



2014 Anual Report





To Our Valued Shareholders:

The year 2014 was one of the more difficult since Arcos Dorados launched, with a combination of weak economies, softening currencies, increased competition and slowing consumption in a number of our key markets. Our performance was not all that I had hoped for, but I am proud of the efforts of our more than 95,000 employees to strengthen the long-term fundamentals of our business and win the loyalty of more than 4 million customers every day.

We leveraged the strengths of the McDonald's brand in our marketing initiatives, building on the family experience and our iconic products. We also supported our customer traffic levels through a period of weaker economic growth with more affordable dining options. With this focus, we were able to end the year with organic revenue growth of 12.7% from the year before, and an increase in comparable sales of 10% over the same period.





At Arcos Dorados, we are 100% committed to creating value for our stockholders and great dining experiences for our customers, who view a meal at McDonald's as a special time they can spend with their families and friends to enjoy great tasting food.

We are strengthening our long-term competitive advantages. Arcos Dorados operates the region's dominant Quick Service Restaurant (QSR) brand, and we take pride in being one of the best operations in the McDonald's system in the world, based on customer satisfaction scores. With that comes an unmatched footprint and customer experience. For example, the majority of those who eat out in the informal dining segment in Brazil do so at burger establishments, and their preferred venue is McDonald's. As we position Arcos Dorados for the future, we will play to these substantial, competitive strengths.

During 2014, we delivered on our commitment to expand our business by opening 82 new restaurants across our region, bringing our overall restaurant count to 2,121. We also added 266 new dessert centers and 9 new McCafes, bringing these totals to 2,492 and 343, respectively.





Importantly, the challenges of 2014 have provided us with a clear path forward. We expect to increase shareholder value by focusing on profitable growth, cash generation and debt reduction. As we move ahead through this challenging economic cycle, we will follow a roadmap focused on several important initiatives over the next 3 years.

First, we are committed to delivering strong margin improvement at the store level. Technology is increasingly at the center of all we do at Arcos Dorados, and the company is making investments in customer-facing digital technology to enhance the consumer experience and modernize how our clients interact with the brand. To improve our efficiency, we are rolling out a new forecasting and scheduling system in Brazil and Argentina, which should be completed in both countries by early 2016.

In 2015, we will continue creating a more efficient and nimble organizational structure for Arcos Dorados. We expect to reduce our General And Administrative Expense further and are committed to delivering another 10% reduction in absolute US dollars by finding further efficiencies at the corporate, divisional and local levels. This, combined with our store-level margin improvement, should help drive Adjusted EBITDA margin improvement over the next 3 years.





Arcos Dorados has a significant portfolio of real estate assets across Latin America. Over the next few years we expect to raise at least \$200 million from re-developing some of our restaurant locations and consolidating some of our office and other non-operating real estate assets. We are also committed to raising at least \$50 million by converting some of our company-operated locations to sub-franchisee restaurants. This cash can be used to reduce debt levels or for other initiatives that generate shareholder value.

We plan to slow down new store openings and capital expenditures in the short term. We believe that this financially disciplined approach to growth is the right response to the current environment. In addition, by shifting a higher percentage of our unit growth to existing or new sub-franchisees, we will focus more resources on updating our existing restaurants in terms of both décor and technology.

These measures will position us to navigate the current environment successfully and lay the foundation for a recovery in business momentum when the cycle turns. Just to be clear, Latin America is a cyclical market, the economies will eventually recover – and we are very well positioned to seize every opportunity in 2015 and the years ahead.





Arcos Dorados' fundamentals remain strong and we have many long-term competitive advantages. Chief among them is a large and growing middle class in Latin America that truly enjoys the McDonald's dining experience. We are confident that we will meet the challenges that we are currently facing and remain excited about the opportunities that await our business in the years ahead.

I would like to thank all of you for your continued support.

Sincerely,

Woods Staton

Chairman and CEO



ARCOS DORADOS HOLDINGS INC.

FORM 20-F

(Annual and Transition Report (foreign private issuer))

Filed 04/29/15 for the Period Ending 12/31/14

Telephone	011 54 11 4711 2000
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SIC Code	5812 - Eating Places
Industry	Restaurants
Sector	Services
Fiscal Year	12/31

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 20-F

(Mark One)

- REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**
- OR**
- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2014
- OR**
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
- OR**
- SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
Date of event requiring this shell company report
For the transition period from _____ to _____

Commission file number: 001-35129

ARCOS DORADOS HOLDINGS INC.

(Exact name of Registrant as specified in its charter)

British Virgin Islands

(Jurisdiction of incorporation or organization)

Roque Saenz Peña 432

B1636FFB Olivos, Buenos Aires, Argentina

(Address of principal executive offices)

Juan David Bastidas

Chief Legal Officer

Arcos Dorados Holdings Inc.

Roque Saenz Peña 432

B1636FFB Olivos, Buenos Aires, Argentina

Telephone: +54 (11) 4711-2504

Fax: +54 (11) 4711-2094 (ext. 2504)

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class

Name of each exchange on which registered

Class A shares, no par value

New York Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital stock or common stock as of the close of the period covered by the annual report.

Class A shares: 130,216,043

Class B shares: 80,000,000

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes No

Note – Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such

shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP

International Financial Reporting Standards as
issued by the International Accounting Standards
Board

Other

If "Other" has been checked in response to the previous question indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

ARCOS DORADOS HOLDINGS INC.

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PRESENTATION OF FINANCIAL AND OTHER INFORMATION

All references to “U.S. dollars,” “dollars,” “U.S.\$” or “\$” are to the U.S. dollar. All references to “Argentine pesos” or “ARS\$” are to the Argentine *peso*. All references to “Brazilian reais” or “R\$” are to the Brazilian *real*. All references to “Mexican pesos” or “Ps.” are to the Mexican *peso*. All references to “Venezuelan bolívares” or “Bs.” are to the Venezuelan *bolívar*, the legal currency in Venezuela. See “Item 3. Key Information—A. Selected Financial Data—Exchange Rates and Exchange Controls” for information regarding exchange rates for the Argentine, Brazilian, Mexican and Venezuelan currencies since January 1, 2010.

Definitions

In this annual report, unless the context otherwise requires, all references to “Arcos Dorados” or the “Company,” “we,” “our,” “ours,” “us” or similar terms refer to Arcos Dorados Holdings Inc., together with its subsidiaries. All references to “systemwide” refer only to the system of McDonald’s-branded restaurants operated by us or our franchisees in 20 countries and territories in Latin America and the Caribbean, including Argentina, Aruba, Brazil, Chile, Colombia, Costa Rica, Curaçao, Ecuador, French Guiana, Guadeloupe, Martinique, Mexico, Panama, Peru, Puerto Rico, Trinidad and Tobago, Uruguay, the U.S. Virgin Islands of St. Croix and St. Thomas, and Venezuela, which we refer to as the Territories, and do not refer to the system of McDonald’s-branded restaurants operated by McDonald’s Corporation, its affiliates or its franchisees (other than us).

We own our McDonald’s franchise rights pursuant to a Master Franchise Agreement for all of the Territories, except Brazil, which we refer to as the MFA, and a separate, but substantially identical, Master Franchise Agreement for Brazil, which we refer to as the Brazilian MFA. We refer to the MFA and the Brazilian MFA, as amended or otherwise modified to date, collectively as the MFAs. We commenced operations on August 3, 2007, as a result of our purchase of McDonald’s operations and real estate in the Territories (except for Trinidad and Tobago), which we refer to collectively as the McDonald’s LatAm business, and the acquisition of McDonald’s franchise rights pursuant to the MFAs, which together with the purchase of the McDonald’s LatAm business, we refer to as the Acquisition.

Financial Statements

We maintain our books and records in U.S. dollars and prepare our financial statements in accordance with accounting principles and standards generally accepted in the United States, or U.S. GAAP.

The financial information contained in this annual report includes our consolidated financial statements at December 31, 2014 and 2013 and for the years ended December 31, 2014, 2013 and 2012, which have been audited by Pistrelli, Henry Martin y Asociados S.R.L., member firm of Ernst & Young Global, as stated in their report included elsewhere in this annual report.

We were incorporated on December 9, 2010 as a direct, wholly-owned subsidiary of Arcos Dorados Limited, the prior holding company for the Arcos Dorados business. On December 13, 2010, Arcos Dorados Limited effected a downstream merger into and with us, with us as the surviving entity. The merger was accounted for as a reorganization of entities under common control in a manner similar to a pooling of interest and the consolidated financial statements reflect the historical consolidated operations of Arcos Dorados Limited as if the reorganization structure had existed since Arcos Dorados Limited was incorporated in July 2006.

Our fiscal year ends December 31. References in this annual report to a fiscal year, such as “fiscal year 2014,” relate to our fiscal year ended on December 31 of that calendar year.

Operating Data

In January 2013, we made certain organizational changes in the structure of our geographical divisions in order to balance their relative weight in terms of number of restaurants and revenues. As a result of the reorganization effective January 1, 2013, Colombia and Venezuela, which were part of the South Latin America division, or SLAD, became part of the Caribbean division with headquarters located in Colombia. Therefore, from the beginning of 2013, SLAD is comprised of Argentina, Chile, Ecuador, Peru and Uruguay, and the Caribbean division is comprised of Aruba, Colombia, Curaçao, French Guiana, Guadeloupe, Martinique, Puerto Rico, Trinidad and Tobago, the U.S. Virgin Islands of St. Croix and St. Thomas and Venezuela. Our other geographical divisions are Brazil and the

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North Latin America division, or NOLAD, consisting of Costa Rica, Mexico and Panama. In accordance with ASC 280 Segment Reporting, we began reporting the results of the revised structure of our geographical divisions on our segment financial reporting in the first quarter of fiscal year 2013. In accordance with ASC 280, Segment Reporting, we have restated our comparative segment information as of and for the years ended December 31, 2012 and 2011 based on the structure prevailing since January 1, 2013. We have not adjusted the segment information as of and for the year ended December 31, 2010. Therefore, the segment information as of and for the years ended December 31, 2014, 2013, 2012 and 2011 presented in this annual report on Form 20-F is not directly comparable to the segment information as of and for the year ended December 31, 2010 that is presented in this annual report on Form 20-F.

We operate McDonald's-branded restaurants under two different operating formats: those directly operated by us, or Company-operated restaurants, and those operated by franchisees, or franchised restaurants. All references to "restaurants" are to our freestanding, food court, in-store and mall store restaurants and do not refer to our McCafé locations or Dessert Centers. Systemwide data represents measures for both our Company-operated restaurants and our franchised restaurants.

We are the majority stakeholder in several joint ventures with third parties that collectively own 18 restaurants. We consider these restaurants to be Company-operated restaurants. We also have granted developmental licenses to 12 restaurants. Developmental licensees own or lease the land and buildings on which their restaurants are located and pay a franchise fee to us in addition to the continuing franchise fee due to McDonald's. We consider these restaurants to be franchised restaurants.

Other Financial Measures

We disclose in this annual report a financial measure titled Adjusted EBITDA. We use Adjusted EBITDA to facilitate operating performance comparisons from period to period. Adjusted EBITDA is defined as our operating income plus depreciation and amortization plus/minus the following losses/gains included within other operating expenses, net and within general and administrative expenses in our statement of income: compensation expense related to a special award granted to our CEO, incremental compensation expense, including the compensation related to the extension of our 2008 long-term incentive plan, gains from sale or insurance recovery of property and equipment, write-offs of property and equipment, impairment of long-lived assets and goodwill, stock-based compensation related to the special awards under the 2011 Equity Incentive Plan and bonuses granted in connection with our initial public offering and one-time expenses related to our general and administrative expense optimization plan.

We believe Adjusted EBITDA facilitates company-to-company operating performance comparisons by backing out potential differences caused by variations such as capital structures (affecting net interest expense and other financial charges), taxation (affecting income tax expense) and the age and book depreciation of facilities and equipment (affecting relative depreciation expense), which may vary for different companies for reasons unrelated to operating performance. In addition, we exclude gains from sale or insurance recovery of property and equipment not related to our core business; write-offs of property and equipment and impairment of long-lived assets and goodwill that do not result in cash payments; compensation expense related to the award granted to our CEO; stock-based compensation related to the special awards under the 2011 Equity Incentive Plan; incremental compensation expense related to the extension of our 2008 long-term incentive plan, one-time expenses related to our general and administrative expense optimization plan and bonuses granted in connection with our initial public offering due to its special nature. In addition, in 2010 and 2011 we excluded the incremental compensation expense that resulted from the remeasurement of our liability under our 2008 long-term incentive plan because of our decision in 2011 to replace the existing formula for determining the current value of the award with the quoted market price of our shares. While a GAAP measure for purposes of our segment reporting, Adjusted EBITDA is a non-GAAP measure for reporting our total Company performance. Our management believes, however, that disclosure of Adjusted EBITDA provides useful information to investors, financial analysts and the public in their evaluation of our operating performance.

Market Share and Other Information

Market data and certain industry forecast data used in this annual report were obtained from internal reports and studies, where appropriate, as well as estimates, market research, publicly available information (including information available from the United States Securities and Exchange Commission website) and industry publications, including Millward Brown Optimor, the United Nations Economic Commission for Latin America and

the Caribbean and the CIA World Factbook. Industry publications generally state that the information they include has been obtained from sources believed to be reliable, but that the accuracy and completeness of such information is not guaranteed. Similarly, internal reports and studies, estimates and market research, which we believe to be reliable and accurately extracted by us for use in this annual report, have not been independently verified. However, we believe such data is accurate and agree that we are responsible for the accurate extraction of such information from such sources and its correct reproduction in this annual report.

Basis of Consolidation

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting and include the accounts of the Company and its subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

Rounding

We have made rounding adjustments to some of the figures included in this annual report. Accordingly, numerical figures shown as totals in some tables may not be an arithmetic aggregation of the figures that preceded them.

FORWARD-LOOKING STATEMENTS

This annual report contains statements that constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Many of the forward-looking statements contained in this annual report can be identified by the use of forward-looking words such as “anticipate,” “believe,” “could,” “expect,” “should,” “plan,” “intend,” “estimate” and “potential,” among others.

Forward-looking statements appear in a number of places in this annual report and include, but are not limited to, statements regarding our intent, belief or current expectations. Forward-looking statements are based on our management’s beliefs and assumptions and on information currently available to our management. Such statements are subject to risks and uncertainties, and actual results may differ materially from those expressed or implied in the forward-looking statements due to of various factors, including, but not limited to, those identified in “Item 3. Key Information—D. Risk Factors” in this annual report. These risks and uncertainties include factors relating to:

- general economic, political, demographic and business conditions in Latin America and the Caribbean;
- fluctuations in inflation and exchange rates in Latin America and the Caribbean;
- our ability to implement our growth strategy;
- the success of operating initiatives, including advertising and promotional efforts and new product and concept development by us and our competitors;
- our ability to compete and conduct our business in the future;
- changes in consumer tastes and preferences, including changes resulting from concerns over nutritional or safety aspects of beef, poultry, french fries or other foods or the effects of health pandemics and food-borne illnesses such as “mad cow” disease and avian influenza or “bird flu,” and changes in spending patterns and demographic trends, such as the extent to which consumers eat meals away from home;
- the availability, location and lease terms for restaurant development;
- our intention to focus on our restaurant reimagining plan;
- our franchisees, including their business and financial viability and the timely payment of our franchisees’ obligations due to us and to McDonald’s;
- our ability to comply with the requirements of the MFAs, including McDonald’s standards;

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- our decision to own and operate restaurants or to operate under franchise agreements;
- the availability of qualified restaurant personnel for us and for our franchisees, and the ability to retain such personnel;
- changes in commodity costs, labor, supply, fuel, utilities, distribution and other operating costs;
- our ability, if necessary, to secure alternative distribution of supplies of food, equipment and other products to our restaurants at competitive rates and in adequate amounts, and the potential financial impact of any interruptions in such distribution;
- changes in government regulation;
- other factors that may affect our financial condition, liquidity and results of operations; and
- other risk factors discussed under “Item 3. Key Information—D. Risk Factors.”

Forward-looking statements speak only as of the date they are made, and we do not undertake any obligation to update them in light of new information or future developments or to release publicly any revisions to these statements in order to reflect later events or circumstances or to reflect the occurrence of unanticipated events.

ENFORCEMENT OF JUDGMENTS

We are incorporated under the laws of the British Virgin Islands with limited liability. We are incorporated in the British Virgin Islands because of certain benefits associated with being a British Virgin Islands company, such as political and economic stability, an effective judicial system, a favorable tax system, the absence of exchange control or currency restrictions and the availability of professional and support services. However, the British Virgin Islands has a less developed body of securities laws as compared to the United States and provides protections for investors to a significantly lesser extent. In addition, British Virgin Islands companies may not have standing to sue before the federal courts of the United States.

A majority of our directors and officers, as well as certain of the experts named herein, reside outside of the United States. A substantial portion of our assets and several of such directors, officers and experts are located principally in Argentina, Brazil and Uruguay. As a result, it may not be possible for investors to effect service of process outside Argentina, Brazil and Uruguay upon such directors or officers, or to enforce against us or such parties in courts outside Argentina, Brazil and Uruguay judgments predicated solely upon the civil liability provisions of the federal securities laws of the United States or other non-Argentine, Brazilian or Uruguayan regulations, as applicable. In addition, local counsel to the Company have advised that there is doubt as to whether the courts of Argentina, Brazil or Uruguay would enforce in all respects, to the same extent and in as timely a manner as a U.S. court or non-Argentine, Brazilian or Uruguayan court, an original action predicated solely upon the civil liability provisions of the U.S. federal securities laws or other non-Argentine, Brazilian or Uruguayan regulations, as applicable; and that the enforceability in Argentine, Brazilian or Uruguayan courts of judgments of U.S. courts or non-Argentine, Brazilian or Uruguayan courts predicated upon the civil liability provisions of the U.S. federal securities laws or other non-Argentine, Brazilian or Uruguayan regulations, as applicable, will be subject to compliance with certain requirements under Argentine, Brazilian or Uruguayan law, including the condition that any such judgment does not violate Argentine, Brazilian or Uruguayan public policy.

We have been advised by Maples and Calder, our counsel as to British Virgin Islands law, that the United States and the British Virgin Islands do not have a treaty providing for reciprocal recognition and enforcement of judgments of courts of the United States in civil and commercial matters and that a final judgment for the payment of money rendered by any general or state court in the United States based on civil liability, whether or not predicated solely upon the U.S. federal securities laws, would not be automatically enforceable in the British Virgin Islands. We have been advised by Maples and Calder that a final and conclusive judgment obtained in U.S. federal or state courts under which a sum of money is payable (i.e., not being a sum claimed by a revenue authority for taxes or other charges of a similar nature by a governmental authority, or in respect of a fine or penalty or multiple or punitive damages) may be the subject of an action on a debt in the court of the British Virgin Islands under British Virgin Islands common law.

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

A. Directors and Senior Management

Not applicable.

B. Advisers

Not applicable.

C. Auditors

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

A. Offer Statistics

Not applicable.

B. Method and Expected Timetable

Not applicable.

ITEM 3. KEY INFORMATION

A. Selected Financial Data

The selected balance sheet data as of December 31, 2014 and 2013 and the income statement data for the years ended December 31, 2014, 2013 and 2012 of Arcos Dorados Holdings Inc. are derived from the consolidated financial statements included elsewhere in this annual report, which have been audited by Pistrelli, Henry Martin y Asociados S.R.L., member firm of Ernst & Young Global. The selected balance sheet data as of December 31, 2012, 2011 and 2010 and the income statement data for the years ended December 31, 2011 and 2010 of Arcos Dorados Holdings Inc. are derived from consolidated financial statements audited by Pistrelli, Henry Martin y Asociados S.R.L., which are not included herein.

In January 2013, we made certain organizational changes in the structure of our geographical divisions in order to balance their relative weight in terms of number of restaurants and revenues. As a result of the reorganization effective January 1, 2013, Colombia and Venezuela, which were part of SLAD, became part of the Caribbean division with headquarters located in Colombia. Therefore, from the beginning of 2013, SLAD is comprised of Argentina, Chile, Ecuador, Peru and Uruguay, and the Caribbean division is comprised of Aruba, Colombia, Curaçao, French Guiana, Guadeloupe, Martinique, Puerto Rico, Trinidad and Tobago, the U.S. Virgin Islands of St. Croix and St. Thomas and Venezuela. Our other geographical divisions are Brazil and NOLAD, consisting of Costa Rica, Mexico and Panama. In accordance with ASC 280 Segment Reporting, we began reporting the results of the revised structure of our geographical divisions on our segment financial reporting in the first quarter of fiscal year 2013. In accordance with ASC 280, Segment Reporting, we have restated our comparative segment information as of and for the years ended December 31, 2012 and 2011 based on the structure prevailing since January 1, 2013. We have not adjusted the segment information as of and for the year ended December 31, 2010. Therefore, the segment information as of and for the years ended December 31, 2014, 2013, 2012 and 2011 presented in this annual report on Form 20-F is not directly comparable to the segment information as of and for the year ended December 31, 2010 that is presented in this annual report on Form 20-F.

We were incorporated on December 9, 2010 as a direct, wholly-owned subsidiary of Arcos Dorados Limited, the prior holding company for the Arcos Dorados business. On December 13, 2010, Arcos Dorados Limited effected a downstream merger into and with us, with us as the surviving entity. The merger was accounted for as a reorganization of entities under common control in a manner similar to a pooling of interest and the consolidated financial statements reflect the historical consolidated operations of Arcos Dorados Limited as if the reorganization structure had existed since Arcos Dorados Limited was incorporated in July 2006. We did not commence operations until the Acquisition on August 3, 2007.

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We maintain our books and records in U.S. dollars and prepare our consolidated financial statements in accordance with U.S. GAAP. This financial information should be read in conjunction with “Presentation of Financial and Other Information,” “Item 5. Operating and Financial Review and Prospects” and our consolidated financial statements, including the notes thereto, included elsewhere in this annual report.

