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Grant Thornton

ANNUAL REPORT

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Report of Independent Certified Public Accountants

To the Board of Directors of
International Restaurant Services, Inc.:

Report on the Financial Statements

We have audited the accompanying balance sheet of **International Restaurant Services, Inc.** ("the Company"), as of July 1, 2018, and the related notes thereon.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of this balance sheet 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 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 this balance sheet based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the 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 Company'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 financial statements.

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

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Basis for Qualified Opinion

As described in Note (11) (a) and Note (11) (b) as of July 1, 2018, the Company did not recognize as a receivable proceeds amounting to $4,724,825 which were collected subsequent to year end and are related to insurance claims and an employee retention credit, even though these relate to events that occurred during the year. In our opinion, the receivable and related income should have been recorded, as required with accounting principles generally accepted in the United States of America.

Qualified Opinion

In our opinion, except for the recognition of the receivable for insurance claim and employee retention credit, the balance sheet referred to above present fairly, in all material respects, the financial position of **International Restaurant Services, Inc.**, as of July 1, 2018, in accordance with accounting principles generally accepted in the United States of America.

Restriction on Use

This report is intended solely for the information and use of the Board of Directors and management of the Company and the Department of State of the Commonwealth of Puerto Rico and is not intended to be and should not be used by anyone other than these specified parties.

Kevane Grant Thornton LLP
by: [signature]
Lic. #4555

San Juan, Puerto Rico,
October 3, 2018.

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LICENSE NO. 217
CERTIFIED PUBLIC ACCOUNTANTS

International Restaurant Services, Inc.

Balance Sheet
July 1, 2018

Assets

Current assets:	
Cash and cash equivalents	$ 23,210,232
Other receivables	90,646
Inventories	1,455,432
Prepaid expenses	2,453,209
Total current assets	27,209,519
Property and equipment, net of accumulated depreciation and amortization	41,363,521
Other assets:	
Deferred franchise acquisition costs, license fees and loan origination fees, net of accumulated amortization	764,336
Deposits	85,639
Total other assets	849,975
Total assets	$ 69,423,015

The accompanying notes are an integral part of this balance sheet.

International Restaurant Services, Inc.

Balance Sheet
July 1, 2018

Liabilities and Stockholders' Equity

Current liabilities:	
Current portion of long-term debt	$ 2,607,237
Current portion of deferred rent	120,231
Current portion of unearned income	311,120
Accounts payable and accrued expenses	13,708,445
Total current liabilities	16,747,033
Unearned income--less current portion above	795,031
Deferred rent --less current portion above	1,461,773
Long-term debt	17,825,971
Total liabilities	36,829,808
Stockholders' equity:	
Common stock:	
-Class "A" $100 par value; 50,000 shares authorized, and 24,247 shares issued and outstanding	2,424,700
-Class "B" non voting; $10 par value, $12.41 redemption value; 700,000 shares authorized, none issued	-
Additional paid-in capital	2,166,005
Retained earnings	28,002,502
Total stockholders' equity	32,593,207
Total liabilities and stockholders' equity	$ 69,423,015

The accompanying notes are an integral part of this balance sheet.

(1) Organization and summary of significant accounting policies:

Organization -
International Restaurant Services, Inc. ("the Company") was organized under the laws of the Commonwealth of Puerto Rico on September 23, 1993. The Company is engaged in the operation of full-service restaurants under the trademark of Chili's Grill & Bar Restaurant in accordance with the terms of a Development Agreement and a Unit Franchise Agreement entered into with Brinker International, Inc. (a Delaware corporation) dated September 23, 1993.

Under the terms of the Development Agreement, Brinker International, Inc. granted International Restaurant Services, Inc. the development rights for the establishment of restaurants in Puerto Rico and the islands of St. Thomas and St. Croix in the United States Virgin Islands. The Unit Franchise Agreement authorizes the Company to operate the restaurants using the licensed rights and the franchiser system. At the end of 2018 fiscal year-end, the Company was operating twenty-two (22) restaurants.

On January 25, 2000, the Company entered into a Development Agreement with Brinker International, Inc. to engage in the operation of full-service restaurants under the trademark of Romano's Macaroni Grill Restaurant. The Unit Franchise Agreement authorizes the Company to operate the restaurants using the licensed rights and franchiser system. On December 18, 2008, Brinker International, Inc. assigned the franchise and development agreement to Mac Acquisition LLC and in April 2013, Mac Acquisition LLC assigned the agreement to Ignite Restaurant Group. At the end of 2018 fiscal year-end, the Company was operating six (6) restaurants. On September 19, 2017, Plaza del Sol restaurant was closed.

