868
2021	39,431,505
Total	$ 62,135,297

The Company had a revolving line of credit agreement with a bank as of January 3, 2016. The revolving line of credit allowed for borrowings up to $10.0 million with an effective interest rate of 4.67 percent at January 3, 2016. Outstanding borrowings were $6,792,864 at January 3, 2016. The revolving line of credit was refinanced and

replaced with a $15.0 million revolving line of credit with a new bank. Outstanding borrowings were $11,166,383 at January 1, 2017. The revolving line of credit has an effective interest rate of 3.33 percent as of January 1, 2017 and expires in November 2018.

As part of the refinance, the Company entered into a flexible development line of credit for $22.6 million designated for continued reimaging and expansion that annually converts to a term note. Outstanding borrowings as of January 1, 2017 were $3,136,799. The facility has an effective interest rate of 3.33 percent as of January 1, 2017 and expires in November 2018.

Effective with the new credit facility, the Company entered into an amortizing $40.0 million interest rate swap agreement to manage variability of cash flows associated with the variable rate debt that matures in November 2021. The notional amount outstanding at January 1, 2017 was $39,724,016. Approximately $135,000 of unrealized losses due to the change in fair value, as well as realized losses in 2016 were recognized as a component of interest expense.

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

Loan covenants of the various loan agreements include requirements for the maintenance of certain financial ratios. At January 1, 2017 and January 3, 2016, the Company was in compliance with these covenants.

Note 10 - Income Taxes

Deferred income tax assets and liabilities consist of:

	2016	2015
Deferred income tax assets:		
Accrued rents	$ 1,292,958	$ 1,065,918
Deferred gains on sale leaseback transactions	3,812,713	4,187,176
General business credit	1,833,308	1,320,020
Other	2,695,040	2,234,864
Total deferred tax assets	9,634,019	8,807,978
Deferred income tax liabilities:	**2016**	**2015**
Depreciation, amortization, and basis differences	(5,289,260)	(3,988,598)
Other	(3,468,591)	(2,487,194)
Total deferred tax liabilities	(8,757,851)	(6,475,792)
Net deferred income tax assets	$ 876,168	$ 2,332,186

The Company regularly assesses the realizability of its deferred tax assets and the related need for, and amount of, a valuation allowance. Management considers many factors in determining the likelihood of future realization of the deferred tax asset including recent cumulative earnings and loss experiences, future reversals of existing temporary differences, and carryforwards.

The general business credits listed above, expire ranging from 2031 to 2037.

The income tax provision reconciled to the tax computed at the statutory state and federal rates for the years ended January 1, 2017 and January 1, 2016 was as follows:

	2016	2015
Tax expense at statutory rate of 40 percent applied to income before income taxes	$ 3,473,109	$ 4,020,484
Permanent differences	11,119	547,442
Impact of tax credits	(1,409,083)	(1,383,635)
Other - net	157,650	(159,374)
Income tax expense	$ 2,232,795	$ 3,024,917

The provision for income taxes consists of the following:

	2016	2015
Current expense	776,777	1,252,951
Deferred expense	1,456,018	1,771,966
Total income tax expense	$ 2,232,795	$ 3,024,917

As of January 1, 2017 and January 3, 2016, the Company's unrecognized tax benefits were not significant. There were no significant penalties or interest recognized or accrued during 2016 and 2015.

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 5 to 50 years. At January 1, 2017, 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, 2017 and January 3, 2016 were as follows:

	2016	2015
Base rent expense	$17,013,988	$ 15,196,522
Deferred gain amortization	(874,388)	(870,786)
Percentage rentals	370,375	210,882
Straight-line rent expense	380,330	291,030
Total	$16,890,305	$ 14,827,648

Minimum future rentals on noncancelable leases as of January 1, 2017 for each of the next five fiscal years and in the aggregate are as follows:

2017	$ 17,364,350
2018	17,175,016
2019	17,053,203
2020	16,802,726
2021	16,471,071
Thereafter	122,327,404
Total	$ 207,193,770

Note 12 - Employee Benefit Plans

The Company has a deferred compensation plan (the "Plan") for certain employees. The plan provides for the payment of benefits for an elected period of up to ten years. Deferred compensation expense was $806,606 in 2016 and $877,743 in 2015. Other long-term obligations related to deferred compensation under the Plan include $2,754,412 and $1,780,525 as of January 1, 2017 and January 3, 2016, respectively. The participants vest in accordance with a predetermined vesting schedule and are allowed to direct investments under the plan. The Company has partially funded the Plan obligation with Company-owned life insurance policies which have a cash surrender value of $2,364,521 and investments of $476,616 at January 1, 2017, and a cash surrender value of $1,195,803 and investments of $504,979 at January 3, 2016, which are included in other assets. As of January 1, 2017, $476,525 of the investments were Company stock and therefore presented as contra-equity.