	For the Years Ended December 31,				
	2014	2013	2012	2011	2010
	(in thousands of U.S. dollars, except for share data)				
Income Statement Data:					
Sales by Company-operated restaurants	\$ 3,504,302	\$ 3,859,883	\$ 3,634,371	\$ 3,504,128	\$ 2,894,466
Revenues from franchised restaurants	146,763	173,427	163,023	153,521	123,652
Total revenues	3,651,065	4,033,310	3,797,394	3,657,649	3,018,118
Company-operated restaurant expenses:					
Food and paper	(1,243,907)	(1,350,515)	(1,269,146)	(1,216,141)	(1,023,464)
Payroll and employee benefits	(734,093)	(814,112)	(753,120)	(701,278)	(569,084)
Occupancy and other operating expenses	(997,065)	(1,055,188)	(984,004)	(918,102)	(765,777)
Royalty fees	(173,663)	(188,885)	(180,547)	(170,400)	(140,973)
Franchised restaurants—occupancy expenses	(63,939)	(63,273)	(56,057)	(51,396)	(37,634)
General and administrative expenses	(272,065)	(317,745)	(314,619)	(334,914)	(254,165)
Other operating expenses, net	(95,476)	(15,070)	(3,261)	(14,665)	(22,464)
Total operating costs and expenses	(3,580,208)	(3,804,788)	(3,560,754)	(3,406,896)	(2,813,561)
Operating income	70,857	228,522	236,640	250,753	204,557
Net interest expense	(72,750)	(88,156)	(54,247)	(60,749)	(41,613)
Loss from derivative instruments	(685)	(4,141)	(891)	(9,237)	(32,809)
Foreign currency exchange results	(74,117)	(38,783)	(18,420)	(23,926)	3,237
Other non-operating income (expenses), net	146	(848)	(2,119)	3,562	(23,630)
(Loss) income before income taxes	(76,549)	96,594	160,963	160,403	109,742
Income tax expense	(32,479)	(42,722)	(46,375)	(44,603)	(3,450)
Net (loss) income	(109,028)	53,872	114,588	115,800	106,292
Less: Net income attributable to non-controlling interests	(305)	(18)	(256)	(271)	(271)
Net (loss) income attributable to Arcos Dorados Holdings Inc.	(109,333)	53,854	114,332	115,529	106,021
(Loss) earnings per share:					
Basic net (loss) income per common share attributable to Arcos Dorados Holdings Inc.	\$ (0.52)	\$ 0.26	\$ 0.55	\$ 0.54	\$ 0.44
Diluted net (loss) income per common share attributable to Arcos Dorados Holdings Inc.	\$ (0.52)	\$ 0.26	\$ 0.55	\$ 0.54	\$ 0.44

	As of December 31,				
	2014	2013	2012	2011	2010
	(in thousands of U.S. dollars, except for share data)				
Balance Sheet Data(1):					
Cash and cash equivalents	\$ 139,030	\$ 175,648	\$ 184,851	\$ 176,301	\$ 208,099
Total current assets	447,196	666,451	601,498	588,614	552,355
Property and equipment, net	1,116,281	1,244,311	1,176,350	1,023,180	911,730
Total non-current assets	1,347,584	1,513,808	1,447,665	1,286,792	1,231,911
Total assets	1,794,780	2,180,259	2,049,163	1,875,406	1,784,266
Accounts payable	220,337	311,060	244,365	220,941	217,326
Short-term debt and current portion of long-term debt	38,684	12,276	2,202	3,811	17,947
Total current liabilities	542,066	659,156	578,274	589,292	605,148
Long-term debt, excluding current portion	761,080	771,171	649,968	525,951	451,423
Total non-current liabilities	795,127	825,804	724,579	606,485	629,923
Total liabilities	1,337,193	1,484,960	1,302,853	1,195,777	1,235,071
Total common stock	498,616	491,735	484,569	484,569	377,546
Total equity	457,587	695,299	746,310	679,629	549,195
Total liabilities and equity	1,794,780	2,180,259	2,049,163	1,875,406	1,784,266
Shares outstanding(2)	210,216,043	209,867,426	209,529,412	209,529,412	241,882,966

	For the Years Ended December 31,				
	2014 (3)	2013 (3)	2012 (3)	2011 (3)	2010 (4)
	(in thousands of U.S. dollars, except percentages)				
Other Data:					
Total Revenues					
Brazil	\$ 1,816,046	\$ 1,842,324	\$ 1,797,556	\$ 1,890,824	\$ 1,595,571
Caribbean division(5)	594,220	830,447	754,730	663,981	260,617
NOLAD	385,114	407,772	384,041	355,265	305,017
SLAD	855,685	952,767	861,067	747,579	856,913
Total	3,651,065	4,033,310	3,797,394	3,657,649	3,018,118

Operating Income					
Brazil	\$ 172,787	\$ 188,445	\$ 193,339	\$ 246,926	\$ 208,102
Caribbean division(5)	(88,711)	37,837	40,692	32,475	11,189
NOLAD	(6,484)	(5,314)	(5,557)	(8,709)	(16,718)
SLAD	67,885	84,324	74,824	62,094	66,288
Corporate and others and purchase price allocation	(74,620)	(76,770)	(66,658)	(82,033)	(64,304)
Total	70,857	228,522	236,640	250,753	204,557

Operating Margin(6)					
Brazil	9.5%	10.2%	10.8%	13.1%	13.0%
Caribbean division(5)	(14.9)	4.6	5.4	4.9	4.3
NOLAD	(1.7)	(1.3)	(1.4)	(2.5)	(5.5)
SLAD	7.9	8.9	8.7	8.3	7.7
Total	1.9	5.7	6.2	6.9	6.8

Adjusted EBITDA(7)					
Brazil	\$ 237,699	\$ 245,957	\$ 240,954	\$ 289,462	\$ 250,606
Caribbean division(5)	(8,136)	67,180	69,109	53,754	23,556
NOLAD	27,701	27,397	26,738	19,551	15,400
SLAD	87,976	105,495	93,756	77,214	83,998
Corporate and others	(93,566)	(101,562)	(89,996)	(100,193)	(74,446)
Total	251,674	344,467	340,561	339,788	299,114

Adjusted EBITDA Margin(8)					
Brazil	13.1%	13.4%	13.4%	15.3%	15.7%
Caribbean division(5)	(1.4)	8.1	9.2	8.1	9.0
NOLAD	7.2	6.7	7.0	5.5	5.0
LAD	10.3	11.1	10.9	10.3	9.8
Total	6.9	8.5	9.0	9.3	9.9

Other Financial Data:					
Working capital(9)	\$ (94,870)	\$ 7,295	\$ 23,224	\$ (678)	\$ (52,793)
Capital expenditures(10)	170,638	313,786	300,482	325,852	176,173
Dividends declared per common share	\$ 0.24	\$ 0.24	\$ 0.24	\$ 0.24	\$ 0.17

Other Operating Data:

Systemwide comparable sales growth(11)(12)	10.0%	11.2%	9.2%	13.7%	14.9%
Brazil	1.8	6.6	5.2	9.3	17.5
Caribbean division	24.7	19.6	13.3	14.5	4.7
NOLAD	(4.6)	(0.9)	4.4	8.5	9.1
SLAD	21.1	20.8	19.9	30.6	16.1
Systemwide average restaurant sales(12)(13)	\$ 2,268	\$ 2,611	\$ 2,603	\$ 2,648	\$ 2,288
Systemwide sales growth(12)(14)	(9.4)%	6.2%	3.6%	21.1%	10.2%
Brazil	0.0	3.0	(4.6)	19.2	34.3
Caribbean division	(31.9)	10.3	14.2	22.4	3.8
NOLAD	(5.6)	4.7	5.9	14.9	19.2
SLAD	(9.3)	10.4	15.4	30.4	(20.2)

As of December 31,

	2014	2013	2012	2011	2010
Number of systemwide restaurants	2,121	2,062	1,948	1,840	1,755
Brazil	866	812	731	662	616
Caribbean division	359	365	353	351	142
NOLAD	513	507	503	484	476
SLAD	383	378	361	343	521
Number of Company-operated restaurants	1,577	1,538	1,453	1,358	1,292
Brazil	614	583	533	488	453
Caribbean division	270	270	259	249	91
NOLAD	352	344	335	314	310
SLAD	341	341	326	307	438
Number of franchised restaurants	544	524	495	482	463
Brazil	252	229	198	174	163
Caribbean division	89	95	94	102	51
NOLAD	161	163	168	170	166
SLAD	42	37	35	36	83

- (1) The balance sheet data as of December 31, 2010 does not reflect the split-off of the Axionlog business, formerly known as Axis. See “Item 4. Information on the Company—B. Business Overview—Our Operations—Supply and Distribution.”
- (2) Data as of December 2010 was adjusted to reflect the stock split approved on March 14, 2011.
- (3) Segment information as of and for the years ended December 31, 2014, 2013, 2012 and 2011 is presented based on the segment structure prevailing as of and from January 1, 2013. See “Presentation of Financial and Other Information—Operating Data.” Segment Information for 2010 has not been restated and is therefore not comparable to 2014, 2013, 2012 and 2011 information.
- (4) Segment information for 2010 has not been restated and is therefore not comparable to 2014, 2013, 2012 and 2011 information. See “Presentation of Financial and Other Information—Operating Data.”
- (5) Currency devaluations in Venezuela have had a significant effect on our results of operations and have impacted the comparability of our results of operations in 2014 as compared to 2013, 2012 and 2011. For 2010 Venezuela was part of SLAD Division. See “—Exchange Rates and Exchange Controls.”
- (6) Operating margin is operating income divided by total revenues, expressed as a percentage.
- (7) Adjusted EBITDA is a measure of our performance that is reviewed by our management. Adjusted EBITDA does not have a standardized meaning and, accordingly, our definition of Adjusted EBITDA may not be comparable to Adjusted EBITDA as used by other companies. Total Adjusted EBITDA is a non-GAAP measure. For our definition of Adjusted EBITDA, see “Presentation of Financial and Other Information—Other Financial Measures.”

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Presented below is the reconciliation between net income and Adjusted EBITDA on a consolidated basis:

For the Years Ended December 31,					
Consolidated Adjusted EBITDA Reconciliation	2014	2013	2012	2011	2010
(in thousands of U.S. dollars)					
Net (loss) income attributable to Arcos Dorados Holdings Inc.	\$ (109,333)	\$ 53,854	\$ 114,332	\$ 115,529	\$ 106,021
Plus (Less):					
Net interest expense	72,750	88,156	54,247	60,749	41,613
Loss from derivative instruments	685	4,141	891	9,237	32,809
Foreign currency exchange results	74,117	38,783	18,420	23,926	(3,237)
Other non-operating (income) expenses, net	(146)	848	2,119	(3,562)	23,630
Income tax expense	32,479	42,722	46,375	44,603	3,450
Net income attributable to non-controlling interests	305	18	256	271	271
Operating income	70,857	228,522	236,640	250,753	204,557
Plus (Less):					
Items excluded from computation that affect operating income:					
Depreciation and amortization	116,811	114,860	92,328	68,971	60,585
Compensation expense related to the award right granted to our CEO	—	—	—	2,214	16,392
Gains from sale or insurance recovery of property and equipment	(3,379)	(10,326)	(3,328)	(7,123)	(5,299)
Write-offs of property and equipment	7,111	6,489	4,259	3,570	2,635
Impairment of long-lived assets	50,886	2,958	1,982	1,715	4,668
Impairment of goodwill	2,029	—	683	2,077	—
Stock-based compensation related to the special awards in connection with the initial public offering under the 2011 Plan	2,503	1,964	7,997	5,703	—
Cash bonus related to the initial public offering	—	—	—	1,382	—
One-time expenses related to G&A optimization plan	4,707	—	—	—	—
Incremental compensation expense related to the 2008 Long-Term Incentive Plan	—	—	—	10,526	15,576
2008 Long-Term Incentive Plan incremental compensation from modification	149	—	—	—	—
Adjusted EBITDA	251,674	344,467	340,561	339,788	299,114

- (8) Adjusted EBITDA margin is Adjusted EBITDA divided by total revenues, expressed as a percentage.
- (9) Working capital equals current assets minus current liabilities.
- (10) Includes property and equipment expenditures and purchase of restaurant businesses paid at the acquisition date.
- (11) Systemwide comparable sales growth refers to the change in our restaurant sales in one period from a comparable period for restaurants that have been open for thirteen months or longer. Systemwide comparable sales growth is provided and analyzed on a constant currency basis, which means it is calculated using the same exchange rate over the periods under comparison to remove the effects of currency fluctuations from this trend analysis. We believe this constant currency measure provides a more meaningful analysis of our business by identifying the underlying business trend, without distortion from the effect of foreign currency movements.
- (12) Systemwide comparable sales growth, systemwide average restaurant sales and systemwide sales growth are presented on a systemwide basis, which means they include sales by our Company-operated restaurants and our franchised restaurants. While sales by our franchisees are not recorded as revenues by us, we believe the information is important in understanding our financial performance because these sales are the basis on which we calculate and record franchised revenues and are indicative of the financial health of our franchisee base.
- (13) Systemwide average restaurant sales is calculated by dividing our sales for the relevant period by the arithmetic mean of the number of our restaurants at the beginning and end of such period.
- (14) Systemwide sales growth refers to the change in sales by all of our restaurants, whether operated by us or by our franchisees, from one period to another.

Exchange Rates and Exchange Controls

In 2014, 80.3% of our total revenues were derived from our restaurants in Argentina, Brazil, Mexico, Puerto Rico and Venezuela. While we maintain our books and records in U.S. dollars, our revenues are conducted in the local currency of the territories in which we operate, and as such may be affected by changes in the local exchange rate to the U.S. dollar. The exchange rates discussed in this section have been obtained from each country's central bank or applicable ministry of finance. However, in most cases (except Venezuela), for consolidation purposes, we use a foreign currency to U.S. dollar exchange rate provided by Bloomberg that differs slightly from that reported by the aforementioned central banks and/or ministries of finance.

Argentina

Since 2001, Argentina has tightened restrictions on capital flows, imposed exchange controls, maintained an official U.S. dollar exchange rate and imposed transfer restrictions substantially limiting the ability of companies to retain foreign currency or make payments abroad. Exchange control restrictions impact our ability to transfer funds abroad and may prevent or delay payments that our Argentine subsidiaries are required to make outside Argentina.

For the last few years, the Argentine government has maintained a policy of intervention in the foreign exchange markets, conducting periodic transactions for the purchase or sale of U.S. dollars. We cannot assure you that the Argentine government will maintain its current policies with regard to the Argentine peso or that the Argentine peso will not further depreciate or appreciate significantly in the future.

The Argentine peso depreciated 4.7% against the U.S. Dollar in 2010, 8.2% in 2011, 14.3% in 2012, 32.6% in 2013 and 31.2% in 2014.

The following table sets forth, for the periods indicated, the high, low, average and period-end exchange rates for the purchase of U.S. dollars expressed in Argentine pesos per U.S. dollar. The average rate is calculated by using the average of the Central Bank of Argentina's reported exchange rates on each day during a monthly period and on the last day of each month during an annual or interim period. As of April 27, 2015 the exchange rate for the purchase of U.S. dollars as reported by the Central Bank of Argentina was ARS\$8.894 per U.S. dollar.

	Period- End	Average for Period	Low	High
	ARS\$	(Argentine pesos per U.S. dollar)	ARS\$	ARS\$
Year Ended December 31:				
2010	3.976	3.912	3.794	3.986
2011	4.303	4.130	3.972	4.304
2012	4.917	4.551	4.305	4.917
2013	6.518	5.479	4.923	6.518
2014	8.552	8.231	6.543	8.556
Quarter Ended:				
March 31, 2015	8.820	8.728	8.554	8.820
Month Ended:				
October 31, 2014	8.502	8.480	8.448	8.503
November 30, 2014	8.526	8.514	8.507	8.526
December 31, 2014	8.552	8.550	8.526	8.556
January 31, 2015	8.640	8.602	8.554	8.640
February 28, 2015	8.724	8.686	8.649	8.726
March 31, 2015	8.820	8.779	8.731	8.820
April 30, 2015 (through April 27, 2015)	8.894	8.860	8.826	8.894

Note: For consolidation purposes, we use an Argentine peso /U.S. dollar exchange rate provided by Bloomberg that differs slightly from that reported by the Central Bank of Argentina.

Exchange Controls

In June 2005, the Argentine government issued Decree 616/05, which established additional restrictions over all capital flows that could result in future payment obligations of foreign currency by residents to non-residents.

Pursuant to the decree, all private sector indebtedness of physical persons or corporations in Argentina are required to be agreed upon and repaid not prior to 365 days from the date of entry of the funds into Argentina, regardless of the form of repayment. The decree outlines several types of transactions that are exempt from its requirements, including foreign trade financings and primary offerings of debt securities issued pursuant to a public offering and listed on a self-regulated market.

In addition, the decree stipulates that all capital inflows within the private sector to the local exchange market due to foreign indebtedness of physical persons or corporations within Argentina (excluding foreign trade financings and primary offerings of debt securities issued pursuant to a public offering and listed on a self-regulated market), as well as all capital inflows of non-residents received by the local exchange market destined for local money holdings, all kinds of financial assets or liabilities of the financial and non-financial private sector (excluding foreign direct investment and primary offerings of debt securities issued pursuant to a public offering and listed on a self-regulated market) and investments in securities issued by the public sector that are acquired in secondary markets, must meet certain requirements described in section 4 of the decree, as outlined below:

- the funds may only be transferred outside the local exchange market after a 365-day period from the date of entry of the funds into Argentina;
- any amounts resulting from the exchange of the funds are to be credited to an account within the Argentine banking system;
- a non-transferable, non-interest-bearing deposit must be maintained for a term of 365 calendar days, in an amount equal to 30% of any inflow of funds to the local foreign exchange market; and
- the deposit shall be in U.S. dollars in any of the financial entities of Argentina and may not be used as collateral or guaranty for any credit transaction. Any breach to the provisions of Decree 616/05 is subject to criminal penalties.

In addition, on November 16, 2005, the Ministry of Economy and Production issued Resolution 637/05, providing that any inflow of funds to the local exchange market in connection with an initial offering of securities, bonds or certificates issued by a trustee under a trust, whether or not such securities, bonds or certificates are publicly offered and listed in a self-regulated market, shall comply with all requirements provided for in section 4 of Decree 616/05 whenever those requirements are applicable to the inflow of funds to the local exchange market in connection with the acquisition of any of the assets under the trust.

Regarding payment by local residents of services rendered to them, access to the local exchange market for payment of services rendered by non-residents is subject to filing with the intervening bank of documentation evidencing the nature of the service rendered, that it was indeed rendered by a non-resident to a local resident and the amounts due for such services which are to be transferred abroad. If the service rendered is not directly related to the activities of the local resident, an auditor's report must also be filed with the intervening bank, certifying that the service was in fact rendered and detailing the back-up information reviewed for such purpose. Furthermore, foreign exchange regulations currently in place provide that previous authorization by the Central Bank of Argentina is required for access to the local foreign exchange market for the payment of certain services, including (i) information and computer services; (ii) technical or professional business services; (iii) royalties, patents and trademarks; (iv) professional athlete services; (v) copyrights; (vi) cultural, personal or recreational services; (vii) payment of commercial warranties for the export of goods and services; (viii) commercial commissions; (ix) rights of exploitation of movies, videos and foreign audio recordings; and (x) services for technology transfer pursuant to Law No. 22,426; provided, however, the contracts related to such services generate payments or new debt (in the calendar year, at the foreign exchange local market concept code level and regarding the debtor) over U.S.\$100,000, and either (i) the beneficiary is a person (natural or legal entity) related to the local debtor, whether directly or indirectly; or (ii) the beneficiary is a person (natural or legal entity) not organized, domiciled or resident in dominions, jurisdictions, territories or associated states listed in Executive Decree No. 589/2013, section 2(b); or (iii) when the payment abroad is performed in a dominion, jurisdiction, territory or associated state that is not listed in Executive Decree No. 589/2013, section 2(b). Additionally, depending on the nature of the service rendered, an affidavit may need to be filed with the Argentine tax authority (*Administración Federal de Ingresos Públicos* , or AFIP).

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Interest Payments . Access to the local exchange market for paying interest is allowed if it is related to unpaid debts or settlement occurs simultaneously with the payment of capital. Foreign currency necessary to pay interest on foreign indebtedness may be purchased and transferred abroad:

- (a) up to 10 business days in advance of the relevant interest payment date;
- (b) to pay interest accrued as from the date of settlement of the disbursed funds through the local foreign exchange market; or
- (c) to pay interest accrued during the period between the date of disbursement of the funds and the date of settlement of the disbursed funds through the local foreign exchange market; provided that the funds disbursed abroad were credited in correspondent accounts of entities authorized to settle such funds through the local exchange market, within 48 business hours as from the date of their disbursement.

In order to proceed with remittances abroad for debt interest payments of all types, the entities involved must first verify that the debtor has complied with the reporting requirements imposed under Communication “A” 3602 dated May 7, 2002 and under Communication “A” 4237 dated November 10, 2004 in case the lender is part of the debtor’s economic group, and meets all other requirements set forth in Communication “A” 5264 (as amended and supplemented).

Principal Repayments . Foreign currency necessary to pay principal on foreign indebtedness owed by the private non-financial sector may be acquired:

- (a) within 10 business days prior to the stated maturity of the applicable obligation; provided that the funds disbursed under such obligation have remained in Argentina for at least 365 days; or
- (b) within the term necessary for performing the payment obligations, when such payment obligations depend on the occurrence of specific conditions set forth in the related contracts, such as a cash flow excess clause or automatic cash reinvestment clause.

Principal Prepayments . The foreign currency required to prepay principal on foreign indebtedness may be acquired to make partial or full payments more than 10 business days prior to the stated maturity of the relevant obligation, provided that (i) the funds disbursed under the debt facility have remained in Argentina for at least 365 days; and (ii) either (y) the prepayment is financed totally with the disbursement of funds from outside Argentina with the purpose of carrying out capital contributions in a local company, or (z) the following requirements are met: (1) the amount in foreign currency to be prepaid does not exceed the net present value of the portion of the debt being prepaid (provided the net present value is calculated in accordance with Communication “A” 5604, as amended and supplemented), (2) the term of the new debt is longer than the term of the prepaid debt (considering both principal and interest) and (3) the prepayment is financed entirely with: (A) a new cross-border loan granted by a foreign financial creditor and/or (B) the issuance of notes or other debt securities which are deemed “foreign debt,” in each case, provided the terms and conditions of the new financing explicitly require such prepayment as a condition to grant such new financing.