On August 8, 2008, the Company entered into a Development Agreement with Brinker International, Inc. to engage in the operation of full-service restaurants under the trademark of On the Border Mexican and Cantina Grill. The Unit Franchise Agreement authorizes the Company to operate the restaurants using the license rights and franchiser system. During the year ended June 27, 2010, Brinker International, Inc. assigned the agreement to On the Border Acquisition LLC. At the end of 2018 fiscal year-end, the Company was operating one (1) restaurant.

On July 20, 2010, the Company entered into an Area Development and Master License Agreement with PFCCB International, Inc., to engage in the operation of full-service restaurants under the trademark of P.F. Chang's China Bistro. The agreement authorized the Company to operate the restaurants using the license rights and franchiser system. At the end of 2018 fiscal year-end, the Company was operating three (3) restaurants.

The following is a summary of significant accounting policies:

(a) Basis of presentation –
The Company uses fiscal years of 52 and 53 weeks ending on the Sunday closest to the end of June. All references to years in these notes to financial statements represent fiscal years unless otherwise noted. The Company has evaluated subsequent events through October 3, 2018, the date the financial statements were available to be issued.

(b) Cash and cash equivalents –
The Company considers all highly liquid instruments, with a maturity of three months or less, to be cash equivalents.

(c) Inventories –
Inventories consist of food and beverages, and are stated at cost (first-in, first-out) not in excess of net realizable value.

(d) Property and equipment –
Property and equipment are stated at cost, which includes capitalized interest during the construction and development period. Depreciation and amortization are provided under the straight-line method over the estimated useful lives of the assets or the terms of the lease contract, whichever is the shorter period. Maintenance and repairs are charged to operations when incurred. Betterments and renewals, which substantially increase the life of individual assets, are capitalized.

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair market less costs to sell.

(e) Deferred franchise acquisition costs and license fees –
Costs pertaining to the negotiations and execution of the franchise agreements have been capitalized and are being amortized over its twenty-year duration.

Amortization of the individual location franchise fees is provided over a twenty-year period commencing on the opening of each restaurant. Individual store license costs paid to the franchiser are also included in this caption, and are amortized over the same twenty-year period.

(f) Unearned income –
Unearned income represents up-front payments received from a marketing agreement with a supplier, plus the exclusivity agreement for the purchase of cleaning and janitorial products and services with another supplier. The Company amortizes unearned income following the straight-line method over the term of each contract.

(g) Income taxes –
The Company elected to be taxed as a corporation of individuals pursuant to the provisions of Section N of the 1994 Puerto Rico Internal Revenue Code and continues to meet the requirements included in Subchapter "E" of the Internal Revenue Code of a New Puerto Rico (Puerto Rico Internal Revenue Code of 2011). Accordingly, the Company is not subject to the payment of taxes on its net income. The results of the Company's operations are reported in the Puerto Rico individual income tax returns of its stockholders. Therefore, neither tax provision or liability is recorded in the financial statements of the Company for the year ended July 1, 2018.

Management assessed whether there were any uncertain tax positions which may give rise to income tax liabilities and determined that there were no such matters requiring recognition in the accompanying financial statements. The Company files income tax returns in the Commonwealth of Puerto Rico.

(h) Use of estimates –
In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses during the reporting period. Actual results could differ from those estimates.

(i) Stock option plan –
Stock options are generally granted with an exercise price equal to the market value of the common stock on the date of the grant, expire ten (10) years from the date they are granted, and vest over a five-year service period.

(j) Concentration of credit risk –
Financial instruments that potentially expose the Company to concentration of credit risk include cash in bank. The Company maintains accounts at several high quality financial institutions. While the Company attempts to limit any financial exposure, its deposit balances may, at times, exceed federally insured limits. The Company has not experienced any losses on such accounts.

(k) Sales and use tax –
The Company collects on behalf of the Commonwealth of Puerto Rico sales taxes from its customers. Sales taxes received are recorded as a liability until remitted to the Puerto Rico Treasury Department. The Company is also subject to the use tax. This tax is recorded as a cost of sales and is remitted to the Puerto Rico Treasury Department.

(2) Property and equipment:

Property and equipment as of July 1, 2018 consist of:

Asset Category	Estimated useful life	Amount
Leasehold improvements	10 - 20 years	$ 57,830,000
Furniture and equipment	5-10 years	31,091,792
Vehicles	5 years	606,424
		89,528,216
Less- Accumulated depreciation and amortization		(48,164,695)
Property and equipment, net		$ 41,363,521

Leasehold improvements and equipment are pledged as collateral of the loan agreements.