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 $556,891 and $318,797 in fiscal 2016 and fiscal 2015, respectively. The total income tax benefit recognized in the consolidated statement of operations for share-based compensation arrangements was $97,000 for fiscal 2016, and $59,000 for fiscal 2015.

The employee equity incentive plans provide for the discretionary grant of options. The current plan authorizes 750,000 shares of common stock to be granted for options that may be issued under the plan. The board of directors has the discretion to designate an option to be an incentive share option or a non-qualified share option. The plans provide that the option price is not less than the fair market value of the common stock at the date of grant. Options granted under the plans become exercisable pursuant to a vesting schedule adopted by the board which administers the plans and the options may have a term of 10 years and fully vest three years from the grant date.

The directors' share option plans provide for the nondiscretionary grant of options to non-employee directors of the Company. The current plan allows for the grant of options for a maximum of 600,000 shares at option prices equal to the last closing sales price of the common stock on the date of grant. The plan provides that each non-employee director will be granted options to purchase 10,000 shares on the date such person becomes a non-employee director and on the date of each annual stockholders' meeting thereafter. Additional options may be granted by the board of directors, from time to time, on such terms and conditions as it determines appropriate. Options granted under the plan have a term of 10 years and fully vest three years from the date of grant.

The fair value of each option award is estimated on the date of grant using the Black Scholes option valuation model that uses the following weighted average assumptions: dividend yield of 0 percent; risk-free interest rates of 1.18 percent to 1.29 percent in 2016 and 1.52 percent to 1.65 percent in 2015; expected life of approximately 4.85 years to 6.00 years in 2016 and 2015; and expected volatility of 38.00 percent to 50.87 percent in 2016 and 48.28 percent to 56.82 percent in 2015. Expected volatilities are based on historical volatility of the Company's weekly stock price. The Company uses historical data to estimate option exercise and employee termination when determining the expected life within the valuation model. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

A summary of option activity under the employee plans for the years ended January 1, 2017 and January 3, 2016 is presented below:

Options	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in Years)
Outstanding at December 28, 2014	899,000	$ 2.68	-
Granted	129,000	5.22	-
Exercised	(52,000)	4.74	
Forfeited or expired	-	-	-
Outstanding at January 3, 2016	976,000	2.91	5.2
Outstanding at January 3, 2016	976,000	$ 2.91	-
Granted	145,000	10.99	-
Exercised	(374,000)	2.58	
Forfeited or expired	(15,000)	10.91	-
Outstanding at January 1, 2017	732,000	4.51	6.1

The breakdown of outstanding options as of January 1, 2017 is as follows:

Options	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in Years)
Options excercisable	547,500	$ 3.21	5.3
Nonvested options	184,500	8.36	8.4

There were 374,000 and 52,000 options exercised in 2016 and 2015, respectively. Cash used to settle equity instruments granted under share-based payment arrangements was $0 during the 2016 and 2015 fiscal years. As of January 1, 2017, total unrecognized compensation expense related to non-vested options was $530,909. This expense will be recognized over approximately 2.7 years.

A summary of option activity under the directors' plans for the years ended January 1, 2017 and January 3, 2016 is presented below:

Options	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in Years)
Outstanding at December 28, 2014	435,000	$ 2.81	-
Granted	50,000	7.07	-
Exercised	(30,000)	3.89	
Forfeited or expired	(10,000)	4.96	-
Outstanding at January 3, 2016	445,000	3.17	5.6
Outstanding at January 3, 2016	445,000	$ 3.17	-
Granted	50,000	11.24	-
Exercised	(30,000)	3.05	
Forfeited or expired	(5,000)	4.10	-
Outstanding at January 1, 2017	460,000	4.04	5.4

The breakdown of outstanding options as of January 1, 2017 is as follows:

Options	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in Years)
Options excercisable	385,000	$ 3.10	4.7
Nonvested options	75,000	8.85	8.8

There were 30,000 options exercised in 2016 and 2015. Cash used to settle equity instruments granted under share-based payment arrangements was $0 during the years ended 2016 and 2015. As of January 1, 2017, total unrecognized compensation expense related to non-vested options was $314,922. This expense will be recognized over approximately 2.4 years.

Note 14 - Related Party Transactions

The Company's CEO has provided personal guarantees to The Wendy's Company to facilitate the granting of Wendy's franchise agreements.

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

In November 2012, the Company entered into a $200,000 mortgage note with one of its independent directors. There was $154,432 outstanding as of January 3, 2016. The note was paid in full during 2016 and had a zero balance outstanding as of January 1, 2017.

Note 15 - Guarantees, Commitments, and Contingencies

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

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

As part of the Company's ongoing franchise relationship with The Wendy's Company, the Company is required to complete certain agreed upon improvements to facilities as well as reimage a portion of the Wendy's restaurants acquired since 2014 by December 31, 2021. As of January 1, 2017, the Company has remaining estimated capital improvements of $7,287,000 toward these efforts.