Foreclosure of Local Guarantees . Access to the local foreign exchange market for payment of foreign indebtedness is limited to the resident debtor. In such sense, any guarantor of any cross-border financing that is an Argentine resident shall not have access to the local foreign exchange market in order to make payments or transfer funds abroad pursuant to the guarantee, or may be subject to maximum thresholds for any such payment or transfer abroad. As of the date hereof, purchases of foreign currency without specific allocation (*atesoramiento*) by local residents who are legal persons are subject to prior authorization by the Central Bank of Argentina.

Dividends . Additionally, access to the local foreign exchange market is permitted for remittances abroad to pay earnings and dividends in so far as they arise from closed and fully audited balance sheets (Communication “A” 5264, as amended and supplemented). Moreover, pursuant to AFIP General Resolution No. 3210 (2011), AFIP General Resolution No. 3212 (2011) and AFIP General Resolution No. 3421 (2012), a new system of restrictions on the purchase of U.S. dollars was imposed. Accordingly, all U.S. dollar purchases must be registered with AFIP, which requires the purchaser to state the use of the proceeds.

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Notwithstanding the above, although the purchase of foreign currency to pay dividends abroad is legally permitted, in practice, the payment of dividends abroad is being delayed or denied as a result of factual restrictions by the Central Bank of Argentina. This limitation is part of several informal foreign exchange measures implemented by the Argentine government with the purpose of restricting the outflow of foreign currency in order to obtain a favorable balance between the inflows and outflows of foreign currency.

These exchange controls impact our ability to transfer funds abroad and may prevent or delay payments that our Argentine subsidiaries are required to make outside Argentina.

Brazil

Brazilian Resolution 3,568 establishes that, without prejudice to the duty of identifying customers, operations of foreign currency purchase or sale up to \$3,000 or its equivalent in other currencies are not required to submit documentation relating to legal transactions underlying these foreign exchange operations. According to Resolution 3,568, the Central Bank of Brazil may define simplified forms to record operations of foreign currency purchases and sales of up to \$3,000 or its equivalent in other currencies.

The Brazilian Monetary Council may issue further regulations in relation to foreign exchange transactions, as well as on payments and transfers of Brazilian currency between Brazilian residents and non-residents (such transfers being commonly known as the international transfer of *reais*), including those made through the so-called non-resident accounts.

The Brazilian *real* appreciated 4.5% against the U.S. dollar in 2010, and depreciated 21.6% in 2011, 9.0% in 2012, 14.6% in 2013, 13.4% in 2014 and 20.8% in the first quarter of 2015.

Although the Central Bank of Brazil has intervened occasionally to control movements in the foreign exchange rates, the exchange market may continue to be volatile as a result of capital movements or other factors, and, therefore, the Brazilian *real* may substantially decline or appreciate in value in relation to the U.S. dollar in the future.

The following table sets forth, for the periods indicated, the high, low, average and period-end exchange rates for the purchase of U.S. dollars expressed in Brazilian *reais* per U.S. dollar as reported by the Central Bank of Brazil. As of April 27, 2015, the exchange rate for the purchase of U.S. dollars as reported by the Central Bank of Brazil was R\$2.9236 per U.S. dollar.

	<u>Period- End</u>	<u>Average for Period</u>	<u>Low</u>	<u>High</u>
	(Brazilian <i>reais</i> per U.S. dollar)			
	R\$	R\$	R\$	R\$
Year Ended December 31:				
2010	1.666	1.759	1.655	1.881
2011	1.876	1.675	1.535	1.902
2012	2.044	1.959	1.702	2.112
2013	2.343	2.160	1.953	2.446
2014	2.656	2.358	2.197	2.740
Quarter Ended:				
March 31, 2015	3.2080	2.9162	2.5690	3.2683
Month Ended:				
October 31, 2014	2.442	2.448	2.391	2.534
November 30, 2014	2.560	2.548	2.484	2.614
December 31, 2014	2.656	2.643	2.561	2.740
January 31, 2015	2.6623	2.6329	2.5690	2.7107
February 28, 2015	2.8782	2.8165	2.6894	2.8811
March 31, 2015	3.2080	3.1395	3.8655	3.2683
April 30, 2015 (through April 27, 2015)	2.9236	3.0611	2.9236	3.1556

Note: For consolidation purposes, we use a Brazilian *reais* /U.S. dollar exchange rate provided by Bloomberg that differs slightly from that reported by the Central Bank of Brazil.

Mexico

For the last few years, the Mexican government has maintained a policy of non-intervention in the foreign exchange markets, other than conducting periodic auctions for the purchase of U.S. dollars, and has not had in effect any exchange controls (although these controls have existed and have been in effect in the past). We cannot assure you that the Mexican government will maintain its current policies with regard to the Mexican *peso* or that the Mexican *peso* will not further depreciate or appreciate significantly in the future.

The following table sets forth, for the periods indicated, the high, low, average and period-end free-market exchange rate for the purchase of U.S. dollars, expressed in nominal Mexican *pesos* per U.S. dollar, as reported by the Central Bank of Mexico in the Federal Official Gazette. All amounts are stated in Mexican *pesos* per U.S. dollar. The annual and interim average rates reflect the average of month-end rates, and monthly average rates reflect the average of daily rates. As of April 27, 2015, the free-market exchange rate for the purchase of U.S. dollars as reported by the Central Bank of Mexico in the Federal Official Gazette as the rate of payment of obligations denominated in non-Mexican currency payable in Mexico was Ps.15.38 per U.S. dollar.

	Period End	Average for Period	Low	High
	(Mexican <i>pesos</i> per U.S. dollar)			
	Ps.	Ps.	Ps.	Ps.
Year Ended December 31:				
2010	12.38	12.66	12.16	13.18
2011	13.98	12.48	11.50	14.24
2012	12.99	13.17	12.63	14.39
2013	13.07	12.84	11.98	13.44
2014	14.73	13.36	12.85	14.79
Quarter Ended:				
March 31, 2015	15.24	15.02	14.56	15.58
Month Ended:				
October 31, 2014	13.43	13.47	13.38	13.57
November 30, 2014	13.77	13.60	13.48	13.77
December 31, 2014	14.73	14.47	13.90	14.79
January 31, 2015	14.84	14.68	14.56	14.95
February 28, 2015	14.96	14.92	14.75	15.11
March 31, 2015	15.24	15.21	14.93	15.58
April 30, 2015 (through April 27, 2015)	15.38	15.22	14.80	15.45

For consolidation purposes, we use a Mexican *peso* /U.S. dollar exchange rate provided by Bloomberg that differs slightly from that reported by the Central Bank of Mexico.

Venezuela

The exchange control regime in force in Venezuela since 2003 provided that all foreign currency export proceeds had to be sold to the Central Bank of Venezuela at the established exchange rate. In addition, all foreign currency entering the country had to be sold to the Central Bank of Venezuela. The acquisition of foreign currency by a private sector entity had to be approved by the *Comisión de Administración de Divisas*, or CADIVI, the entity had to prove, among other things, that its social security contributions and tax payments were up to date.

These approvals became more difficult to obtain over time, which led to the development of a bond-based exchange process in effect until May 2010, under which *bolívar* -denominated bonds were purchased in Venezuela and then were immediately exchanged outside Venezuela for bonds denominated in U.S. dollars at a specified, and less favorable, parallel market exchange rate.

Historically, we had not been able to access the official exchange rate for royalty payments and had instead entered into bond-based exchange transactions to make our royalty payments, honor other foreign debts and pay intercompany loans.

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On January 8, 2010, the Venezuelan government announced the devaluation of the *bolívar* and the creation of a two-tiered official exchange rate system. The official exchange rate moved from 2.15 *bolívares* per U.S. dollar to 2.60 *bolívares* per U.S. dollar for essential goods and to 4.30 *bolívares* per U.S. dollar for non-essential goods.

On May 14, 2010, the Central Bank of Venezuela increased its control of the bond-based exchange process and, as a result, bond-based exchanges may solely be conducted by the Central Bank of Venezuela. Consequently, the market for exchanging bonds in Venezuela ended, limiting companies' ability to obtain foreign currency other than through foreign currency trades approved by and conducted through CADIVI or the Central Bank of Venezuela.

On June 9, 2010, the Venezuelan government, through the Central Bank of Venezuela, implemented a regulated market for trading with foreign currency, known as the System for Transactions with Securities in Foreign Currency (*Sistema de Transacciones con Títulos en Moneda Extranjera*), or SITME. Pursuant to this system, companies without access to CADIVI can access SITME to convert a maximum cash equivalent of up to \$50,000 per day or \$350,000 per month of foreign currency at an exchange rate based on the range of prices for the purchase and sale of bonds published daily by the Central Bank of Venezuela.

On December 30, 2010, the Venezuelan government announced the elimination of the official exchange rate for essential goods. Effective January 1, 2011, each U.S. dollar was valued at 4.2893 *bolívares* for purchases and 4.3000 *bolívares* for sales. In addition, the exchange rate was set at 4.3000 *bolívares* per U.S. dollar for the payment of external public debt.

On February 8, 2013, the Venezuelan government, through Foreign Exchange Agreement No. 14, established the devaluation of the official exchange rate from 4.30 to 6.30 *bolívares* per U.S. dollar, effective as of February 9, 2013. This exchange rate also applied to the purchase of foreign currency: (i) for the payment of principal, interest, guarantees and other types of collateral related to private debt assumed with foreign creditors, (ii) to settle obligations derived from the use of patents, trademarks, licenses and franchising, and (iii) for the payment of technology imports and technical assistance agreements.

In addition, on February 8, 2013, the Venezuelan government, through Decree No. 9381, created a committee called the Superior Office for the Optimization of the Exchange Rate System (*Organo Superior para la Optimización del Sistema Cambiario*), or the Committee, which had the authority to design, plan and execute foreign exchange policies for the purpose of balancing foreign currency flow in the Venezuelan economy. The Committee's decisions were taken in consensus with the Central Bank of Venezuela and the Venezuelan Ministry of Planning and Finance. The Committee was dissolved on November 29, 2013.

Following the change in the official exchange rate, on February 13, 2013, the Central Bank of Venezuela, through an official announcement published in the Venezuelan Official Gazette number 40,109, provided notice that as of February 9, 2013, no sales would be processed and no purchase orders would be granted through SITME. Venezuelan authorized institutions continued with the operative process required for the payment of negotiated foreign currency balances already assigned through SITME until February 8, 2013.

On March 18, 2013, the Venezuelan government announced a new complementary foreign exchange system called the Supplementary System for the Administration of Foreign Currency (*Sistema Complementario de Adquisición de Divisas*), or SICAD. This new mechanism led to the definitive suspension of SITME operations.

The SICAD mechanism is an auction that is controlled by the Venezuelan government. For each auction the government indicates which sectors of the economy or products are allowed to participate. The highest bidder is not necessarily the winner of an auction, and even when a bid is accepted the winner typically is not awarded the entire amount requested. When invited to participate, an entity must submit documentation that evidences a qualifying U.S. dollar liability related to a prospective import transaction. By definition, liabilities related to past import transactions are not eligible to be settled through SICAD. If an entity's bid is accepted, the Central Bank of Venezuela collects *bolívares* from the entity and remits the U.S. dollars directly to the vendor. The publication of the exchange rates of SICAD auctions started in December 2013 as required by the amended related regulation. The rate published for the last two weeks of 2013 was 11.3 *bolívares* per U.S. dollar.

On January 23, 2014, effective on January 24, 2014, the government of Venezuela announced the creation of a new institution governing exchange rate control called the National Center of Foreign Trade (Centro Nacional de Comercio Exterior), or CENCOEX, which gradually took over all the responsibilities of CADIVI. Pursuant to Exchange Agreement N°26 of April 10, 2014 CENCOEX assumed the administration of the SICAD auctions. Based

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on announcements made by the Venezuelan government, there would only be access to U.S. dollars at a rate of 6.30 *bolívares* per U.S. dollar for the food industry and other industries deemed a priority, which as of today have not been fully defined. Imports of other products could be included in SICAD auctions depending on the related industry and pursuant to invitation by CENCOEX. Furthermore, Exchange Agreement N°25 issued on January 23, 2014, established that payments related to foreign investments and royalties, among others, would be made at the SICAD exchange rate. However, the process for the approval of the acquisition of foreign currency for said matters is still subject to the CENCOEX procedure.

On February 19, 2014, a new Exchange Regime Act was enacted to introduce flexibility into the exchange control system by creating the alternative System for the Administration of Foreign Currency (*Sistema Cambiario Alternativo de Divisas*), or SICAD II. According to the Act, the Central Bank of Venezuela no longer has exclusive control over buying and selling foreign currency. The new system was regulated through the Exchange Agreement N° 27 of March 10, 2014. This system was expected to serve as an additional source of U.S. dollars.

During February 2015, the Venezuelan government announced the unification of SICAD and SICAD II into a unitary foreign exchange mechanism called SICAD, an auction system controlled by the Venezuelan government with an initial exchange rate of 12.00 *bolívares* per U.S. dollar. On February 10, 2015, Exchange Agreement N°33 established a new open-market foreign exchange system called SIMADI (*Sistema Marginal de Divisas*). SIMADI will function on freemarket principles with foreign currency offered either by PDVSA (*Petróleos de Venezuela*), the Central Bank of Venezuela or the private sector. SIMADI allows the settlement of transactions in cash and securities denominated in foreign currencies as well as transactions by foreign exchange intermediaries including banking institutions and brokerage houses. The Central Bank of Venezuela publishes the SIMADI referential exchange rate on its web page daily. This rate is the weighted average of the foreign exchange transactions conducted on the same day. As of April 27, 2015, the official SIMADI exchange rate is 197.66 *bolívares* per U.S. dollar. SICAD II was suspended beginning on February 12, 2015. Pursuant to the public notice issued by the Ministry of Finance and the Central Bank of Venezuela, no further transactions will be made through SICAD II after February 12, 2015.

As a result of the foregoing, the acquisition of foreign currency at the official exchange rate by Venezuelan companies to honor foreign debt, pay dividends or otherwise move capital out of Venezuela is subject to the approval of CENCOEX and to the availability of foreign currency within the SIMADI mechanisms.

The following table sets forth, for the periods indicated, the exchange rates set by the Ministry of Finance and the Central Bank of Venezuela for the purchase and sale of U.S. dollars and the payment of external public debt in U.S. dollars, in each case expressed in nominal Venezuelan *bolívares* per U.S. dollar.

For more details on the impact of the Venezuelan exchange rate regime on our business and results of operations, see Notes 21 and 26 to our consolidated financial statements.

	<u>Purchase</u>	<u>Sale</u>	<u>Payment of External Public Debt</u>
	(Venezuelan <i>bolívars</i> per U.S. dollar)		
	Bs.	Bs.	Bs.
January 1, 2009 through January 7, 2010	2.1446	2.1500	2.1500
		<u>Essential Goods</u>	<u>Non- essential Goods</u>
		(Venezuelan <i>bolívars</i> per U.S. dollar)	
		Bs.	Bs.
January 8, 2010 through December 31, 2010		2.60	4.30
			<u>Payment of External Public Debt</u>
	<u>Purchase</u>	<u>Sale</u>	<u>Payment of External Public Debt</u>
	(Venezuelan <i>bolívars</i> per U.S. dollar)		
	Bs.	Bs.	Bs.
January 1, 2011 through February 8, 2013	4.2893	4.3000	4.3000
			<u>Payment of External Public Debt</u>
	<u>Purchase</u>	<u>Sale</u>	<u>Payment of External Public Debt</u>
	(Venezuelan <i>bolívars</i> per U.S. dollar)		
	Bs.	Bs.	Bs.
February 9, 2013 through April 27, 2015	6.2842	6.3000	6.3000

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The following tables sets forth, for the periods indicated, the exchange rates resulting from the SICAD, SICAD II and SIMADI mechanisms administered by CENCOEX and the Central Bank of Venezuela for the purchase and sale of U.S. dollars, in each case expressed in nominal Venezuelan *bolívares* per U.S. dollar.

SICAD

Effective	Auction No.	Exchange Rate (Venezuelan <i>bolívares</i> per U.S. dollar)
December 23, 2013 through January 14, 2014	13-2013 and 14-2013	11.30
January 15 through February 16, 2014	15-2014	11.36
February 17 through February 23, 2014	01-2014	11.70
February 24 through March 5, 2014	02-2014	11.80
March 6 through March 16, 2014	03-2014	11.00
March 17 through March 23, 2014	04-2014	10.90
March 24 through March 30, 2014	05-2014	10.80
March 31 through April 4, 2014	06-2014	10.70
April 7 through June 17, 2014	07-2014 through 13-2014	10.00
June 18, 2014 through June 24, 2014	14-2014	10.50
June 25, 2014 through July 04, 2014	15-2014	10.60
July 07, 2014 through July 15, 2014	16-2014	10.80
July 16, 2014 through August 27, 2014	17-2014 through 21-2014	11.00
August 28, 2014 through September 03, 2014	22-2014	11.50
September 04, 2014 through September 24, 2014	23-2014	11.70
September 25, 2014 through November 03, 2014	24-2014 through 26-2014	12.00

SICAD II

	Period End	Average for Period	Low	High
	Bs.	Bs.	Bs.	Bs.
March 24 through March 28, 2014	50.86	51.47	50.86	51.86
March 31 through April 4, 2014	49.04	49.24	49.04	49.81
April 2014	50.00	49.97	49.02	50.00
May 2014	49.97	49.98	49.92	50.00
June 2014	49.98	49.98	49.97	49.99
July 2014	49.99	49.98	49.96	50.00
August 2014	49.99	49.98	49.95	49.99
September 2014	49.98	49.98	49.96	49.99
October 2014	49.97	49.98	49.96	49.99
November 2014	49.98	49.99	49.97	49.99
December 2014	49.99	49.98	49.96	49.99

SIMADI

	Period End	Average for Period	Low	High
	Bs.	Bs.	Bs.	Bs.
February 12 through February 27, 2015	176.62	172.54	170.04	176.62
March 2015	192.95	185.86	176.75	193.40
April 2015 (through April 27)	197.66	195.57	193.05	197.66

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

Our business, financial condition and results of operations could be materially and adversely affected if any of the risks described below occur. As a result, the market price of our class A shares could decline, and you could lose all or part of your investment. This annual report also contains forward-looking statements that involve risks and uncertainties. See “Forward-Looking Statements.” Our actual results could differ materially and adversely from those anticipated in these forward-looking statements as a result of certain factors, including the risks facing our company or investments in Latin America and the Caribbean described below and elsewhere in this annual report.

Certain Factors Relating to Our Business

Our rights to operate and franchise McDonald’s-branded restaurants are dependent on the MFAs, the expiration of which would adversely affect our business, results of operations, financial condition and prospects.

Our rights to operate and franchise McDonald’s-branded restaurants in the Territories, and therefore our ability to conduct our business, derive exclusively from the rights granted to us by McDonald’s in two MFAs through 2027. The initial term of the franchise for French Guiana, Guadeloupe and Martinique expires in 2017, which we may extend for an additional 10-year term at our sole discretion. As a result, our ability to continue operating in our current capacity following the initial term of the MFAs is dependent on the renewal of our contractual relationship with McDonald’s.

McDonald’s has the right, in its reasonable business judgment based on our satisfaction of certain criteria set forth in the MFA, to grant us an option to extend the term of the MFAs with respect to all Territories for an additional period of 10 years after the expiration of the initial term of the MFAs upon such terms as McDonald’s may determine. Pursuant to the MFAs, McDonald’s will determine whether to grant us the option to renew between August 2020 and August 2024. If McDonald’s grants us the option to renew and we elect to exercise the option, then we and McDonald’s will amend the MFAs to reflect the terms of such renewal option, as appropriate. We cannot assure you that McDonald’s will grant us an option to extend the term of the MFAs or that the terms of any renewal option will be acceptable to us, will be similar to those contained in the MFAs or that the terms will not be less favorable to us than those contained in the MFAs.

If McDonald’s elects not to grant us the renewal option or we elect not to exercise the renewal option, we will have a three-year period in which to solicit offers for our business, which offers would be subject to McDonald’s approval. Upon the expiration of the MFAs, McDonald’s has the option to acquire all of our non-public shares and all of the equity interests of our wholly owned subsidiary Arcos Dourados Comercio de Alimentos Ltda., the master franchisee of McDonald’s for Brazil, at their fair market value.

In the event McDonald’s does not exercise its option to acquire LatAm, LLC and Arcos Dourados Comercio de Alimentos Ltda., the MFAs would expire and we would be required to cease operating McDonald’s-branded restaurants, identifying our business with McDonald’s and using any of McDonald’s intellectual property. Although we would retain our real estate and infrastructure, the MFAs prohibit us from engaging in certain competitive businesses, including Burger King, Subway, KFC or any other quick-service restaurant, or QSR, business, or duplicating the McDonald’s system at another restaurant or business during the two-year period following the expiration of the MFAs. As the McDonald’s brand and our relationship with McDonald’s are among our primary competitive strengths, the expiration of the MFAs for any of the reasons described above would materially and adversely affect our business, results of operations, financial condition and prospects.

Our business depends on our relationship with McDonald's and changes in this relationship may adversely affect our business, results of operations and financial condition.

Our rights to operate and franchise McDonald's-branded restaurants in the Territories, and therefore our ability to conduct our business, derive exclusively from the rights granted to us by McDonald's in the MFAs. As a result, our revenues are dependent on the continued existence of our contractual relationship with McDonald's.