(3) Long-term debt:

Long-term debt consists of advances under several lines of credit with a financial institution for the construction and purchase of equipment for restaurant locations, converted into installment term loans after the construction is completed.

On September 15, 2011, the Company entered into a credit facility agreement up to $45,000,000 with a financial institution. This credit facility consists of (a) term loan in the amount of $20,000,000 to refinance existing credit facilities and the development and construction of new restaurants in Puerto Rico, (b) non-revolving line of credit of $20,000,000 for the construction of new restaurants, and (c) revolving facility of $5,000,000 for general working capital purposes.

As of July 1, 2018, the Company has converted advances from the non-revolving line of credit a total of $13,020,625 to term loans. No advances have been drawn from the revolving line of credit to date.

Balance due as of July 1, 2018, on the term loans amounted to $20,433,208.

The weighted average annual interest rate of this long-term debt outstanding as of July 1, 2018 was 3.97%.

The loan agreement generally provides for cash, inventory, accounts receivable, assignment of restaurant lease agreements, leasehold improvements and equipment, and the assignment of key man insurance to serve as collateral, and include various positive and negative covenants. As of July 1, 2018, management is not aware of any violations of the covenants.

The principal maturities of long-term debt for each of the next two years are as follows:

Fiscal Years Ending	Amount
2019	$ 2,607,237
2020	17,825,971
	20,433,208
Less- current portion	(2,607,237)
Long-term debt	$ 17,825,971

(4) Deferred rent:

The Company received leasehold improvement allowances for $2,700,000 from certain landlords to be used for improvements in three of its restaurants. Such amounts, plus imputed interests, are deferred and are being amortized as an offset of rent expense over the term of the lease. As of July 1, 2018, deferred rent consists of the following:

	Amount
Beginning balance	$ 2,641,912
Retirements	(71,038)
Less: Amortization	(988,870)
Total	1,582,004
Less: current portion	(120,231)
Long-term portion	$ 1,461,773

Deferred rent amortization on the leasehold improvement allowance for each of the next five years and thereafter is as follows:

Fiscal years ending	Amount
2019	$ 120,231
2020	118,621
2021	116,963
2022	115,254
2023	126,682
Thereafter	984,253
	$ 1,582,004

(5) Commitments and contingencies:

(a) Rental agreements –
The Company conducts its operations in leased facilities which include administrative offices, warehouse and, at July 1, 2018, thirty-two (32) restaurants. All of the leases expire at various dates during the next 20 years. Generally, the lease agreements do not provide for purchase options but rather provide the Company with the options to renew the leases at its fair rental values for periods of 5 years.

The rental amounts in the restaurant leases are based on a minimum rental, plus a percentage of the restaurants' sales in excess of stipulated amounts. In addition, the lease agreements require the Company to pay certain operating expenses related to the premises, such as insurance, taxes and maintenance.

(b) Warehouse and transportation service agreement –
During the year ended July 3, 2005, the Company entered into a Warehouse and Transportation Agreement with Islandwide Logistics (IWL), in which IWL performs certain warehouse and transportation services to the Company. Under this agreement, IWL is the custodian of the supplies inventory of the Company located in its warehouse at Cataño, Puerto Rico. In addition, IWL makes the delivery of the merchandise to the restaurants as needed. The Company pays to IWL, on a month-to month basis, the 10% of the dollar value of the merchandise dispatched with a minimum payment of $5,000 per month.

IWL is responsible for all shortages, theft, vandalism and damages to the inventory in their warehouse with a 2% allowance for missing merchandise and a 2% loss for damaged products.

(6) Income taxes:

On October 16, 2006, the stockholders elected for tax purposes that the Company be treated as a pass through entity pursuant to Subchapter N of the Puerto Rico Internal Revenue Code, Individuals Corporation and continues to meet the requirements included in Subchapter "E" of the Internal Revenue Code of a New Puerto Rico (Puerto Rico Internal Revenue Code of 2011). Effective fiscal year ended July 1, 2007 earnings and losses of the Company are included in the personal income tax returns of the stockholders based on their proportionate ownership interests.

(7) Employment agreements:

During the year ended July 2, 2000, the Company entered into annual employment agreements with key employees. The agreements provide for a performance bonus based on the restaurant contributions (as defined) of some of the existing restaurants, as well as a stock option incentive program based on the attainment of specified management goals.