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

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

Long-term Obligations – The fair value of long-term debt obligations approximates carrying value at January 1, 2017 and January 3, 2016 based on estimated rates currently available to the Company at year end and debt obligations with similar terms and maturities.

Note 17 – Acquisition of Wendy's Restaurants

The Company acquired 18 Wendy's restaurants in 2016 and 24 Wendy's restaurants in 2015 through various transactions. The restaurants acquired in 2016 included the business and equipment. The restaurants acquired in 2015 included the business, equipment, and buildings for two restaurant 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 entered into new franchise agreements for all locations with its franchisor, Quality Is Our Recipe, LLC, hereafter referred to as The Wendy's Company.

The 2016 acquisitions were financed with $10,092,000 of new debt and $959,000 of cash. The transactions resulted in the recording of approximately $10,212,000 of goodwill, $1,090,000 of equipment and leasehold improvements, $111,000 of inventory and $362,000 of liabilities.

The 2015 acquisitions were financed with $13,360,000 of new debt and $2,462,000 of cash, of which $1,100,000 was raised through the issuance of preferred stock. The transactions resulted in the recording of approximately $12,341,000 of goodwill, $3,165,000 of equipment and buildings, a $500,000 note receivable, $164,000 of inventory, $97,000 of other assets and $445,000 of liabilities.

The Company expensed $316,000 and $267,000 of acquisition and preopening costs in 2016 and 2015 respectively, related to the transactions.

The goodwill of approximately $10,212,000 in fiscal 2016 and $12,341,000 in fiscal 2015 arising from the acquisitions consists largely of synergies and economies of scale expected from combining the operations of the new locations with the Company. All of the goodwill is expected to be deductible for tax purposes.

Note 18 – New Accounting Principles

As of January 3, 2016, the Company adopted ASU 2015-3, *Interest-Imputation of Interest: Simplifying the presentation of Debt Issuance Costs*, that requires debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct reduction from the carrying amount of that debt liability, consistent with debt discounts and ASU 2015-15 that supplements these requirements by allowing an entity to defer and present debt issue costs related to a line of credit arrangement as an asset and subsequently amortize the costs over the term of the agreement. The new presentation requirements have been applied retrospectively and amounts reported in the balance sheet have been restated by reducing intangible assets and long-term debt by $503,000 as of January 3, 2016.

The new guidance does not affect how the debt issuance costs are accounted for after initial recognition, and these amounts continue to be amortized over the term of the related debt. As a part of adopting the new standard, amortization of debt issuance costs is now reported as a component of interest expense; previously these amounts were reported as a part of amortization expense. The statement of operations has also been restated to report $159,000 of amortization of debt issuance costs as a component of interest expense for fiscal year ended 2016.

As of January 3, 2016, the Company adopted ASU No. 2015-17, *Balance Sheet Classification of Deferred Taxes*. Under the new guidance, all deferred tax assets, liabilities, and related valuation allowances are reported as noncurrent. Previously, deferred tax balances were classified as current or noncurrent based on the classification of the underlying asset or liability to which the temporary difference relates, or, for loss or credit carryforwards, based on when the item was expected to reverse. The deferred tax balances reported in the 2015 balance sheet have not been restated as balances were already classified as long-term.

In February 2016, the Financial Accounting Standards Board issued ASU 2016-02, Leases, which will supersede the current lease requirements in ASC 840. The ASU requires lessees to recognize a right of use asset and related lease liability for all leases, with a limited exception for short-term leases. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the statement of operations. Currently, leases are classified as either capital or operating, with only capital leases recognized on the balance sheet. The reporting of lease related expenses in the statements of operations and cash flows will be generally consistent with the current guidance. The new lease footnote guidance will be effective for the Company's 2019 fiscal year and will be applied using a modified retrospective transition method to the beginning of the earliest period presented. The new lease standard is expected to have a significant effect on the Company's financial statements as a result of the leases for various locations classified as operating leases. Due to its significant amount of restaurants under lease, these leases are expected to significantly increase long-term assets and lease liabilities upon adoption, but the Company does not expect there to be a significant effect on its income statement.

Note 19 – Subsequent Events

Subsequent to year end, the Company entered into three definitive asset purchase agreements to acquire 69 quick service restaurants located in the Midwest and Mid-Atlantic states. The transactions are subject to customary due diligence and standard approvals and are anticipated to be completed in the first and second quarters of 2017.

On February 8, 2017 the Company raised $3,745,000 from issuing 159,360 shares of Series C cumulative convertible preferred stock.

On February 28, 2017, the Company exercised its option to convert 29,520 shares of Series A preferred shares to common stock. Shares were converted at a conversion rate of $7.00 per share, resulting in the equivalent of 42,170 common shares.