Pursuant to the MFAs, McDonald's has the ability to exercise substantial influence over the conduct of our business. For example, under the MFAs, we are not permitted to operate any other QSR chains, we must comply with McDonald's high quality standards, we must own and operate at least 50% of all McDonald's-branded restaurants in the Territories, we must maintain certain guarantees in favor of McDonald's, including a standby letter of credit (or other similar financial guarantee acceptable to McDonald's) in an amount of \$80.0 million, to secure our payment obligations under the MFAs and related credit documents, we cannot incur debt above certain financial ratios, we cannot transfer the equity interests of our subsidiaries, any significant portion of their assets or any of the real estate properties we own without McDonald's consent, and McDonald's has the right to approve the appointment of our chief executive officer and chief operating officer. In addition, the MFAs require us to reinvest a significant amount of money, including through reimaging our existing restaurants, opening new restaurants and advertising, which plans McDonald's has the right to approve. We are required under the MFAs to open 250 restaurants and to spend \$180 million from 2014 through 2016 to satisfy our reinvestment commitments. In addition, we estimate that the cost to comply with our restaurant opening commitments under the MFAs from 2014 through 2016 will be between \$175 million and \$350 million depending on, among other factors, the type and location of the restaurants we open. We cannot assure you that we will have available the funds necessary to finance these commitments, and their satisfaction may require us to incur additional indebtedness, which could adversely affect our financial condition. Moreover, we may not be able to obtain additional indebtedness on favorable terms, or at all. Failure to comply with these commitments could constitute a material breach of the MFAs and may lead to a termination by McDonald's of the MFAs. Currently, we have submitted to McDonald's a proposal for an amendment to the 2014-2016 opening and reinvestment plans, in order to adjust these plans to the current economic realities of the region. No assurances can be given, however, that we will be able to come to an agreement with McDonald's on an amendment to these plans.

Notwithstanding the foregoing, McDonald's has no obligation to fund our operations. In addition, McDonald's does not guarantee any of our financial obligations, including trade payables or outstanding indebtedness, and has no obligation to do so.

If the terms of the MFAs excessively restrict our ability to operate our business or if we are unable to satisfy our restaurant opening and reinvestment commitments under the MFAs, our business, results of operations and financial condition would be materially and adversely affected.

For certain periods of 2014, McDonald's Corporation granted us a limited waiver for our non-compliance with certain quarterly financial ratios specified in the MFA, a failure to extend such waiver or comply with our original commitments could result in a material breach of the MFA.

During certain periods of 2014, we were not in compliance with certain quarterly financial ratios specified in the MFA. We have obtained a limited waiver from McDonald's Corporation for a six-month period (from and as of June 30, 2014 through and including December 31, 2014). We are currently negotiating an extension of this waiver. During the waiver period we were not required to maintain these quarterly financial ratios, however, we will need to obtain an extension of the MFA waiver to avoid breaching our commitments under the MFA. If we are unable to obtain an extension of the waiver or to comply with our original commitments under the MFA, we could be in material breach. Our breach of the MFA would give McDonald's certain rights, including the ability to acquire all or portions of our business. See "Item 10. Additional Information—C. Material Contracts—The MFAs."

McDonald's has the right to acquire all or portions of our business upon the occurrence of certain events and, in the case of a material breach of the MFAs, may acquire our non-public shares or our interests in one or more Territories at 80% of their fair market value.

Pursuant to the MFAs, McDonald's has the right to acquire our non-public shares or our interests in one or more Territories upon the occurrence of certain events, including the death or permanent incapacity of our controlling

shareholder or a material breach of the MFAs. In the event McDonald's were to exercise its right to acquire all of our non-public shares, McDonald's would become our controlling shareholder.

McDonald's has the option to acquire all, but not less than all, of our non-public shares at 100% of their fair market value during the twelve-month period following the eighteenth-month anniversary of the death or permanent incapacity of Mr. Staton, our Chairman, CEO and controlling shareholder. In addition, if there is a material breach that relates to one or more Territories in which there are at least 100 restaurants in operation, McDonald's has the right either to acquire all of our non-public shares or our interests in our subsidiaries in such Territory or Territories. By contrast, if the initial material breach of the MFAs affects or is attributable to any of the Territories in which there are less than 100 restaurants in operation, McDonald's only has the right to acquire the equity interests of any of our subsidiaries in the relevant Territory. For example, since we have more than 100 restaurants in Mexico, if a Mexican subsidiary were to materially breach the MFA, McDonald's would have the right either to acquire our entire business throughout Latin America and the Caribbean or just our Mexican operations, whereas upon a similar breach by our Ecuadorean subsidiary, McDonald's would only have the right to acquire our interests in our operations in Ecuador.

McDonald's was granted a perfected security interest in the equity interests of LatAm, LLC, Arcos Dourados Comercio de Alimentos Ltda. and certain of their subsidiaries to protect this right. In the event this right is exercised as a result of a material breach of the MFAs, the amount to be paid by McDonald's would be equal to 80% of the fair market value of the acquired equity interests. If McDonald's exercises its right to acquire our interests in one or more Territories as a result of a material breach, our business, results of operations and financial condition would be materially and adversely affected. See "Item 10. Additional Information—C. Material Contracts—The MFAs—Termination" for more details about fair market value calculation.

The failure to successfully manage our future growth may adversely affect our results of operations.

Our business has grown significantly in recent years, largely due to the opening of new restaurants in existing and new markets within the Territories, and also from an increase in comparable store sales. Our total number of restaurant locations has increased from 1,569 at the date of the Acquisition to 2,121 as of December 31, 2014. However, during 2014, our rate of restaurant openings slowed. This was mainly due to a shift in capital allocation strategy to increase our focus on existing restaurants over continued expansion.

Our growth is, to a certain extent, dependent on new restaurant openings and therefore may not be constant from period to period, it may accelerate or decelerate in response to certain factors. There are many obstacles to opening new restaurants, including determining the availability of desirable locations, securing reliable suppliers, hiring and training new personnel and negotiating acceptable lease terms, and, in times of adverse economic conditions, franchisees may be more reluctant to provide the investment required to open new restaurants and may have difficulty obtaining sufficient financing. In addition, our growth in comparable store sales is dependent on continued economic growth in the countries in which we operate as well as our ability to continue to predict and satisfy changing consumer preferences.

We plan our capital expenditures on an annual basis, taking into account historical information, regional economic trends, restaurant opening and reimagining plans, site availability and the investment requirements of the MFAs in order to maximize our returns on invested capital. The success of our investment plan may, however, be harmed by factors outside our control, such as changes in macroeconomic conditions, changes in demand and construction difficulties that could jeopardize our investment returns and our future results and financial condition.

We depend on oral agreements with third-party suppliers and distributors for the provision of products that are necessary for our operations.

Supply chain management is an important element of our success and a crucial factor in optimizing our profitability. We use McDonald's centralized supply chain management model, which relies on approved third-party suppliers and distributors for goods, and we generally use several suppliers to satisfy our needs for goods. This system encompasses selecting and developing suppliers of core products—beef, chicken, buns, produce, cheese, dairy mixes, beverages and toppings—who are able to comply with McDonald's high quality standards, and establishing sustainable relationships with these suppliers. McDonald's standards include cleanliness, product consistency, timeliness, following internationally recognized manufacturing practices, meeting or exceeding all local food regulations and compliance with our Hazard Analysis Critical Control Plan, a systematic approach to food safety that emphasizes protection within the processing facility, rather than detection, through analysis, inspection and follow-up.

Our 25 largest suppliers account for approximately 80% of our purchases. Very few of our suppliers have entered into written contracts with us as we only have oral agreements with a vast majority of them. Our supplier approval process is thorough and lengthy in order to ensure compliance with McDonald's high quality standards. We therefore tend to develop strong relationships with approved suppliers and, given our importance to them, have found that oral agreements with them are generally sufficient to ensure a reliable supply of quality products. While we source our supplies from many approved suppliers in Latin America and the Caribbean, thereby reducing our dependence on any one supplier, the informal nature of the majority of our relationships with suppliers means that we may not be assured of long-term or reliable supplies of products from those suppliers.

In addition, certain supplies, such as beef, must often be locally sourced due to restrictions on their importation. In light of these restrictions, as well as the MFAs' requirement to purchase certain core supplies from approved suppliers, we may not be able to quickly find alternate or additional supplies in the event a supplier is unable to meet our orders.

If our suppliers fail to provide us with products in a timely manner due to unanticipated demand, production or distribution problems, financial distress or shortages, if our suppliers decide to terminate their relationship with us or if McDonald's determines that any product or service offered by an approved supplier is not in compliance with its standards and we are obligated to terminate our relationship with such supplier, we may have difficulty finding appropriate or compliant replacement suppliers. As a result, we may face inventory shortages that could negatively affect our operations.

Our financial condition and results of operations depend, to a certain extent, on the financial condition of our franchisees and their ability to fulfill their obligations under their franchise agreements.

As of December 31, 2014, 25.7% of our restaurants were franchised. Under our franchise agreements, we receive monthly payments which are, in most cases, the greater of a fixed rent or a certain percentage of the franchisee's gross sales. Franchisees are independent operators over whom we exercise control through the franchise agreements, by owning or leasing the real estate upon which their restaurants are located and through our operating manual that specifies items such as menu choices, permitted advertising, equipment, food handling procedures, product quality and approved suppliers. Our operating results depend to a certain extent on the restaurant profitability and financial viability of our franchisees. The concurrent failure by a significant number of franchisees to meet their financial obligations to us could jeopardize our ability to meet our obligations.

In addition, we are liable for our franchisees' monthly payment of a continuing franchise fee to McDonald's, which represents a percentage of those franchised restaurants' gross sales. To the extent that our franchisees fail to pay this fee in full, we are responsible for any shortfall. As such, the concurrent failure by a significant number of franchisees to pay their continuing franchise fees could have a material adverse effect on our results of operations and financial condition.

We do not have full operational control over the businesses of our franchisees.

We are dependent on franchisees to maintain McDonald's quality, service and cleanliness standards, and their failure to do so could materially affect the McDonald's brand and harm our future growth. Although we exercise significant control over franchisees through the franchise agreements, franchisees have some flexibility in their operations, including the ability to set prices for our products in their restaurants, hire employees and select certain service providers. In addition, it is possible that some franchisees may not operate their restaurants in accordance with our quality, service and cleanliness, health or product standards. Although we take corrective measures if franchisees fail to maintain McDonald's quality, service and cleanliness standards, we may not be able to identify and rectify problems with sufficient speed and, as a result, our image and operating results may be negatively affected.

Ownership and leasing of a broad portfolio of real estate exposes us to potential losses and liabilities.

As of December 31, 2014, we owned the land for 505 of our 2,121 restaurants and the buildings for all but 12 of our restaurants. The value of these assets could decrease or rental costs could increase due to changes in local demographics, the investment climate and increases in taxes.

The majority of our restaurant locations, or those operated by our franchisees, are subject to long-term leases. We may not be able to renew leases on acceptable terms or at all, in which case we would have to find new locations to lease or be forced to close the restaurants. If we are able to negotiate a new lease at an existing location, we may be subject to a rent increase. In addition, current restaurant locations may become unattractive due to changes in neighborhood demographics or economic conditions, which may result in reduced sales at these locations.

The success of our business is dependent on the effectiveness of our marketing strategy.

Market awareness is essential to our continued growth and financial success. Pursuant to the MFAs, we create, develop and coordinate marketing plans and promotional activities throughout the Territories, and franchisees contribute a percentage of their gross sales to our marketing plan. In addition, we are required under the MFAs to spend at least 5% of our sales on advertising and promotional activities. Pursuant to the MFAs, McDonald's has the right to review and approve our marketing plans in advance and may request that we cease using the materials or promotional activities at any time if McDonald's determines that they are detrimental to its brand image. We also participate in global and regional marketing activities undertaken by McDonald's and pay McDonald's up to 0.2% of our sales in order to fund such activities.

If our advertising programs are not effective, or if our competitors begin spending significantly more on advertising than we do, we may be unable to attract new customers or existing customers may not return to our restaurants and our operating results may be negatively affected.

We use non-committed lines of credit to partially finance our working capital needs.

We use non-committed lines of credit to partially finance our working capital needs. Given the nature of these lines of credit, they could be withdrawn and no longer be available to us, or their terms, including the interest rate, could change to make the terms no longer acceptable to us. The availability of these lines of credit depends on the level of liquidity in financial markets, which can vary based on events outside of our control, including financial or credit crises. Any inability to draw upon our non-committed lines of credit could have an adverse effect on our working capital, financial condition and results of operations.

Covenants and events of default in the agreements governing our outstanding indebtedness could limit our ability to undertake certain types of transactions and adversely affect our liquidity.

As of December 31, 2014, we had \$801.2 million in total outstanding indebtedness, consisting of \$32.5 million in short-term debt, \$767.2 million in long-term debt and \$1.4 million related to the fair market value of our outstanding derivative instruments. The agreements governing our outstanding indebtedness contain covenants and events of default that may limit our financial flexibility and ability to undertake certain types of transactions. For instance, we are subject to negative covenants that restrict some of our activities, including restrictions on:

- creating liens;
- maintaining certain leverage ratios;
- entering into sale and lease-back transactions; and
- consolidating, merging or transferring assets.

During certain periods of 2014, we were not in compliance with certain quarterly financial ratios specified in our revolving credit facility with Bank of America, N.A. and our 2012 total return equity swap with Goldman Sachs International. We were able to successfully negotiate an amendment to each of the revolving credit facility and the total return equity swap to increase these financial ratios. We are currently in compliance with the revised ratios. See "Item 5. Operating and Financial Review and Prospects—B. Liquidity and Capital Resources—Net Cash Provided by Financing Activities—Revolving Credit Facility" and "Item 10. Additional Information—C. Material Contracts—The 2012 Swap Transaction."

If we fail to satisfy the covenants set forth in these agreements or another event of default occurs under the agreements, our outstanding indebtedness under the agreements could become immediately due and payable. If our outstanding indebtedness becomes immediately due and payable and we do not have sufficient cash on hand to pay all amounts due, we could be required to sell assets, to refinance all or a portion of our indebtedness or to obtain additional financing. Refinancing may not be possible and additional financing may not be available on commercially acceptable terms, or at all.

Our inability to attract and retain qualified personnel may affect our growth and results of operations.

We have a strong management team with broad experience in product development, supply chain management, operations, finance, marketing and training. Our significant growth places substantial demands on our management team, and our continued growth could increase those demands. In addition, pursuant to the MFAs, McDonald's is entitled to approve the appointment of our chief executive officer and chief operating officer. Our ability to manage future growth will depend on the adequacy of our resources and our ability to continue to identify, attract and retain qualified personnel. Failure to do so could have a material adverse effect on our business, financial condition and results of operations.

Also, the success of our operations depends in part on our ability to attract and retain qualified regional and restaurant managers and general staff. If we are unable to recruit and retain our employees, or fail to motivate them to provide quality food and service, our image, operations and growth could be adversely affected.

The resignation, termination, permanent incapacity or death of our CEO could adversely affect our business, results of operations, financial condition and prospects.

Due to Mr. Staton's unique experience and leadership capabilities, it would be difficult to find a suitable successor for him if he were to cease serving as our CEO and Chairman for any reason. In addition, pursuant to the MFAs, McDonald's is entitled to approve the appointment of our chief executive officer. If we and McDonald's have not agreed upon a successor CEO after six months, McDonald's may designate a temporary CEO in its sole discretion pending our submission of information relating to a further candidate and McDonald's approval of that candidate. In the event of Mr. Staton's death or permanent incapacity, McDonald's has the right to acquire all of our non-public shares during the twelve-month period beginning on the eighteenth-month anniversary of his death or incapacity. A delay in finding a suitable successor CEO could adversely affect our business, results of operations, financial condition and prospects.

Labor shortages or increased labor costs could harm our results of operations.

Our operations depend in part on our ability to attract and retain qualified restaurant managers and crew. While the turnover rate varies significantly among categories of employees, due to the nature of our business we traditionally experience a high rate of turnover among our crew and we may not be able to replace departing crew with equally qualified or motivated staff.

As of December 31, 2014, we had 95,374 employees. Controlling labor costs is critical to our results of operations, and we closely monitor those costs. Some of our employees are paid minimum wages; any increases in minimum wages or changes to labor regulations in the Territories could increase our labor costs. For example, in January 2015, Venezuela announced a 20% increase in the minimum wage. In Argentina, a law enacted in November 2010 requires companies to pay overtime to all employees (except directors and managers) working on weekends. Additionally, a proposed bill in Argentina would require companies to distribute 10% of their profits to employees. In Brazil, during 2012, we decided to transition all of our employees to a fixed hourly schedule. Under the new schedule, employees work between 180 and 220 hours per month, with proportional wages based on the number of hours set forth in the employment contract. In 2013, pursuant to the Pernambuco Labor Court ruling, we completed the transition to a fixed hourly schedule according to the timeframe agreed to in the ruling. See "Item 8. Financial Information—A. Consolidated Statements and Other Financial Information—Legal Proceedings—Brazilian Labor Litigation." These or similar regulations, if adopted, may have an adverse impact on our results of operations. Competition for employees could also cause us to pay higher wages.

A failure by McDonald's to protect its intellectual property rights, including its brand image, could harm our results of operations.

The profitability of our business depends in part on consumers' perception of the strength of the McDonald's brand. Under the terms of the MFAs, we are required to assist McDonald's with protecting its intellectual property rights in the Territories. Nevertheless, any failure by McDonald's to protect its proprietary rights in the Territories or elsewhere could harm its brand image, which could affect our competitive position and our results of operations.

Under the MFAs, we may use, and grant rights to franchisees to use, McDonald's intellectual property in connection with the development, operation, promotion, marketing and management of our restaurants. McDonald's has reserved the right to use, or grant licenses to use, its intellectual property in Latin America and the Caribbean for all other purposes, including to sell, promote or license the sale of products using its intellectual property. If we or McDonald's fail to identify unauthorized filings of McDonald's trademarks and imitations thereof, and we or McDonald's do not adequately protect McDonald's trademarks and copyrights, the infringement of McDonald's intellectual property rights by others may cause harm to McDonald's brand image and decrease our sales.

Any tax increase or change in tax legislation may adversely affect our results of operations.

Since we conduct our business in many countries in Latin America and the Caribbean, we are subject to the application of multiple tax laws and multinational tax conventions. Our effective tax rate therefore depends on these tax laws and multinational tax conventions, as well as on the effectiveness of our tax planning abilities. Our income tax position and effective tax rate is subject to uncertainty as our income tax position for each year depends on the profitability of Company-operated restaurants and on the profitability of franchised restaurants operated by our franchisees in tax jurisdictions that levy a broad range of income tax rates. It is also dependent on changes in the valuation of deferred tax assets and liabilities, the impact of various accounting rules, changes to these rules and tax laws and examinations by various tax authorities. If our actual tax rate differs significantly from our estimated tax rate, this could have a material impact on our financial condition. In addition, any increase in the rates of taxes, such as income taxes, excise taxes, value added taxes, import and export duties, and tariff barriers or enhanced economic protectionism could negatively affect our business. Fiscal measures that target either QSRs or any of our products could also be taken.

We cannot assure you that any governmental authority in any country in which we operate will not increase taxes or impose new taxes on our operations or products in the future.

Tax assessments in any of the jurisdictions in which we operate may negatively affect our business and results of operations.

As part of the ordinary course of business, we are subject to inspections by federal, municipal and state tax authorities in Latin America. These inspections may generate tax assessments which, depending on their results, may have an adverse effect on our financial results. See "Item 8. Financial Information—A. Consolidated Statements and Other Financial Information—Legal Proceedings."

Litigation and other pressure tactics could expose our business to financial and reputational risk.

Given that we conduct our business in many countries, we may be subject to multi-jurisdictional private and governmental lawsuits, including but not limited to lawsuits relating to labor and employment practices, taxes, trade and business practices, franchising, intellectual property, consumer, real property, landlord tenant, environmental, advertising, nutrition and antitrust matters. In the past, QSR chains have been subject to class-action lawsuits claiming that their food products and promotional strategies have contributed to the obesity of some customers. We cannot guarantee that we will not be subject to these types of lawsuits in the future. We may also be the target of pressure tactics such as strikes, boycotts and negative publicity from government officials, suppliers, distributors, employees, unions, special interest groups and customers that may negatively affect our reputation.

Information technology system failures or interruptions or breaches of our network security may interrupt our operations, subject us to increased operating costs and expose us to litigation.

We rely heavily on our computer systems and network infrastructure across our operations including, but not limited to, point-of-sale processing at our restaurants. As of the date of this annual report, we have not experienced any information security problems. However, despite our implementation of security measures and controls that provide reasonable assurance regarding our security posture, there remains the risk that our technology systems are vulnerable to damage, disability or failures due to physical theft, fire, power loss, telecommunications failure or other catastrophic events, as well as from internal and external security breaches, denial of service attacks, viruses, worms and other disruptive problems caused by hackers. If our technology systems were to fail, and we were unable to recover in a timely way, we could experience an interruption in our operations which could have a material adverse effect on our financial condition and results of operations.

Certain Factors Relating to Our Industry

The food services industry is intensely competitive and we may not be able to continue to compete successfully.

Although competitive conditions in the QSR industry vary in each of the countries in which we conduct our operations, we compete with many well-established restaurant companies on price, brand image, quality, sales promotions, new product development and restaurant locations. Since the restaurant industry has few barriers to entry, our competitors are diverse and range from national and international restaurant chains to individual, local restaurant operators. Our largest competitors include Burger King, Yum! Brands (which operates KFC restaurants and Pizza Hut and Pizza Hut Express restaurants) and Subway. In Brazil, we also compete with Habib's, a Brazilian QSR chain that focuses on Middle Eastern food, and Bob's, a primarily Brazilian QSR chain that focuses on hamburger product offerings. We also face strong competition from street vendors of limited product offerings, including hamburgers, hot dogs, pizzas and other local food items. We expect competition to increase as our competitors continue to expand their operations, introduce new products and aggressively market their brands.

If any of our competitors offers products that are better priced or more appealing to the tastes of consumers, increases its number of restaurants, obtains more desirable restaurant locations, provides more attractive financial incentives to management personnel, franchisees or hourly employees or has more effective marketing initiatives than we do in any of the markets in which we operate, this could have a material adverse effect on our results of operations.

Increases in commodity prices or other operating costs could harm our operating results.

Food and paper costs represented 34.1% of our total revenues in 2014, and we import approximately 26% of our food and paper raw materials (excluding toys) and 100% of our Happy Meal toys. We rely on, among other commodities, beef, chicken, produce, dairy mixes, beverages and toppings. The cost of food and supplies depends on several factors, including global supply and demand, new product offerings, weather conditions, fluctuations in energy costs and tax incentives, all of which makes us susceptible to substantial price and currency fluctuations and other increased operating costs. Due to the competitive nature of the restaurant industry, we may be unable to pass increased operating costs on to our customers, which could have an adverse effect on our results of operations.

Demand for our products may decrease due to changes in consumer preferences or other factors.