Under the stock option incentive program, options to acquire 450,336 of Common Class “B” non-voting shares have been granted based on the operating results for the year ended July 1, 2018. During the year ended July 1, 2018, the Company issued 206,963 shares of Class B $10 par value non-voting common stock as established under an incentive stock option program granted in 2000. Simultaneously, the Company redeemed the 206,963 Class B shares at $12.41. During the year ended July 1, 2018, the payment of the redemption premium totaling $498,781, was charged against an accrued liability.

A summary of the activity of the option incentive program during the year ended July 1, 2018 is presented below:

	Amount
Options to acquire shares granted, beginning of year	234,156
Granted options to acquire shares	450,336
Redeemed shares	(206,963)
Options to acquire shares granted, end of year	477,529

(8) Stock option plan:

On June 2, 2013, the Company established a “Qualified Stock Option Award Agreement (the Agreement)”, as approved by the Board of Directors, to certain key employee in the form of options to purchase common stock up to a maximum of 992 shares. The Agreement grants time vested options for a maximum term of six years and vest in six years.

The fair value of each option award was estimated on the date of grant using the lattice-based option valuation model that uses the assumptions noted in the table below. Because the lattice-based option valuation models incorporate ranges of assumptions for inputs, those ranges are disclosed. Expected volatilities are based on the historical volatility of the industry sector. The Company uses historical data to estimate option exercise and employee termination within the valuation model. The expected term of the options granted is derived from the output of the option valuation model and represents the period of time that options granted are expected to be outstanding. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury zero-coupon rate at the time of grant.

Expected volatility	20%
Expected dividends	0%
Expected term (in years)	5
Risk-free rate	2%

A summary of option activity as of July 1, 2018, and changes during the years then ended is presented below:

	Shares	Weighted-average Exercise Price
Outstanding at July 2, 2017	272	$ 554.01
Granted	-	-
Exercised	(180)	554.01
Outstanding at July 1, 2018	92	$ 554.01
Exercisable at July 1, 2018	92	$ 554.01

Following is a summary of changes in the Company's unvested options during the year ended July 1, 2018:

Options	Shares	Weighted-Average Grant-date fair value
Unvested at July 2, 2017	92	$ 554.01
Granted	-	-
Vested	(92)	554.01
Unvested at July 1, 2018	-	$ 554.01

(9) Retirement plan:

Effective July 1, 2011, the Company established a defined contribution retirement plan, for the purpose of providing pension benefits for eligible employees. The Company may elect to make a matching contribution to the Plan. In November 2013, the Company began to make matching contributions equal to 25% of each Benefiting Participant' Elective Deferrals not to exceed 5% of elective deferrals or $15,000 for each Benefiting Participant. The Plan, which is administered by the Company, was established in compliance with the requirements of Section 1081 of the 2011 Puerto Rico Internal Revenue Code.

(10) Natural disaster – Hurricane María and Irma:

During the month of September 2017, Hurricanes María and Irma hit Puerto Rico resulting in island-wide damage, flooding, and destruction of the power grid. The effect of these hurricanes caused several businesses to close or operate at reduced hours. The Company maintains insurance for both property damage and business interruption insurance relating to catastrophic events. Business interruption coverage covers lost profits and other costs incurred.

Subsequent to year-end, the Company collected the amount of $2,385,720 pertaining to business interruption claims and building and personal property claims. See Note (11) (a).

(11) **Subsequent events:**

(a) **Insurance claims collections** -
On July 17, 2018 and August 21, 2018, the Company collected the amount of $2,385,720 pertaining to business interruption claims and building and personal property claims. Although, these proceeds arise from an event that occurred during the year ended July 1, 2018, management decided not to record this transaction as a receivable in the accompanying balance sheet. Management decided to record this transaction during fiscal year 2019, the year the proceeds were received.

(b) **Employee retention credit** -
Pursuant to Section 503 of the Disaster Tax Relief and Airport and Airway Extension Act of 2017 (the "Act"), an eligible employer affected by Hurricanes Harvey, Irma and María may claim an employee-retention tax credit under Section 38 of the IRC equal to forty percent (40%) of the qualified wages of each eligible employee. The Act makes the credit extensive to Puerto Rico, which pay in an amount that equals the aggregate benefits that would have been provided to the resident of Puerto Rico.

On August 8, 2018, the Company requested the tax benefit which was collected on August 20, 2018 in the amount of $2,339,105. Although, the credit arises from an event that occurred during the year ended July 1, 2018, management decided not to record this transaction as a receivable in the accompanying balance sheet. Management decided to record this transaction during fiscal year 2019, the year the proceeds were received.

(c) **Repurchase of common stocks** -
On September 13, 2018, the Company repurchased one thousand three hundred and fifty (1,350) shares of common stock.