Our competitive position depends on our continued ability to offer items that have a strong appeal to consumers. If consumer dining preferences change due to dietary inclinations and our consumers begin to seek out alternative restaurant options, our financial results might be adversely affected. In addition, negative publicity surrounding our products could also materially affect our business and results of operations.

Our success in responding to consumer demands depends in part on our ability to anticipate consumer preferences and introduce new items to address these preferences in a timely fashion.

Our business activity may be negatively affected by disruptions, catastrophic events or health pandemics.

Unpredictable events beyond our control, including war, terrorist activities, political and social unrest and natural disasters, could disrupt our operations and those of our franchisees, suppliers or customers, have a negative effect on consumer spending or result in political or economic instability. These events could reduce demand for our products or make it difficult to ensure the regular supply of products through our distribution chain.

In addition, incidents of health pandemics, food-borne illnesses or food tampering could reduce sales in our restaurants. Widespread illnesses such as avian influenza, the H1N1 influenza virus, e-coli, bovine spongiform encephalopathy (or "mad cow" disease), hepatitis A or salmonella could cause customers to avoid meat or fish products. For example, the H1N1 influenza virus outbreak in Argentina and Mexico in 2009 significantly impacted our sales in those countries. Furthermore, our reliance on third-party food suppliers and distributors increases the risk of food-borne illness incidents being caused by third-party food suppliers and distributors who operate outside of our control and/or multiple locations being affected rather than a single restaurant. Media reports of health pandemics or food-borne illnesses found in the general public or in any QSR could dramatically affect restaurant sales in one or several countries in which we operate, or could force us to temporarily close an undetermined number of restaurants. As a restaurant company, we depend on consumer confidence in the quality and safety of our food. Any illness or death related to food that we serve could substantially harm our operations. While we maintain

extremely high standards for the quality of our food products and dedicate substantial resources to ensure that these standards are met, the spread of these illnesses is often beyond our control and we cannot assure you that new illnesses resistant to any precautions we may take will not develop in the future.

In addition, our industry has long been subject to the threat of food tampering by suppliers, employees or customers, such as the addition of foreign objects to the food that we sell. Reports, whether true or not, of injuries caused by food tampering have in the past negatively affected the reputations of QSR chains and could affect us in the future. Instances of food tampering, even those occurring solely at competitor restaurants could, by causing negative publicity about the restaurant industry, adversely affect our sales on a local, regional, national or systemwide basis. A decrease in customer traffic as a result of public health concerns or negative publicity could materially affect our business, results of operations and financial condition.

Restrictions on promotions and advertisements directed at families with children and regulations regarding the nutritional content of children's meals may harm McDonald's brand image and our results of operations.

A significant portion of our business depends on our ability to make our product offerings appealing to families with children. Argentina, Brazil, Chile, Colombia, Ecuador, Mexico, Peru and Uruguay are considering imposing restrictions on the ways in which we market our products, including proposals restricting our ability to advertise directly to children through the use of toys and to sell toys in conjunction with food.

In June 2012, Chile passed a law banning the inclusion of toys in children's meals with certain nutritional characteristics. This law will be enforced once the Chilean regulatory authority sets the limits for nutritional content of food, which is still pending. The ban in Chile also restricts advertisements to children under the age of 14. A bill currently under discussion proposes to restrict advertisements on television and radio between 6:00 P.M. and 10:00 P.M. This bill will affect food products that exceed the limits of nutrient content set by the Chilean authorities. While it is difficult to predict how the Chilean authorities will determine the scope of the law, we currently do not expect that these Chilean regulations will have a material impact on our consolidated results.

Similar to law in Chile, Peru passed a law in 2013 restricting our ability to advertise our food to children under the age of 16 and banning the inclusion of toys in children's meals. However, the law will not be enforced until the Peruvian regulatory authorities issue regulations to determine the scope of the law. Such regulations have not yet been issued. While it is difficult to predict how the Peruvian authorities will enforce or interpret this law, we currently do not expect that the law will have a material impact on our consolidated results.

Since 2014, the Mexican Ministry of Health empowered the Federal Commission for Prevention of Sanitary Risks (COFEPRIS) to regulate advertising directed at families with children. On April 15, 2014, COFEPRIS issued certain regulations which establish the maximum contents of fat, sodium and sugars that every meal advertised to children on television and in cinemas may contain. In February of 2015, COFEPRIS ordered us to stop advertising Happy Meals on television until we disclosed all the nutritional information for Happy Meals to COFEPRIS. We provided this information to COFEPRIS and in March 2015, an agreement was reached permitting us to advertise Happy Meals that do not contain french fries.

In Brazil, the Federal Prosecutor's Office filed suit in 2009 seeking to enjoin various QSRs, including us, from selling toys. The Lower Federal Court in São Paulo ruled that the lawsuit was without merit. The Prosecutor's Office filed an appeal against this decision, which will be adjudicated by the Regional Federal Court in São Paulo. As of the date of this annual report, this appeal is still pending and the outcome remains uncertain. In addition, the number of proposed laws seeking to restrict the sale of toys with meals increased significantly in Brazil at the federal, state and municipal levels. In April 2013, a consumer protection agency in Brazil fined us \$1.6 million for a 2010 advertising campaign relating to our offering of meals with toys from the motion picture *Avatar*. We filed a lawsuit seeking to annul the fine. The Lower Civil Court granted an injunction, suspending the fine. The consumer protection agency subsequently appealed and the Appellate Court in São Paulo upheld the decision. The lower court ruled there was no basis for the suit and the consumer protection agency appealed this decision. The Lower Court ruled the case groundless and the consumer protection agency appealed this decision. As of the date of this annual report, this appeal is still pending and the outcome remains uncertain. Although similar fines relating to our current and previous advertising campaigns involving the sale of toys may be possible in the future, as of the date of this annual report, we are unaware of any other such fines.

Certain jurisdictions in the United States are also considering curtailing or have curtailed food retailers' ability to sell meals to children including free toys if these meals do not meet certain nutritional criteria. Similar restrictions, if imposed in the Territories, may have a negative impact on our results of operations. In general, regulatory developments that adversely impact our ability to promote and advertise our business and communicate effectively with our target customers, including restrictions on the use of licensed characters, may have a negative impact on our results of operations.

Environmental laws and regulations may affect our business.

We are subject to various environmental laws and regulations. These laws and regulations govern, among other things, discharges of pollutants into the air and water and the presence, handling, release and disposal of and exposure to, hazardous substances. These laws and regulations provide for significant fines and penalties for noncompliance. Third parties may also assert personal injury, property damage or other claims against owners or operators of properties associated with release of, or actual or alleged exposure to, hazardous substances at, on or from our properties.

Liability from environmental conditions relating to prior, existing or future restaurants or restaurant sites, including franchised restaurant sites, may have a material adverse effect on us. Moreover, the adoption of new or more stringent environmental laws or regulations could result in a material environmental liability to us.

We may be adversely affected by legal actions, claims or damaging publicity with respect to our business.

We could be adversely affected by legal actions and claims brought by consumers or regulatory authorities in relation to the quality of our products and eventual health problems or other consequences caused by our products or by any of their ingredients. We could also be affected by legal actions and claims brought against us for products made in a jurisdiction outside the jurisdictions where we are operating. An array of legal actions, claims or damaging publicity may affect our reputation as well as have a material adverse effect on our revenues and businesses.

Similarly, adverse publicity about us or our brand regarding health concerns, legal or regulatory proceedings, perceptions of the QSR category, management or suppliers whether or not deserved, could jeopardize our reputation. In recent years the use of social media as a complaint mechanism has increased substantially. Negative posts or comments about us on any social media forum could harm our reputation. Damage to our reputation or loss of consumer confidence in our products for any of these reasons could adversely affect our business, results of operations, cash flows and financial condition, as well as require resources to rebuild our reputation.

Certain Factors Relating to Latin America and the Caribbean

Our business is subject to the risks generally associated with international business operations.

We engage in business activities throughout Latin America and the Caribbean. In 2014, 80.3% of our revenues were derived from Brazil, Argentina, Mexico, Puerto Rico and Venezuela. As a result, our business is and will continue to be subject to the risks generally associated with international business operations, including:

- governmental regulations applicable to food services operations;
- changes in social, political and economic conditions;
- transportation delays;
- power, water and other utility shutdowns or shortages;
- limitations on foreign investment;
- restrictions on currency convertibility and volatility of foreign exchange markets;
- inflation;
- import-export quotas and restrictions on importation;

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- changes in local labor conditions;
- changes in tax and other laws and regulations;
- expropriation and nationalization of our assets in a particular jurisdiction; and
- restrictions on repatriation of dividends or profits.

Some of the Territories have been subject to social and political instability in the past, and interruptions in operations could occur in the future. Our business, financial condition and results of operations could be adversely affected by any of the foregoing factors.

For example, we have been and continue to be impacted by developments in Venezuela, including the significant devaluations of the Venezuelan *bolívar* that occurred in 2010, 2013 and 2014 and the announcements made in February 2015 relating to the foreign currency exchange regime. The SIMADI exchange rate as of April 27, 2015 was 197.66 *bolívares* per U.S. dollar, up from the initial rate of 170.039 *bolívares* per U.S. dollar. The political and economic conditions in Venezuela remain unstable, with the economy being considered hyperinflationary under U.S. GAAP since 2010. Going forward, we cannot predict with any certainty whether additional government actions, including in the form of further currency devaluations, continued worsening import authorization controls, foreign exchange, price or profit controls, expropriation or other forms of government takeovers, will occur. The continuation or deterioration of the challenging political and economic conditions in Venezuela could have further adverse impacts on our business, results of operations and financial condition.

Changes in governmental policies in the Territories could adversely affect our business, results of operations, financial condition and prospects.

Governments throughout Latin America and the Caribbean have exercised, and continue to exercise, significant influence over the economies of their respective countries. Accordingly, the governmental actions, political developments, regulatory and legal changes or administrative practices in the Territories concerning the economy in general and the food services industry in particular could have a significant impact on us. We cannot assure you that changes in the governmental policies of the Territories will not adversely affect our business, results of operations, financial condition and prospects.

An economic downturn in Latin America and the Caribbean could have a significant impact on our operating results.

The success of our business is dependent on discretionary consumer spending, which is influenced by general economic conditions, consumer confidence and the availability of discretionary income. Any prolonged economic downturn could result in a decline in discretionary consumer spending. This may reduce the number of consumers who are willing and able to dine in our restaurants, or consumers may make more value-driven and price-sensitive purchasing choices, eschewing our core menu items for our entry level food options. We may also be unable to increase prices of our menu items, which may negatively affect our financial condition.

In addition, a prolonged economic downturn may lead to higher interest rates, significant changes in the rate of inflation or an inability to access capital on acceptable terms. Our suppliers could experience cash flow problems, credit defaults or other financial hardships. If our franchisees cannot adequately access the financial resources required to open new restaurants, this could have a material effect on our growth strategy.

Inflation and government measures to curb inflation may adversely affect the economies in the countries where we operate, our business and results of operations.

Many of the countries in which we operate have experienced, or are currently experiencing, high rates of inflation. In particular, Venezuela has been considered hyperinflationary under U.S. GAAP since 2010. Although inflation rates in many of the other countries in which we operate have been relatively low in the recent past, we cannot assure you that this trend will continue. The measures taken by the governments of these countries to control inflation have often included maintaining a tight monetary policy with high interest rates, thereby restricting the availability of credit and retarding economic growth. Inflation, measures to combat inflation and public speculation about possible additional actions have also contributed materially to economic uncertainty in many of these countries and to heightened volatility in their securities markets. Periods of higher inflation may also slow the

growth rate of local economies that could lead to reduced demand for our core products and decreased sales. Inflation is also likely to increase some of our costs and expenses, which we may not be able to fully pass on to our customers, which could adversely affect our operating margins and operating income.

Exchange rate fluctuations against the U.S. dollar in the countries in which we operate could negatively affect our results of operations.

We are exposed to exchange rate risk in relation to the United States dollar. While substantially all of our income is denominated in the local currencies of the countries in which we operate, our supply chain management involves the importation of various products, and some of our imports, as well as some of our capital expenditures, are denominated in U.S. dollars. In addition, our royalty payments to McDonald's are also denominated in U.S. dollars. As a result, any decrease in the value of the local currencies of the countries in which we operate as compared to the U.S. dollar will increase our costs. In addition, 61.2% of our outstanding long-term debt was denominated in U.S. dollars as of December 31, 2014. Although we maintain a hedging strategy to attempt to mitigate some of our exchange rate risk, our hedging strategy may not be successful or may not fully offset our losses relating to exchange rate fluctuations.

As a result, fluctuations in the value of the U.S. dollar with respect to the various currencies of the countries in which we operate or in U.S. dollar interest rates could adversely impact on our net income, results of operations and financial condition.

Price controls and other similar regulations in certain countries, have affected and may continue to affect our results of operations.

Certain countries in which we conduct operations have imposed price controls that restrict our ability, and the ability of our franchisees, to adjust the prices of our products. This places downward pressure on the prices at which our products are sold and may limit the growth of our revenue. We cannot assure you that the negative effects of the previously imposed price controls will not continue into the future, or that new controls will not be imposed. Our inability to control the prices of our products could have an adverse effect on our results of operations.

For example, the Venezuelan market is subject to price controls which limits our ability to increase prices to offset the impact of continuing high inflation on product, labor and other operating costs. The Venezuelan government issued a regulation establishing a maximum profit margin for companies and maximum prices for certain goods and services. Although we managed to navigate the negative impact of this regulation on our operations during 2014, the existence of such laws and regulations continues to present a risk to our business. These regulations caused a delay in our pricing plan but we still managed to increase prices during fiscal year 2014. We continue to closely monitor developments in this dynamic environment.

Moreover, in November 2013, the Venezuelan government through Presidential Decree No. 602 established a transitional protection regime for tenants of property used for commercial, industrial or production activities, which regulates the leasing relations and stipulates that the price of the monthly rent may not exceed an amount equal to 250 bolívaes per square meter. On May 23, 2014, this regulation was repealed and replaced with a new decree (decree N° 929). The new legal regime establishes three different methods to determine rent and includes several regulations that limit the contractual freedom of the parties, setting up monthly rental limits and rent review criteria. The new regulation also contains additional prohibitions on commercial rent contracts in any currency other than *bolívaes*, private arbitration for the resolution of conflicts between the parties and foreign companies administering commercial rent. These new regulations resulted in a decrease in revenues from franchised restaurants, higher than the decrease in rental expense related to our Company-operated restaurants. However, on August 8, 2014, after our direct request to the government that the new regulations not apply to our franchisee rental agreements, one of the governmental agencies in charge of implementation decided that such regulation would not apply to our rental agreements with franchisees. Therefore, we are in the process of normalizing our rental fee collections from franchised restaurants pursuant to each respective agreement.

See "Item 4. Information on the Company—B. Business Overview—Regulation." In May 2014 the Law for the Regulation of Real Estate Lease for Commercial Use was enacted (the "Commercial Leases Law").

In addition, in September 2014, Argentina passed: (i) Law No. 26,991, the "New Regulation on Production and Consumption Relationships Act", which reformed a 1974 Act (Law on Supply of Goods and Services); and (ii) Law No. 26,992, the "Creation of the Observatory of Prices and Availability of Inputs, Goods and Services Act."

The New Regulation on Production and Consumption Relationships Act empowers the Secretary of Commerce to, among others, establish profit margins and set price levels (setting maximum, minimum and benchmark prices); issue regulations on commerce, intermediation, distribution or production of goods and services; impose the continuance of production, industrialization, commercialization, transport, distribution or rendering of services or impose the production of goods and set subsidies. In addition, pursuant to the Act, the Secretary of Commerce is entitled to impose certain penalties for failure to comply with the Act, including fines and temporary closure of businesses.

The Creation of the Observatory of Prices and Availability of Inputs, Goods and Services Act created a technical agency under the Secretary of Commerce, the Observatory of Prices and Availability of Inputs, Goods and Services to control and systematize prices and availability of inputs, goods and services produced, traded or rendered in Argentina. We are currently evaluating the effects these new Argentine laws will have on our business.

We could be subject to expropriation or nationalization of our assets and government interference with our business in certain countries in which we operate.

We face a risk of expropriation or nationalization of our assets and government interference with our business in several of the countries in which we do business. These risks are particularly acute in Venezuela. The current Venezuelan government has promoted a model of increased state participation in the economy through welfare programs, exchange and price controls and the promotion of state-owned companies. We can provide no assurance that Company-operated or franchised restaurants will not be threatened with expropriation and that our operations will not be transformed into state-owned enterprises. In addition, the Venezuelan government may pass laws, rules or regulations which may directly or indirectly interfere with our ability to operate our business in Venezuela which could result in a material breach of the MFAs, in particular if we are unable to comply with McDonalds' operations system and standards. A material breach of the MFAs would trigger McDonald's option to acquire our non-public shares or our interests in Venezuela. See "—Certain Factors Relating to Our Business—McDonald's has the right to acquire all or portions of our business upon the occurrence of certain events and, in the case of a material breach of the MFAs, may acquire our non-public shares or our interests in one or more Territories at 80% of their fair market value."

We are subject to significant foreign currency exchange controls and depreciation in certain countries in which we operate.

Certain Latin American economies have experienced shortages in foreign currency reserves and their respective governments have adopted restrictions on the ability to transfer funds out of the country and convert local currencies into U.S. dollars. This may increase our costs and limit our ability to convert local currency into U.S. dollars and transfer funds out of certain countries, including for the purchase of dollar-denominated inputs, the payment of dividends or the payment of interest or principal on our outstanding debt. In the event that any of our subsidiaries are unable to transfer funds to us due to currency restrictions, we are responsible for any resulting shortfall.

In 2014, our operating subsidiaries in Venezuela represented 5.1% of our total revenues. Exchange rates and controls currently in place in Venezuela are described under "—A. Selected Financial Data—Exchange Rates and Exchange Controls—Venezuela." There are uncertainties regarding the liquidity of the exchange systems and our ability to access U.S. dollars through the mechanisms currently in place in Venezuela. In addition, there are also uncertainties regarding the impact successive foreign exchange controls could have on the Venezuelan economy and the complementary regulations the Venezuelan government could issue in the near future. As a result, there can be no assurance that such measures will not impair the ability of our Venezuelan operating subsidiaries to convert local currency into U.S. dollars, which could result in foreign currency exchange losses that could have a material adverse effect on our results of operations.

In March 2014, we changed the rate applicable for remeasurement purposes in Venezuela to SICAD. Pursuant to this change, we recognized (i) a foreign currency exchange loss of \$19.7 million, including a related party receivable denominated in *bolívares*, and (ii) a write down of certain inventories of \$7.6 million within "Other operating expenses, net", due to the currency exchange rate change impact on their net recoverable value. See "Item 5. Operating and Financial Review and Prospects—A. Operating Results—Principal Income Statement Line Items—Foreign Currency Translation."

In June 2014, due to our lack of access to the SICAD auction system and our ability to settle transactions at the SICAD II rate, we adopted the SICAD II exchange rate for remeasurement purposes in Venezuela. As a result of the exchange rate change to SICAD II, we recognized (i) a foreign currency exchange loss of \$39.0 million, including a related party receivable denominated in *bolívares*, (ii) a write down of certain inventories of \$9.9 million due to the currency exchange rate change impact on their net recoverable value and (iii) an impairment of long-lived assets amounting to \$45.2 million within “Other operating expenses, net.” See “Item 5. Operating and Financial Review and Prospects—A. Operating Results—Principal Income Statement Line Items—Foreign Currency Translation.”

In 2014, our subsidiaries in Argentina represented 15.7% of our total revenues. Since 2001, Argentina has tightened restrictions on capital flows and imposed exchange controls. Exchange control restrictions impact our ability to transfer funds outside of Argentina and may prevent or delay payments that our Argentine subsidiaries are required to make outside Argentina. In particular, regulations issued by the Central Bank of Argentina currently in place do not grant non-debtors, such as any Argentine subsidiary guarantor, access to the foreign exchange market for the purpose of transferring currency outside Argentina in order to make payments under any subsidiary guarantee granted by it.

The devaluation of the Argentine *peso* during 2014 has had a negative impact on the ability of Argentine businesses and the national and provincial governments to honor their foreign currency denominated debt, has led to higher inflation levels and, significantly reduced real wages, and has had a negative impact on businesses whose success is dependent on domestic market demand and supplies payable in foreign currency.

We are subject to exchange control regulations in Argentina, which may restrict our ability to convert local currencies into foreign currencies and carry out other foreign exchange transactions. For example, since 2001, Argentina has imposed exchange controls and transfer restrictions substantially limiting the ability of companies to retain foreign currency or make payments outside Argentina. Since 2011, the Argentine government has implemented certain additional measures that control and restrict the ability of companies and individuals to exchange Argentine *pesos* for foreign currencies and carry out other foreign exchange transactions. Those measures include, among other things, the requirement of prior approval from the Argentine tax authority to carry out certain foreign currency transactions, which could delay, and eventually restrict, our ability to exchange Argentine *pesos* for other currencies, such as U.S. dollars. Further, there are certain restrictions that currently apply to local residents for the acquisition of any foreign currency for holding as cash within Argentina. In this regard (i) natural persons are authorized to purchase foreign currency for such purpose, but only in an amount approved by the Argentine tax authority; and (ii) legal persons are not granted access to the foreign exchange market for the acquisition of foreign currency for holding as cash within Argentina.

Communication “A” 5237 issued by the Central Bank of Argentina set forth new rules regarding the repatriation of foreign direct investments. Communication “A” 5245 and AFIP General Resolution No. 3421 (2012) require all banks and foreign exchange houses to register every sale and certain purchase of foreign currency, whether by natural or a legal entity, through an online system administered by the Argentine tax authority. Purchases of foreign currency by local residents for the formation of offshore assets require prior authorization from the Argentine tax authority (as explained above, the Argentine tax authority approves the amount of foreign currency for such purposes that local residents who are natural persons are entitled to purchase). If such a transaction fails to clear, the purchaser will not be able to complete the transaction and may make a claim at the AFIP’s offices to obtain authorization to complete the transaction.

The Argentine government may tighten exchange controls or transfer restrictions in the future to prevent capital flight, counter a significant depreciation of the Argentine *peso* or address other unforeseen circumstances.

There can be no assurance that the Central Bank of Venezuela, the Central Bank of Argentina or other government agencies will not increase the existing controls or restrictions, establish more severe restrictions on currency exchange, payments to foreign creditors or providers, dividend payments to foreign shareholders or require prior authorization for such purposes. As a result, if we are further prohibited from transferring funds out of Venezuela and/or Argentina, or if we become subject to similar restrictions in other countries in which we operate, our results of operations and financial condition could be materially adversely affected.

If we fail to comply with or become subject to more onerous government regulations, our business could be adversely affected.

We are subject to various federal, state and municipal laws and regulations in the countries in which we operate, including those related to the food services industry, health and safety standards, importation of goods and services, marketing and promotional activities, nutritional labeling, zoning and land use, environmental standards and consumer protection. We strive to abide by and maintain compliance with these laws and regulations. The imposition of new laws or regulations, including potential trade barriers, may increase our operating costs or impose restrictions on our operations, which could have an adverse impact on our financial condition.

For example, Argentine regulations require us to seek permission from the Argentine authorities in order to import goods and to file a statement with the Argentine authorities prior to rendering services to, or receiving services from, foreign residents if the services are valued above a threshold amount. These regulations may prevent or delay the receipt of goods or services that we require for our operations, or increase the costs associated with obtaining those goods and services, and therefore have an adverse impact on our business, results of operations or financial condition. Additionally, Venezuela recently enacted a Foreign Investments Law that increases requirements and limitations for the transfer of dividends and repatriation of foreign investments.

Regulations governing the food services industry have become more restrictive. We cannot assure you that new and stricter standards will not be adopted or become applicable to us, or that stricter interpretations of existing laws and regulations will not occur. Any of these events may require us to spend additional funds to gain compliance with the new rules, if possible, and therefore increase our cost of operation.

Certain Factors Relating to Our Class A Shares

Mr. Staton, our Chairman and CEO, controls all matters submitted to a shareholder vote, which will limit your ability to influence corporate activities and may adversely affect the market price of our class A shares.

Mr. Staton, our Chairman and CEO, owns or controls common stock representing 39.9% and 76.2%, respectively, of our economic and voting interests. As a result, Mr. Staton is and will be able to strongly influence or effectively control the election of our directors, determine the outcome of substantially all actions requiring shareholder approval and shape our corporate and management policies. The MFAs' requirement that Mr. Staton at all times hold at least 51% of our voting interests likely will have the effect of preventing a change in control of us and discouraging others from making tender offers for our shares, which could prevent shareholders from receiving a premium for their shares. Moreover, this concentration of share ownership may make it difficult for shareholders to replace management and may adversely affect the trading price for our class A shares because investors often perceive disadvantages in owning shares in companies with controlling shareholders. This concentration of control could be disadvantageous to other shareholders with interests different from those of Mr. Staton and the trading price of our class A shares could be adversely affected. See "Item 7. Major Shareholders and Related Party Transactions—A. Major Shareholders" for a more detailed description of our share ownership.

Furthermore, the MFAs contemplate instances where McDonald's could be entitled to purchase the shares of Arcos Dorados Holdings Inc. held by Mr. Staton. However, our publicly-held class A shares will not be similarly subject to acquisition by McDonald's.

Sales of substantial amounts of our class A shares in the public market, or the perception that these sales may occur, could cause the market price of our class A shares to decline.

Sales of substantial amounts of our class A shares in the public market, or the perception that these sales may occur, could cause the market price of our Class A shares to decline. This could also impair our ability to raise additional capital through the sale of our equity securities. Under our articles of association, we are authorized to issue up to 420,000,000 class A shares, of which 130,216,043 class A shares were outstanding as of December 31, 2014. We cannot predict the size of future issuances of our shares or the effect, if any, that future sales and issuances of shares would have on the market price of our class A shares.

As a foreign private issuer, we are permitted to, and we will, rely on exemptions from certain NYSE corporate governance standards applicable to U.S. issuers, including the requirement that a majority of an issuer's directors consist of independent directors. This may afford less protection to holders of our Class A shares.

Section 303A of the NYSE Listed Company Manual requires listed companies to have, among other things, a majority of their board members be independent, and to have independent director oversight of executive compensation, nomination of directors and corporate governance matters. As a foreign private issuer, however, we are permitted to, and we will, follow home country practice in lieu of the above requirements. British Virgin Islands law, the law of our country of incorporation, does not require a majority of our board to consist of independent directors or the implementation of a nominating and corporate governance committee, and our board may thus not include, or include fewer, independent directors than would be required if we were subject to these NYSE requirements. Since a majority of our board of directors may not consist of independent directors as long as we rely on the foreign private issuer exemption to these NYSE requirements, our board's approach may, therefore, be different from that of a board with a majority of independent directors, and as a result, the management oversight of our Company may be more limited than if we were subject to these NYSE requirements.

Certain Risks Relating to Investing in a British Virgin Islands Company

We are a British Virgin Islands company and it may be difficult for you to obtain or enforce judgments against us or our executive officers and directors in the United States.

We are incorporated under the laws of the British Virgin Islands. Most of our assets are located outside the United States. Furthermore, most of our directors and officers reside outside the United States, and most of their assets are located outside the United States. As a result, you may find it difficult to effect service of process within the United States upon these persons or to enforce outside the United States judgments obtained against us or these persons in U.S. courts, including judgments in actions predicated upon the civil liability provisions of the U.S. federal securities laws. Likewise, it may also be difficult for you to enforce in U.S. courts judgments obtained against us or these persons in courts located in jurisdictions outside the United States, including actions predicated upon the civil liability provisions of the U.S. federal securities laws. It may also be difficult for an investor to bring an action in a British Virgin Islands court predicated upon the civil liability provisions of the U.S. federal securities laws against us or these persons.

As there is no treaty in force on the reciprocal recognition and enforcement of judgments in civil and commercial matters between the United States and the British Virgin Islands, courts in the British Virgin Islands will not automatically recognize and enforce a final judgment rendered by a U.S. court.

Any final and conclusive monetary judgment obtained against us in U.S. courts, for a definite sum, may be treated by the courts of the British Virgin Islands as a cause of action in itself so that no retrial of the issue would be necessary, provided that in respect of the U.S. judgment:

- the U.S. court issuing the judgment had jurisdiction in the matter and we either submitted to such jurisdiction or were resident or carrying on business within such jurisdiction and were duly served with process;
- the judgment given by the U.S. court was not in respect of penalties, taxes, fines or similar fiscal or revenue obligations of ours;
- in obtaining judgment there was no fraud on the part of the person in whose favor judgment was given or on the part of the court;
- recognition or enforcement of the judgment in the British Virgin Islands would not be contrary to public policy; and
- the proceedings pursuant to which judgment were obtained were not contrary to public policy.

Under our articles of association, we indemnify and hold our directors harmless against all claims and suits brought against them, subject to limited exceptions.

You may have more difficulty protecting your interests than you would as a shareholder of a U.S. corporation.

Our affairs are governed by the provisions of our memorandum of association and articles of association, as amended and restated from time to time, and by the provisions of applicable British Virgin Islands law. The rights of our shareholders and the responsibilities of our directors and officers under the British Virgin Islands law are different from those applicable to a corporation incorporated in the United States. There may be less publicly available information about us than is regularly published by or about U.S. issuers. Also, the British Virgin Islands regulations governing the securities of British Virgin Islands companies may not be as extensive as those in effect in the United States, and the British Virgin Islands law and regulations in respect of corporate governance matters may not be as protective of minority shareholders as state corporation laws in the United States. Therefore, you may have more difficulty protecting your interests in connection with actions taken by our directors and officers or our principal shareholders than you would as a shareholder of a corporation incorporated in the United States.

You may not be able to participate in future equity offerings, and you may not receive any value for rights that we may grant.

Under our memorandum and articles of association, existing shareholders are entitled to preemptive subscription rights in the event of capital increases. However, our articles of association also provide that such preemptive subscription rights do not apply to certain issuances of securities by us, including (i) pursuant to any employee compensation plans; (ii) as consideration for (a) any merger, consolidation or purchase of assets or (b) recapitalization or reorganization; (iii) in connection with a pro rata division of shares or dividend in specie or distribution; or (iv) in a bona fide public offering that has been registered with the SEC.

ITEM 4. INFORMATION ON THE COMPANY

A. History and Development of the Company

Overview

We were incorporated as Arcos Dorados Holdings Inc. on December 9, 2010 under the laws of the British Virgin Islands as a direct, wholly-owned subsidiary of Arcos Dorados Limited, the prior holding company for the Arcos Dorados business. On December 13, 2010, Arcos Dorados Limited effected a downstream merger into and with us, with us as the surviving entity. Following the merger, we replaced Arcos Dorados Limited in the corporate structure and replicated its governance structure.

We are a British Virgin Islands company incorporated with limited liability and our affairs are governed by the provisions of our memorandum and articles of association, as amended and restated from time to time, and by the provisions of applicable British Virgin Islands law, including the BVI Business Companies Act, 2004, or the BVI Act. Our company number in the British Virgin Islands is 1619553. As provided in sub-regulation 4.1 of our memorandum of association, subject to British Virgin Islands law, we have full capacity to carry on or undertake any business or activity, do any act or enter into any transaction and, for such purposes, full rights, powers and privileges.

Our principal executive offices are located at Roque Saenz Peña 432, Olivos, Buenos Aires, Argentina (B1636 FFB). Our telephone number at this address is +54 (11) 4711-2000. Our registered office in the British Virgin Islands is Maples Corporate Services (BVI) Limited, Kingston Chambers, P.O. Box 173, Road Town, Tortola, British Virgin Islands.

Important Events

The Acquisition

McDonald's Corporation has a longstanding history in Latin America and the Caribbean, dating to the opening of its first restaurant in Puerto Rico in 1967. Since then, McDonald's expanded its presence across the region as consumer markets and opportunities arose, opening its first stores in Brazil in 1979, in Mexico and Venezuela in 1985 and in Argentina in 1986.

We commenced operations on August 3, 2007, as a result of the Acquisition of McDonald's LatAm business. Woods Staton, our Chairman, CEO and controlling shareholder, was the joint venture partner of McDonald's

Corporation in Argentina for over 20 years prior to the Acquisition and also served as President of McDonald's South Latin America division from 2004 until the Acquisition. Our senior management team is comprised of executives who had previously worked in McDonald's LatAm business or with Mr. Staton.

We hold our McDonald's franchise rights pursuant to the MFA for all of the Territories except Brazil, executed on August 3, 2007, as amended and restated on November 10, 2008 and as further amended on August 31, 2010 and June 3, 2011, entered into by us, our wholly owned subsidiary Arcos Dorados Coöperatieve U.A., Arcos Dorados B.V. (or these two entities together with us collectively, the Owner Entities), LatAm, LLC, or the Master Franchisee, certain subsidiaries of the Master Franchisee, Los Laureles, Ltd. and McDonald's. On August 3, 2007, our subsidiary Arcos Dorados Comercio de Alimentos Ltda., or the Brazilian Master Franchisee, and McDonald's entered into the separate, but substantially identical, Brazilian MFA, which was amended and restated on November 10, 2008. See "Item 10. Additional Information—C. Material Contracts—The MFAs."

The Axionlog Split-off

We used to own and operate some of the distribution centers in the Territories, which operations and related properties we refer to as Axionlog (formerly known as Axis). Axionlog operated in Argentina, Chile, Mexico and Venezuela, and its main third-party customers were Sodexo, Eurest, Sadia, WalMart, Carrefour, Subway and Dairy Queen. We effected a split-off of Axionlog to our existing shareholders in March 2011. The split-off was effected through the redemption of 41,882,966 shares (25,129,780 class A shares and 16,753,186 class B shares). As consideration for the redemption, the Company transferred to its shareholders its equity interests in the operating subsidiaries of the Axionlog business totaling a net book value of \$15.4 million and an equity contribution that was made to the Axionlog holding company amounting to \$29.8 million. The split-off of Axionlog did not have a material effect on our results of operations or financial condition. Following the split-off, Los Laureles Ltd. acquired the Axionlog shares held by Gavea Investment AD, L.P. and investment funds controlled by Capital International, Inc. and DLJ South American Partners L.L.C. (through its affiliates).

In 2011, we entered into a master commercial agreement with Axionlog on arm's-length terms pursuant to which Axionlog provides us with distribution services in Argentina, Chile, Colombia, Mexico, Uruguay and Venezuela. On November 9, 2011, we entered into a revolving loan agreement with Axionlog B.V. (formerly known as Axis Distribution B.V.), a holding company of the Axionlog business, pursuant to which we agreed to lend Axionlog the total sum of \$12.0 million at an interest rate of LIBOR plus 6%. This revolving loan facility will mature on November 7, 2016. As of December 31, 2014 and 2013, Axionlog B.V. had borrowed \$11.5 million and \$9.0 million, respectively, from us in connection with this revolving loan facility. As of March 31, 2015, \$11.5 million was outstanding under this loan. See Note 24 to our consolidated financial statements for details of related party balances and transactions with Axionlog.

Capital Expenditures and Divestitures

Under the MFAs, we are required to agree with McDonald's on a restaurant opening plan and a reinvestment plan for each three-year period during the term of the MFAs. The restaurant opening plan specifies the number and type of new restaurants to be opened in the Territories during the applicable three-year period, while the reinvestment plan specifies the amount we must spend reimaging or upgrading restaurants during the applicable three-year period. Prior to the expiration of the then-applicable three-year period we must agree with McDonald's on a subsequent restaurant opening plan and reinvestment plan. In the event we are unable to reach an agreement on subsequent plans prior to the expiration of the then-existing plan, the MFAs provide for an automatic increase of 20% in the required amount of reinvestments as compared to the then-existing plan and a number of new restaurants no less than 210 multiplied by a factor that increases each period during the subsequent three-year restaurant opening plan. We may also propose, subject to McDonald's prior written consent, amendments to any restaurant opening plan or reinvestment plan to adapt to changes in economic or political conditions.

As part of the reinvestment plan with respect to the three-year period that commenced on January 1, 2014, we must reinvest an aggregate of at least \$180 million in the Territories. In addition, we have committed to open 250 new restaurants during the current three-year restaurant opening plan. We estimate that the cost to comply with our restaurant opening commitments under the MFAs from 2014 through 2016 will be between \$175 million and \$350 million, depending on, among other factors, the type and location of restaurants we open. Currently, we have submitted to McDonald's a proposal for an amendment to the 2014-2016 opening and reinvestment plans, in order to adjust

these plans to the current economic realities of the region. No assurances can be given, however, that we will be able to come to an agreement with McDonald's on an amendment to these plans.

As a result of our previous reinvestment and reopening plans, property and equipment expenditures were \$169.8 million, \$313.5 million and \$294.5 million in 2014, 2013 and 2012, respectively. In 2014, we opened 82 restaurants, reimaged 46 existing restaurants and opened 9 McCafé locations and 273 Dessert Centers (see “—B. Business Overview—Our Operations—McCafé Locations and Dessert Centers”). In 2013, we opened 130 restaurants, reimaged 38 existing restaurants and opened 20 McCafé locations and 321 Dessert Centers. In 2012, we opened 130 restaurants, reimaged 57 existing restaurants and opened 33 McCafé locations and 249 Dessert Centers. In 2014, 2013 and 2012, we closed 23, 16 and 22 restaurants, respectively.

In addition, outflows related to purchases of restaurant businesses paid at acquisition date totaled \$0.8 million, \$0.3 million and \$6.0 million in 2014, 2013 and 2012, respectively.

Proceeds from the sale of property and equipment and sales of restaurant businesses totaled \$5.2 million, \$14.2 million and \$6.6 million in 2014, 2013 and 2012, respectively.

Capital expenditures for 2015 are expected to be between \$90.0 million and \$120.0 million (including development and non-development capital expenditures), considering between 40 and 45 gross restaurant openings. These amounts may be modified according to the results of our negotiations with McDonald's to amend the 2014-2016 opening and reinvestment plans.

During the next three years, we plan to monetize certain real estate assets in our portfolio that are either non-core (such as office buildings and other facilities) or operating assets where the value significantly exceeds the operating potential of the asset. Our ability to transfer certain of our “iconic” properties is subject to McDonald's prior written consent. We have many long standing assets across our region that have appreciated due to the significant development around those properties. In addition, we believe that there is an opportunity to shift the mix of company-operated and sub-franchisee operated restaurants to enhance our liquidity and consolidated margin.

B. Business Overview

Overview

We are the world's largest McDonald's franchisee in terms of systemwide sales and number of restaurants, according to McDonald's, representing 5.4% of McDonald's global sales in 2014. We have the exclusive right to own, operate and grant franchises of McDonald's restaurants in 20 countries and territories in Latin America and the Caribbean, including Argentina, Aruba, Brazil, Chile, Colombia, Costa Rica, Curaçao, Ecuador, French Guiana, Guadeloupe, Martinique, Mexico, Panama, Peru, Puerto Rico, Trinidad and Tobago, Uruguay, the U.S. Virgin Islands of St. Croix and St. Thomas, and Venezuela, which we refer to as the Territories. As of December 31, 2014, we operated or franchised 2,121 McDonald's-branded restaurants, which represented 7.2% of McDonald's total franchised restaurants worldwide. In 2014 and 2013, we accrued \$173.7 million and \$188.9 million, respectively, in royalties to McDonald's (not including royalties on behalf of our franchisees).

We operate in the QSR sub-segment of the fast food segment of the Latin American and Caribbean food service industry. In Latin America and the Caribbean, the fast food segment has benefited from the region's increasing modernization, as people in more densely populated areas adopt lifestyles that increasingly seek convenience, speed and value.

We commenced operations on August 3, 2007, as a result of the Acquisition. We operate McDonald's-branded restaurants under two different operating formats, Company-operated restaurants and franchised restaurants. As of December 31, 2014, of our 2,121 McDonald's-branded restaurants in the Territories, 1,577 (or 74.3%) were Company-operated restaurants and 544 (or 25.7%) were franchised restaurants. We generate revenues primarily from two sources: sales by Company-operated restaurants and revenues from franchised restaurants that primarily consist of rental income, which is generally based on the greater of a flat fee or a percentage of sales reported by franchised restaurants. We own the land for 505 of our restaurants (totaling approximately 1.1 million square meters) and the buildings for all but 12 of our restaurants.

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Our business has grown significantly since the Acquisition: we have increased our presence in existing and new markets in the Territories by opening a net total of 552 restaurants (674 total restaurants opened, including 496 Company-operated and 178 franchised, while closing 122), 227 McCafé locations and 1,541 Dessert Centers (see “—Our Operations—McCafé Locations and Dessert Centers”).

We divide our operations into four geographical divisions: Brazil; the Caribbean division, consisting of Aruba, Colombia, Curaçao, French Guiana, Guadeloupe, Martinique, Puerto Rico, Trinidad and Tobago, the U.S. Virgin Islands of St. Croix and St. Thomas and Venezuela; NOLAD, consisting of Costa Rica, Mexico and Panama; and SLAD, consisting of Argentina, Chile, Ecuador, Peru and Uruguay.

As of December 31, 2014, 40.8% of our restaurants were located in Brazil, 18.1% in SLAD, 24.2% in NOLAD and 16.9% in the Caribbean division. We believe our diversified market presence reduces our dependence on any one market and helps stabilize the impact of individual countries’ economic cycles on our revenues. We focus on our customers by managing operations at the local level, including marketing campaigns and special offers, menu management and monitoring customer satisfaction, while leveraging our size by conducting administrative and strategic functions at the divisional or corporate level, as appropriate.

See “Item 5. Operating and Financial Review and Prospects—A. Operating Results—Segment Presentation” for a description of changes we have made in the structure of our geographical divisions effective January 1, 2013.

The following table presents certain operating results and data by operating segment:

	As of and for the Years Ended December 31,				
	2014 (1)	2013 (1)	2012 (1)	2011 (1)	2010 (2)
	(in thousands of U.S. dollars, except percentages)				
Total Revenues					
Brazil	\$ 1,816,046	\$ 1,842,324	\$ 1,797,556	\$ 1,890,824	\$ 1,595,571
Caribbean division(3)	594,220	830,447	754,730	663,981	260,617
NOLAD	385,114	407,772	384,041	355,265	305,017
SLAD	855,685	952,767	861,067	747,579	856,913
Total	3,651,065	4,033,310	3,797,394	3,657,649	3,018,118
	As of and for the Years Ended December 31,				
	2014 (1)	2013 (1)	2012 (1)	2011 (1)	2010 (2)
	(in thousands of U.S. dollars, except percentages)				
Adjusted EBITDA(4)					
Brazil	\$ 237,699	\$ 245,957	\$ 240,954	\$ 289,462	\$ 250,606
Caribbean division(3)	(8,136)	67,180	69,109	53,754	23,556
NOLAD	27,701	27,397	26,738	19,551	15,400
SLAD	87,976	105,495	93,756	77,214	83,998
Corporate and others	(93,566)	(101,562)	(89,996)	(100,193)	(74,446)
Total	251,674	344,467	340,561	339,788	299,114
Adjusted EBITDA Margin(5)					
Brazil	13.1%	13.4%	13.4%	15.3%	15.7%
Caribbean division(3)	(1.4)	8.1	9.2	8.1	9.0
NOLAD	7.2	6.7	7.0	5.5	5.0
SLAD	10.3	11.1	10.9	10.3	9.8
Total	6.9	8.5	9.0	9.3	9.9
Systemwide comparable sales growth(6)(7)	10.0%	11.2%	9.2%	13.7%	14.9%
Brazil	1.8	6.6	5.2	9.3	17.5
Caribbean division	24.7	19.6	13.3	14.5	4.7
NOLAD	(4.6)	(0.9)	4.4	8.5	9.1
SLAD	21.1	20.8	19.9	30.6	16.1

- (1) Segment information as of and for the years ended December 31, 2014, 2013, 2012 and 2011 is presented based on the segment structure prevailing as of and from January 1, 2013. See “Presentation of Financial and Other Information—Operating Data.” Segment Information for 2010 has not been restated and is therefore not comparable to 2014, 2013, 2012 and 2011 information.
- (2) Segment information for 2010 has not been restated and is therefore not comparable to 2014, 2013, 2012 and 2011 information. See “Presentation of Financial and Other Information—Operating Data.”
- (3) Currency devaluations in Venezuela have had a significant effect on our results of operations and impact the comparability of our results of operations in 2014 compared to 2013, 2012 and 2011. For 2010 Venezuela was part of SLAD division. See “Item 3. Key Information—A. Selected Financial Data—Exchange Rates and Exchange Controls.”
- (4) Adjusted EBITDA is a measure of our performance that is reviewed by our management. Adjusted EBITDA does not have a standardized meaning and, accordingly, our definition of Adjusted EBITDA may not be comparable to Adjusted EBITDA as used by other companies. Total Adjusted EBITDA is a non-GAAP measure. For our definition of Adjusted EBITDA and a reconciliation thereof, see “Presentation of Financial and Other Information—Other Financial Measures” and “Item 3. Key Information—A. Selected Financial Data.”
- (5) Adjusted EBITDA margin is Adjusted EBITDA divided by total revenues, expressed as a percentage.
- (6) Systemwide comparable sales growth refers to the change in our restaurant sales in one period from a comparable period for restaurants that have been open for thirteen months or longer. Systemwide comparable sales growth is provided and analyzed on a constant currency basis, which means it is calculated using the same exchange rate over the periods under comparison to remove the effects of currency fluctuations from this trend analysis. We believe this constant currency measure provides a more meaningful analysis of our business by identifying the underlying business trend, without distortion from the effect of foreign currency movements.

- (7) Systemwide comparable sales growth is presented on a systemwide basis, which means it includes sales by our Company-operated restaurants and our franchised restaurants. While sales by our franchisees are not recorded as revenues by us, we believe the information is important in understanding our financial performance because these sales are the basis on which we calculate and record franchised revenues and are indicative of the financial health of our franchisee base.

Our Operations

Company-Operated and Franchised Restaurants

We operate our McDonald's-branded restaurants under two basic structures: (i) Company-operated restaurants operated by us and (ii) franchised restaurants operated by franchisees. Under both operating alternatives the real estate location may either be owned or leased by us.

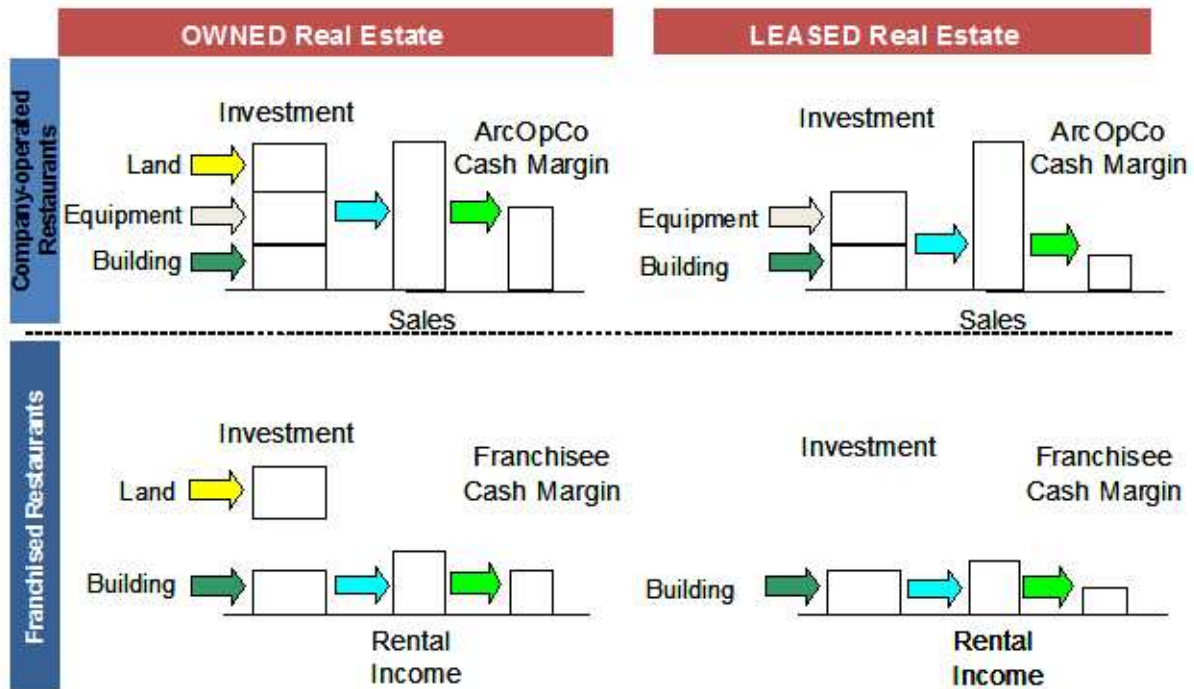
We own, fully manage and operate Company-operated restaurants and retain any operating profits generated by such restaurants, after paying operating expenses and the franchise and other fees owed to McDonald's under the MFAs. In Company-operated restaurants, we assume the capital expenditures for the building and equipment of the restaurant and, if we own the real estate location, for the land as well.

In contrast to Company-operated restaurants, franchised restaurants are operated and managed by the franchisee with technical and operational support from us as master franchisee, including training programs, operations manuals, access to our supply and distribution network and marketing assistance. Under our conventional franchise arrangements, franchisees provide a portion of the capital required by initially investing in the equipment, signs, seating and decor of their restaurants, and by reinvesting in the business over time. We are required by the MFAs to own the real estate or to secure long-term leases for franchised restaurant sites. We subsequently lease or sublease the property to franchisees. This arrangement allows for long-term occupancy of the property and assists in the alignment of our franchisees' interests with our own.

In exchange for the lease and services, franchisees pay a monthly rent to us, generally based on the greater of a fixed rent or a certain percentage of gross sales. In addition to this monthly rent, we collect the monthly continuing franchise fee, which generally is 5% of the U.S. dollar equivalent of the restaurant's gross sales, and pay these fees to McDonald's pursuant to the MFAs. However, if a franchisee fails to pay its monthly continuing franchise fee, we remain liable for payment in full of these fees to McDonald's. Pursuant to the MFAs, franchisees pay an initial franchise fee in connection with the opening of a new franchised restaurant and a transfer fee upon transfer of a franchised restaurant, both of which are subsequently shared by McDonald's and us. See "Item 10. Additional Information—C. Material Contracts—The MFAs—Franchise Fees."

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The chart below illustrates the economics for Company-operated restaurants and franchised restaurants in the case of owned and leased real estate:



Source : Arcos Dorados

In addition, we are the majority stakeholder in several joint ventures that collectively own 18 restaurants in Argentina and Chile. We have also granted developmental licenses to 12 restaurants. Pursuant to the developmental licenses, the developmental licensees own or lease the land and building on which the restaurants are located and pay a franchise fee to us in addition to the continuing franchise fee due to McDonald's. All of our joint ventures and developmental licenses were in existence at the time of the Acquisition.

Restaurant Categories

We classify our restaurants into one of four categories: (i) freestanding, (ii) food court, (iii) in-store and (iv) mall stores. Freestanding restaurants are the largest type of restaurant, have ample indoor seating and include a drive-thru area and parking lot. Food court restaurants are located in malls and consist primarily of a front counter and kitchen and do not have their own seating area. In-store restaurants are part of a larger building, but they do not have a drive-thru area or a parking lot. Mall stores are located in malls like food court restaurants, but have their own seating areas. As of December 31, 2014, 993 (or 47%) of our restaurants were freestanding, 490 (or 23%) were food courts, 298 (or 14%) were in-stores and 340 (or 16%) were mall stores. These percentages vary by country, and may shift as opportunities in malls and more densely populated areas become available in some of the Territories.

Below are examples of each type of our restaurant categories:



Freestanding



In-store



Mall Store



Food Court

Source : Arcos Dorados

Returns on investment in each type of restaurant vary significantly due to the different capital expenditures required and their different sales potential; mall stores generally provide the highest return on investment while freestanding restaurants generally provide the lowest. Moreover, returns vary significantly on a country by country basis.

Reimaging

An important component of our development plan is the reimaging of existing restaurants. As of December 31, 2014, we had completed the reimaging of 549 of the 1,569 restaurants we purchased in the Acquisition, an increase of 36 restaurants as compared to December 31, 2013. Our restaurants that have undergone reimaging during the past three years have experienced an additional increase in sales per restaurant over the comparable sales growth experienced by restaurants which have not been reimaged in the same period. Both we and McDonald's are committed to maintaining an image for our restaurants that creates a contemporary dining experience. Over the last few years, we have invested substantially in the reimaging of our restaurants, and we, pursuant to the MFAs, have committed to a significant reimaging plan. See "Item 10. Additional Information—C. Material Contracts." Many of the reimaging projects include the addition of McCafé locations to the restaurant.

Objectives of the reimaging include elevating the customer's perception of McDonald's and creating a more sophisticated and highly aspirational environment. We have developed systemwide guidelines for the interior and exterior design of reimaged restaurants. When carrying out a reimaging project, we minimize the impact on the operations and sales of the restaurants by keeping the restaurants open and operating during the renovations and working in specific areas of the location at particular times.

Below are images of the exterior of a few of our restaurants that have benefited from reimagining:



Source : Arcos Dorados

McCafé Locations and Dessert Centers

Our brand extension efforts focus on the development of additional McCafé locations and Dessert Centers. McCafé locations are stylish, separate areas within restaurants where customers can purchase a variety of customizable beverages, including lattes, cappuccinos, mochas, hot and iced premium coffees and hot chocolate. McCafé locations have been very successful in creating a different customer experience, optimizing the use of our restaurants at all hours of operation and providing a higher profit margin than our regular restaurant operations. We believe the primary benefit of McCafé locations is that they attract new customers by increasing the variety of our product offerings and improving our image.

With an average return on investment from McCafé locations of 29% in 2014, the McCafé concept is well-suited for restaurants in large-scale shopping centers and commercial areas. McCafé locations have been a key factor in adding value to our customers' experience and represented 9.0% of the total transactions and 5.7% of total sales of the restaurants in which they were located in 2014. As of December 31, 2014, there were 343 McCafé locations in the Territories, of which 13.1% were operated by franchisees. Argentina and Brazil, with 89 and 94 locations, respectively, have the greatest number of McCafé locations. The first McCafé in Latin America was opened in Argentina in 1999. Pursuant to the MFAs we have the right to add McCafé locations to the premises of our restaurants.

Below are images of the interior of two of our McCafé locations:



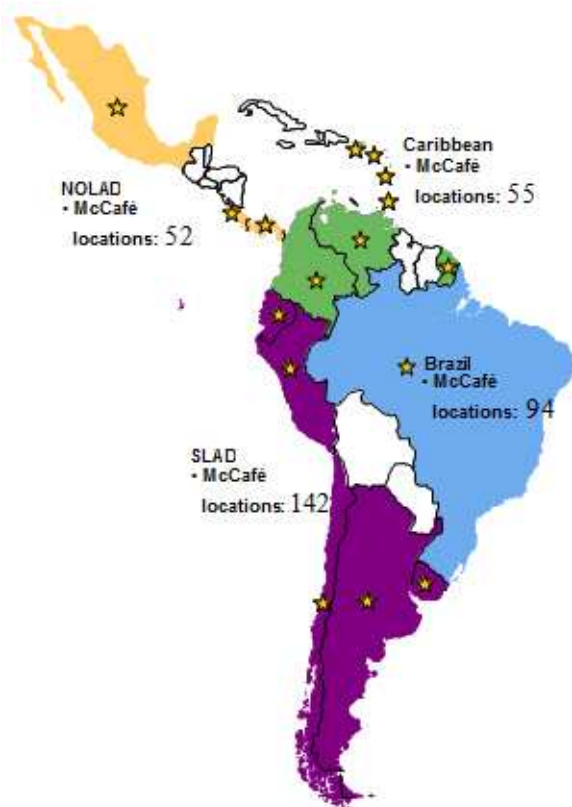
Source : Arcos Dorados

In addition to McCafé locations, Dessert Centers have been a very successful brand extension. Dessert Centers operate separately from existing restaurants, but depend on them for supplies and operational support. For example, a mall store restaurant can provide support for several Dessert Centers located in different locations throughout the same mall. Our Dessert Centers are conveniently located to attract customers, thereby serving as important transaction generators and providing an effective method of extending our brand presence to non-traditional areas. At Dessert Centers, customers can purchase a variety of dessert items, including the McFlurry and soft-serve ice cream. Dessert Centers require low capital expenditures and provide returns on investment and operating margins that are significantly higher than our regular restaurant operations. As such, we believe they are an important driver in increasing our market penetration.

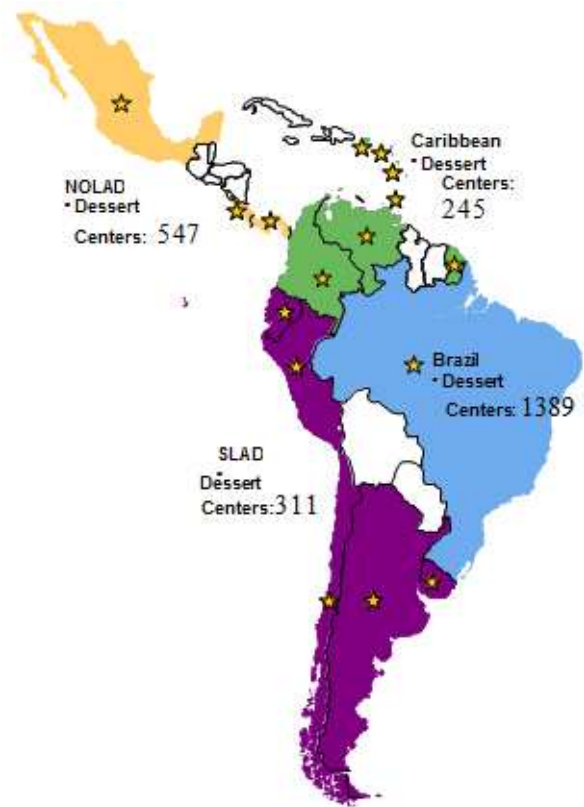
Dessert Centers represented 29.9% of our transactions and 9.1% of our total sales in 2014 and, with a return on investment of 129% in 2014, provide a low-risk investment alternative. As of December 31, 2014 there were 2,492 Dessert Centers in the Territories. Dessert Centers are highly successful in Brazil, where we have 1,389 locations. The first Dessert Center was created in Brazil in 1979. Due to a change in methodology in 2011, Dessert Center figures for 2014, 2013, 2012 and 2011 are not directly comparable to figures for 2010.

The following maps set forth our McCafé locations and Dessert Centers in each of the Territories as of December 31, 2014:

Network of McCafé Locations
343 total McCafé locations



Network of Dessert Centers
2,492 total Dessert Centers



Source : Arcos Dorados

The McDonald's Brand

Interbrand, a brand consulting firm, ranked McDonald's among the top ten global brands in 2014. In addition, we believe that in Latin America and the Caribbean, the McDonald's brand benefits from an aspirational cachet as a "destination" restaurant with a reputation for safe, fresh and good-tasting food in an attractive setting. McDonald's strong brand equity stems from the dedicated execution of its brand promise and its ability to associate with the local community where it operates. McDonald's sets the standard in the restaurant industry worldwide for brand stewardship and marketing leadership.

Product Offerings

A crucial part of delivering the brand to clients depends on our product offerings, or more specifically, our menu strategy and management. The key objective of our menu strategy is the development and offering of quality food choices that attract customers to our restaurants on a regular basis. The elements we utilize to achieve this goal include offering McDonald's core menu, our product innovation initiatives and our focus on food safety.

Our menus feature three tiers of products: affordable entry-level options, such as our Big Pleasures, Small Prices or McMío offerings, core menu options, such as the Big Mac, Happy Meal and Quarter Pounder, and premium options, such as Big Tasty or Angus premium hamburgers and chicken sandwiches and low-calorie or low-sodium products that are marketed through common platforms rather than as individual items. These platforms can be based on the type of products, such as beef, chicken, salads or desserts, or on the type of customer targeted, such as the children's menu. We have offered a new menu with fewer calories and less sugar and sodium in the majority of our Territories since 2011. Since 2013 we have offered dairy products, fresh fruits or vegetables with our Happy Meals in all of the Territories except Venezuela.

Our core menu is the most important element of our menu strategy and includes well-recognized food choices that have global customer acceptance and are what customers repeatedly order at McDonald's-branded restaurants worldwide.

Product Development

We have been very innovative in our product development in Latin America and the Caribbean. In key countries, our understanding of the local market has enabled us to successfully introduce new items to appeal to local tastes and to provide our customers with additional food options. Our chicken-based offerings include bone-in chicken in markets such as Colombia, Peru, Panama and Costa Rica, and Angus burgers with innovative flavors such as Habanero are examples of our product development efforts, through which we introduce new products every few months. Also, we carefully monitor the sales of our products and are able to quickly modify them if necessary. For instance, although we always offer the McFlurry dessert product, we include in this product platform a promotional topping that is offered for a limited period of time, followed by a new promotional topping to maintain the sales momentum.

In 2006, McDonald's global innovation team introduced a new food preparation platform called the Bridge Operating Platform, or BOP, which combines product innovation with operational efficiency throughout our restaurants. This platform is a significant system enhancement, and it allows for customization of products without compromising the restaurants' ability to handle a large influx of customers at peak periods. The BOP has now been implemented in all large Latin American and Caribbean markets. In 2011 we began the rollout of Made For You, or MFY, a new kitchen operating platform that we believe will allow for improved product quality, higher labor productivity and reduced food waste. As of December 31, 2013, we had implemented MFY in almost all of our Company-operated restaurants in Argentina, Aruba, Brazil, Curaçao, French Guyana, Mexico, Puerto Rico, Trinidad and Tobago and the U.S. Virgin Islands. During 2014, we implemented MFY in Costa Rica, Panama, seven restaurants in Uruguay and twenty-three of our new restaurants in Colombia. During 2015, we plan to implement MFY in Martinique, four restaurants in Guadalupe and 25 additional restaurants in Colombia.

We work closely with McDonald's to develop new product offerings and McDonald's considers our recommendations regarding regional tastes and preferences and works with us to accommodate such tastes and preferences. We continue to benefit from McDonald's product development efforts following the Acquisition and have access to a library of products developed globally for the McDonald's system. In addition, we continue to benefit from the Hamburger Universities in the United States and Brazil and the food studio located in Brazil that aims to develop locally relevant products for the region. The Hamburger Universities and the food studio models have been McDonald's main global source of people and product development. The Hamburger Universities provide restaurant managers, mid-managers and owner/operators with training on best practices in different aspects of the business, like restaurant and people management, sales and accounting, while emphasizing consistent restaurant operations procedures, service, quality and cleanliness. The food studios across the globe have been responsible for some of McDonald's most innovative food concepts and play a crucial role in developing new menu options that cater to the local tastes.

Product and Pricing Strategy

Value perceptions change significantly between markets and even between areas within a single market. In order to adjust pricing to meet customers' expectations in each market, we have developed local expertise aimed at understanding the dynamics of the local marketplace and the characteristics of their customers. We also examine trends in the pricing of raw materials, packaging, product related operating costs as well as individual item sales volumes to fully understand profitability by item. These insights feed into the local markets' menu and pricing strategy as well as the marketing plan that is disseminated to both Company-operated and franchised restaurants. Restaurants may then adjust pricing and/or item offerings as they choose in an attempt to optimize sales, profitability and local preferences. This cycle is part of an overall revenue management philosophy and is part of our business management practices utilized throughout the region.

Advertisement & Promotion

We believe that sales in the QSR sub-segment can be significantly affected by the frequency and quality of our advertising and promotional programs. In particular, we benefit from the strength of McDonald's global resources, including its global alliances with some of the largest multinational conglomerates and sponsorship of sporting

events such as the Olympic Games and the World Cup and participation in various movie promotions, which provides us with important advertising and promotion opportunities.

We promote the McDonald's brand and our products by advertising in all of the Territories. We create, develop and coordinate marketing plans and promotional activities throughout the Territories; however, pursuant to the MFAs, McDonald's reserves the right to review and approve any advertising materials and related promotional activities and may request that we cease using the materials or promotional activities at any time if McDonald's determines that they are detrimental to its brand image. We are required under the MFAs to spend at least 5% of our gross sales, and our franchisees generally are required to pay us 5% of their gross sales for the portion of advertising expenditures related to their restaurants, on advertisement and promotion activities. The only exception to this policy is in Mexico, where both we and our franchisees contribute funds to a cooperative that is responsible for advertisement and promotion activities for Mexico.

Our advertisement and promotion activities are guided by our overall marketing plan, which identifies the key strategic platforms that we aim to leverage to drive sales. The advertisement and promotion program is formulated based on the amount of advertisement and promotion support needed for each strategic platform for the year. During 2014, our key strategic platforms included menu relevance, convenience, strengthening the kids and family experience, leveraging the FIFA World Cup sponsorship in Brazil and price segmentation for margin optimization. In terms of menu relevance, we introduced promotional products in many of our key markets such as *Favoritos de la Copa* and Big Mac Extension. In terms of convenience, we increased the efficiency of some of our restaurants by including more McCafé locations, combined beverage systems that serve fruit-based smoothies, coffee-based frappés and specialty coffees, and Dessert Centers and developing locally relevant menu items, such as breakfast choices and bone-in-chicken product offerings in Peru, Colombia, Panama and Costa Rica. In terms of pricing, we understand that our customers seek great-tasting food at affordable prices and that their perception of value while at the restaurant is a significant factor in determining overall satisfaction and frequency of visits. Our Big Pleasures, Small Prices and McMío programs in Latin America and the Caribbean, which are based on best practices and experience in the United States and Europe, have been successful in addressing a broad range of value expectations in our restaurants. We continue leveraging these platforms to increase penetration and grow market share.

To support our product offerings, we sponsor regionally popular sporting events, such as the preliminary round for the FIFA World Cup 2014 in South America, and leverage global marketing initiatives led by McDonald's, such as sponsorship of major sporting events and participation in various movie promotions. We believe these branding events provide a cost-effective manner to increase our market recognition.

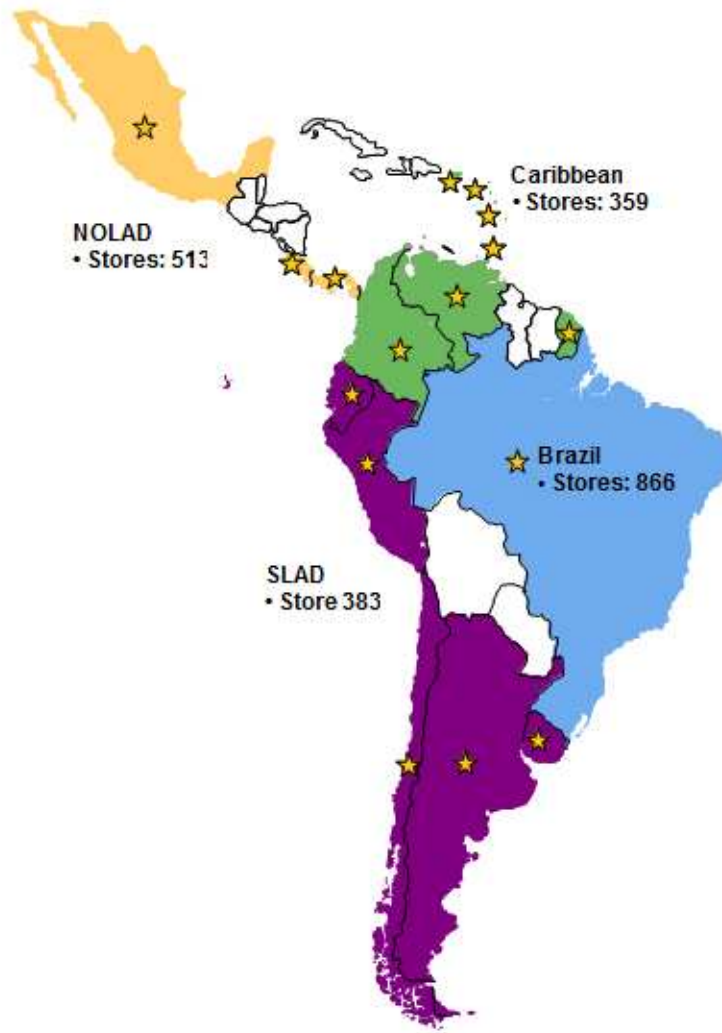
To promote increased traffic in our restaurants, we execute unique promotions such as the Monopoly game in some of our key markets.

Through the execution of these initiatives, we work to enhance the McDonald's experience for customers throughout the Territories, increase our sales and customer counts. We aim to position ourselves as a "forever young" brand by delivering a youthfully energetic, distinctly casual, personally engaging and delightful dining/brand experience.

Regional Operations

The Company is divided into four geographical divisions: Brazil, the Caribbean division, NOLAD and SLAD. Except for Brazil, the divisions are subsequently divided into sub-groups comprised of individual Territories. The presidents of the divisions report directly to our chief operating officer.

The following map sets forth the number of our restaurants in each of our operating divisions as of December 31, 2014:



Source : Arcos Dorados

We remain close to customers by managing operations at the local level, including implementing recruiting centers, conducting marketing campaigns and promotions, monitoring consumer perception and managing menu offerings. We conduct administrative and strategic activities at either the divisional level or at our headquarters, as appropriate. We provide services such as accounts payable, accounts receivable and payroll through our centralized shared service center located in Buenos Aires, Argentina. In addition, we have designed standardized crew recruiting manuals and have implemented an online communication platform for crew and managers. These centralized operations help us maintain consistent procedures, quality control and brand management across all of our markets.

Set forth below is a summary of our restaurant portfolio as of December 31, 2014. Due to the reorganization of our segments effective January 1, 2013, the segment information below is not directly comparable to the segment information presented in our annual report on Form 20-F for years prior to 2013. See “Presentation of Financial and Other Information—Operating Data.”

Portfolio by Division	Ownership					Store Type						Building/ Land(1)	
	Company-Operated	Joint Venture	Franchised	Developmental License	Total	Freestanding	Food Court	In-Store	Mall Store	Dessert Centers	McCafé Locations	Owned	Leased
Brazil	614	—	252	—	866	367	266	88	145	1,389	94	108	758
Caribbean Division	270	—	88	1	359	236	25	41	57	245	55	130	229
NOLAD	352	—	150	11	513	274	133	53	53	547	52	170	343
SLAD	323	18	42	—	383	116	66	116	85	311	142	97	286
Total	1,559	18	532	12	2,121	993	490	298	340	2,492	343	505	1,616

(1) Developmental licenses and mobile stores are not included in these figures.

Brazil

Brazil is our largest division in terms of restaurants, with 866 restaurants as of December 31, 2014 and \$1,816 million in revenues in 2014, representing 40.8% and 49.7% of our total restaurants and revenues, respectively. Our operations in Brazil are based in Sao Paulo and McDonald’s has been present in Brazil since opening its first restaurant in Rio de Janeiro in 1979.

Caribbean Division

The Caribbean division includes eleven territories with 359 restaurants as of December 31, 2014 and \$594.2 million in revenues in 2014, representing 16.9% and 16.3% of our total restaurants and revenues, respectively. Its primary market is Venezuela. McDonald’s has been present in Venezuela since opening its first restaurant in Caracas in 1985. Venezuela represents 37.9% of the Caribbean division’s restaurants and 31.6% of the Caribbean division’s revenues. Venezuela is our fourth-largest market in terms of restaurants.

NOLAD

NOLAD includes three countries with 513 restaurants as of December 31, 2014 and \$385.1 million in revenues in 2014, representing 24.2% and 10.5% of our total restaurants and revenues, respectively. Its primary market is Mexico, where the division’s management is based. McDonald’s has been present in Mexico since opening its first restaurant in Mexico City in 1985. Mexico represents 77.6% of NOLAD’s restaurants and 54.0% of NOLAD’s revenues, and Mexico is our second-largest market in terms of restaurants.

Our operations in Mexico differ from those in our other Territories (with the exception of Venezuela) in that the percentage of franchised restaurants is significantly higher than our systemwide average because some of McDonald’s previous joint venture partners were converted into franchisees immediately prior to the Acquisition. Since the Acquisition, we have been adjusting our business model in Mexico as several factors had significantly eroded that market’s profitability and, as a result, we have acquired 77 franchised restaurants. As of December 31, 2014, 35.4% of our restaurants in Mexico were franchised, while 25.7% of our restaurants overall were franchised.

SLAD

SLAD includes five countries with 383 restaurants as of December 31, 2014 and \$855.7 million in revenues in 2014, representing 18.1% and 23.4% of our total restaurants and revenues, respectively. Its primary market is Argentina, where the division’s management is based. McDonald’s has been present in Argentina since opening its first restaurant in Buenos Aires in 1986. As of December 31, 2014, Argentina represented 58.0% of SLAD’s restaurants and 66.9% of SLAD’s revenues in 2014. Argentina is our third-largest market in terms of restaurants.

Seasonality

Our sales and revenues are generally greater in the second half of the year than in the first half. Although the impact on our results of operations is relatively small, this impact is due to increased consumption of our products during the winter and summer holiday seasons, affecting July and December, respectively.

Supply and Distribution

Supply chain management is an important element of our success and a crucial factor in optimizing our profitability. Currently, we have an integrated and centralized supply chain management system that focuses on (i) the highest possible quality and food safety, (ii) competitive market pricing that is predictable and sustainable over time, and (iii) leveraging of local, regional and global sourcing strategies to obtain a competitive advantage. This system consists of the selection and development of suppliers that are able to comply with McDonald's high quality standards and the establishment of the appropriate type of relationships with these suppliers. These standards, which are based on the highest industry standards like International Organization for Standardization, or ISO, standards, British Retail Consortium, or BRC, standards and others, include cleanliness, product consistency and timeliness, meeting or exceeding all local food regulations and compliance with our Hazard Analysis Critical Control Plan, or HACCP, a systematic approach to food safety that emphasizes protection within the processing facility, rather than detection, through analysis, inspection and follow-up. Due to our supply chain management and high quality standards, we believe our products have a competitive advantage because they have many attributes that make them appealing to our customers. For instance, our McNuggets are made of 100% white meat; our frying oil is 100% free of trans fatty acids; the dairy mix for our sundaes and the McFlurry undergo aseptic processes to rid them of bacteria; our vegetables are washed and sanitized; and our hamburger patties are made with 100% beef and do not contain additives.

Pursuant to the MFAs, we purchase core products and services, such as beef, chicken, buns, produce, cheese, dairy mixes and toppings, from approved suppliers and distributors who satisfy the above requirements. If McDonald's determines that any product or service offered by an approved supplier is not in compliance with its standards, it may terminate the supplier's approved status. Beyond the purchase of core products and services, we have no restrictions on which suppliers or distributors we may use. We have largely continued the supply relationships that McDonald's had established prior to the Acquisition, and we develop relationships with new suppliers in accordance with McDonald's Supplier Quality Management System, or SQMS.

Since the process to become an approved supplier is lengthy, expensive and requires proof of compliance with McDonald's high quality standards, we have found that oral agreements with our approved suppliers generally are sufficient to ensure a reliable supply of quality food products, and we have developed long-term relationships with many of our suppliers. In addition, we enter into written agreements with most of our suppliers regarding the cost of such goods, which can be based on pricing protocols, formula costing, benchmarking or open bidding, as appropriate. Our 25 largest suppliers account for approximately 80% of our supplies, and no single supplier or group of related suppliers account for more than 12% of our total food and paper costs. Among our main suppliers are JBS S.A., McCain Foods Limited, Coca-Cola Company, Bimbo and Arytza.

Our integrated supply chain management optimizes value as we work with suppliers to develop pricing protocols, inventory, planning and product quality. As of December 31, 2014, approximately 26% of the food and paper products used in our restaurants were imported, primarily from countries within Latin America, while the remaining amount were locally sourced. This percentage varies among the Territories; for example, 18% of the products consumed in Mexico are imported, while 20% and 90% of the products consumed in Brazil and the Caribbean division, respectively, are imported. This includes the toys distributed in our restaurants, which are imported from China. Certain supplies, such as beef, must often be locally sourced due to restrictions on their importation. Combined with the MFAs' requirement to purchase certain core supplies from approved suppliers, although we maintain contingency plans to back up restaurant supplies, we may not be able to quickly find alternate or additional supplies in the event a supplier is unable to meet our orders. See "Item 3. Key Information—D. Risk Factors—Certain Factors Relating to Our Business—We depend on oral agreements with third-party suppliers and distributors for the provision of products that are necessary for our operations." The suppliers send all of their products to distribution centers that are in charge of transportation, warehousing, financial administration, demand and inventory planning and customer service. The distribution centers interact directly with our Company-operated and franchised restaurants.

Until March 16, 2011 we owned and operated some of the distribution centers in the Territories, which operations and related properties we refer to as Axionlog (formerly known as Axis). See “—A. History and Development of the Company—Important Events—The Axionlog Split-off.” In 2011, we entered into a master commercial agreement with Axionlog on arm’s-length terms pursuant to which Axionlog provides us with distribution services in Argentina, Chile, Colombia, Mexico, Uruguay and Venezuela. For additional information about our transactions with Axionlog, see “Item 7. Major Shareholders and Related Party Transactions—B. Related Party Transactions—Axionlog Split-off.”

Supply Chain Management and Quality Assurance

All products that we sell meet McDonald’s specifications, including new products and promotions. We work with our supplies to implement key standards testing at each stage of our supply chain, including raw materials, processing and distribution. With respect to raw materials, we verify that produce suppliers undergo verification audits. All protein suppliers also undergo Animal Welfare Policy, “mad cow” disease and HACCP audits. At the processing stage, we implement a supplier quality management system that encourages continuous improvement in each key product category. We conduct seminars annually with all key suppliers on topics such as standards calibration, product sensory evaluation and best practices and all suppliers are audited annually by a third party for compliance with McDonalds’s SQMS. We measure compliance through visits to processing plants, supplier summits, regularly scheduled audits and sensory testing that is achieved through a combination of product, equipment and operational procedures. At the distribution stage, we have implemented the Distribution Quality Management Program, which includes a shelf-life management system, strict temperature controls for receiving and storage of food products, a sophisticated stock recovery program and a quality inspection program.

Our quality testing extends to restaurant operations, where we conduct restaurant improvement and food safety verification processes that allow us to track the implementation of changes in restaurant operations, new products, procedures and equipment. We participate in the restaurant operations improvement process designed by McDonald’s, under which Company-operated and franchised restaurants are visited at least three times in any 21-month cycle to identify system opportunities to continuously improve our operations. Visits are conducted by our operations consultants, who assess restaurants based on food quality, service and cleanliness. We also participate in the worldwide mystery shopper program designed by McDonald’s, where all restaurants are visited twice a month by a third-party vendor who provides us with feedback from a customer perspective. This feedback, called customer satisfaction opportunity reports, is sent to a centralized monitoring system that evaluates key operations indicators. Our multidisciplinary teams, which include members of our Supply Chain and Marketing and Operations teams, work to improve quality and efficiency at the restaurant level throughout the Territories.

Our Competition

We compete with international, national, regional and local retailers of food products. We compete on the basis of price, convenience, service, menu variety and product quality. Our competition in the broadest perspective includes restaurants, quick-service eating establishments, pizza parlors, coffee shops, street vendors, ice cream vendors, convenience food stores, delicatessens and supermarkets.

Our Customers

We aim to provide our customers with safe, fresh and good-tasting food at a good value and a favorable dining experience in the family friendly environment demanded by our target demographic of young adults and families with children. Based on data from the United Nations Economic Commission for Latin America and the Caribbean, the Territories represented a market of approximately 630.1 million people in 2013—equivalent to the combined population of the United States, Germany, France, the United Kingdom and Italy—of which approximately 29% are under 14 years old and 47.5% are under 25 years old. As a business focused on young adults in the 14 to 35 age range and families with children, our operations have benefited, and we expect to continue to benefit, from our Territories’ population size, age profile when compared to more developed markets and improving socio-economic conditions. In addition, our McCafé brand extension has successfully targeted a more adult customer base.

Despite variations in economic development throughout the Territories, including reduced GDP expected for Brazil, continued foreign currency exchange controls in Venezuela and Argentina and the general political instability in Venezuela, Latin America and the Caribbean in general have presented very compelling growth prospects given their improving macroeconomic conditions, expanding buying power of the consumer sector in

general and the rapidly growing QSR markets in particular. In addition, improvements in macroeconomic conditions in the Territories have led to a modernization of consumption patterns and increased affordability of our products across socio-economic segments, and we believe we are well-placed to capitalize on these trends. In Brazil alone, distribution of national income significantly improved between 2003 and 2012. In 2003, 60% of population accounted for 17% of the total national income, while in 2012 60% of the population accounted for 21.2% of the total national income, according to the Economic Commission for Latin America and the Caribbean. According to the same source, the percentage of the Brazilian population living in poverty decreased from 38.7% in 2003 to 18.6% in 2012.

Despite ongoing risks generally associated with international business operations, the confluence of favorable factors throughout many of the Territories, including growth in our target demographic markets, offer an opportunity of profitable growth and the ability to serve an ever-increasing number of customers.

Regulation

We are subject to various multi-jurisdictional federal, regional and local laws in the countries in which we operate affecting the operation of our business, as are our franchisees and suppliers. Each restaurant is subject to licensing and regulation by a number of governmental authorities, which include zoning, health, safety, sanitation, tax, operating, building and fire agencies in the jurisdiction in which the restaurant is located. Difficulties in obtaining, or the failure to obtain, required licenses or approvals can delay or prevent the opening of a new restaurant in a particular area. Restaurant operations are also subject to federal and local laws governing matters such as wages, working conditions and overtime. We are also subject to tariffs and regulations on imported commodities and equipment and laws regulating foreign investment.

Substantive laws that regulate the franchisor/franchisee relationship presently exist in several of the countries in which we operate, including Brazil. These laws often limit, among other things, the duration and scope of non-competition provisions, the ability of a franchisor to terminate or refuse to renew a franchise and the ability of a franchisor to designate sources of supply and regulate franchise sales communications.

Certain countries in which we conduct operations have imposed price controls that restrict our ability, and the ability of our franchisees, to adjust the prices of our products. For example, in November 2013, Venezuela passed the Fair Price Act seeking to lower high inflation by controlling prices and costs in the chain of production. The Fair Price Act generally sets forth a profit cap of 30% on the cost structure of goods and services, thus reducing management's ability to freely determine final prices. According to regulations passed under the Fair Price Act, to determine a final and fair price, management must observe and consider all the costs of production, including (i) acquisition costs of raw materials, the determination of which shall comply with existing regulations on transfer pricing (i.e., price, freight, primary storage, non-recoverable taxes and other costs directly attributable to the acquisition of raw materials), (ii) labor costs, and (iii) indirect costs of production.

The Fair Price Act empowers the National Agency for the Defense of Socio-economic Rights to implement provisions and regulations on "fair pricing" and to oversee and audit businesses in Venezuela. Breaches of the Fair Price Act could result in criminal charges against merchants or business people. In January 2014, Venezuelan authorities inspected our operations in Venezuela and required us to reduce our prices for different menu items by amounts ranging from 7% to 10%. In a similar attempt to control and reduce inflation, the Venezuelan government established a transitional protection regime for tenants of property used for commercial, industrial or production activities, which regulates the leasing relations and stipulates that the price of the monthly rent may not exceed an amount equal to 250 *bolívars* per square meter. The Commercial Leases Law superseded this transitional regime in May 2014. See "Item 3. Key Information—D. Risk Factors—Certain Factors Relating to Latin America and the Caribbean—Price controls and other similar regulations in certain countries have affected and may continue to affect our results of operations."

In addition, in September 2014, Argentina passed: (i) Law No. 26,991, the "New Regulation on Production and Consumption Relationships Act", which reformed a 1974 Act (Law on Supply of Goods and Services); and (ii) Law No. 26,992, the "Creation of the Observatory of Prices and Availability of Inputs, Goods and Services Act."

The New Regulation on Production and Consumption Relationships Act empowers the Secretary of Commerce to, among other things: (i) establish profit margins and set price levels (setting maximum, minimum and benchmark prices); (ii) issue regulations on commerce, intermediation, distribution or production of goods

and services; (iii) impose the continuance of production, industrialization, commercialization, transport, distribution or rendering of services or impose the production of goods; (iv) set subsidies; (v) request any kind of documentation and correspondence related to commercial activities or the management of the businesses and impose the publication of prices and availability of goods and services and seize such documentation for up to 30 working days; (vi) impose registration and recordkeeping requirements; and (vii) impose licensing regimes for commercial activities.

In order to enforce its provisions, the Secretary of Commerce is granted the power to impose penalties for non-compliance including, among others: (i) fines of AR\$500 to AR\$10,000,000 or up to three times the economic profit obtained by offenders (the amounts can double in case of second time offenders); (ii) temporary shutting down of businesses for up to 90 days; (iii) seizure of goods and products and their sale to consumers in case of an administratively determined shortage of said goods and products; (iv) loss of governmental or fiscal benefits. Under the New Regulation on Production and Consumption Relationships Act, companies would be forced to pay any fine issued immediately and then litigate before the courts to have the penalty revoked and the money refunded. The Secretary of Commerce may waive the advance payment of the fine in cases in which, at its discretion, such payment may cause irreparable harm to the party challenging the fine.

The Creation of the Observatory of Prices and Availability of Inputs, Goods and Services Act created a technical agency under the Secretary of Commerce, the Observatory of Prices and Availability of Inputs, Goods and Services, to control and systematize prices and availability of inputs, goods and services produced, traded or rendered in Argentina.

We are also subject to the labor laws applicable in the countries in which we operate. The adoption of new or more stringent labor laws or regulations could result in a material liability to us. For example, in January 2015, Venezuela announced a 20% increase in the minimum wage, resulting in a new minimum wage of 5,622.48 *bolívares*. In Argentina, a law enacted in November 2010 requires companies to pay overtime to all employees (except directors and managers) working on weekends. Additionally, a proposed bill in Argentina would require companies to distribute 10 percent of their profits to employees. See “Item 3. Key Information—D. Risk Factors—Certain Factors Relating to Our Business—Labor shortages or increased labor costs could harm our results of operations.” New interpretations or unexpected applications of existing labor laws or regulations may also affect our business practices or results of operations. In August 2012, the Public Labor Ministry of the State of Pernambuco (*Ministério Público do Trabalho do Estado de Pernambuco*) in Brazil filed a civil complaint against us in the Labor Court of Pernambuco (*Justiça do Trabalho de Pernambuco*) regarding alleged noncompliance with certain labor laws. Several of these cases have already been resolved successfully, either by a judicial decision or a cash settlement. The remaining retained cases are pending a final decision. In March of 2015, the Public Labor Ministry requested documents in order to analyze our compliance with the labor laws, which we provided. See “Item 8. Financial Information—A. Consolidated Statements and Other Financial Information—Legal Proceedings—Retained Lawsuits and Contingent Liabilities.”

In addition, we may become subject to legislation or regulation seeking to regulate high-fat and/or high-sodium foods, particularly in Argentina, Brazil, Chile, Puerto Rico and Venezuela. Moreover, restrictions on advertising by food retailers and QSRs have been proposed or adopted in Argentina, Brazil, Chile, Colombia, Mexico, Peru, Uruguay and Venezuela, including proposals to restrict our ability to sell toys in conjunction with food. Certain jurisdictions in the United States are considering curtailing or have curtailed McDonald’s ability to sell children’s meals including free toys if these meals do not meet certain nutritional criteria. Similar restrictions, if imposed in the Latin American countries where we do business, may have a negative impact on our results of operations. We will comply with any laws or regulations that may be enacted, and we can provide no assurance of the effect that any possible future laws and regulations will have on our operating results. See “Item 3. Key Information—D. Risk Factors—Certain Factors Relating to Our Industry—Restrictions on promotions and advertisements directed at families with children and regulations regarding the nutritional content of children’s meals may harm McDonald’s brand image and our results of operations.”

Environmental Issues

To the best of our knowledge, there are currently no international, federal, state or local environmental laws, rules or regulations that we expect will materially affect our results of operations or our position with respect to our competitors. However, we can provide no assurance of the effect that any possible future environmental laws will have on our operating results.

Insurance

We maintain insurance policies in accordance with the requirements of the MFAs and as appropriate beyond those requirements, to the extent we believe additional coverage is necessary. Our insurance policies include commercial general liability, workers compensation, “all risk” property and business interruption insurance, among others. See “Item 10. Additional Information—C. Material Contracts—The MFAs—Insurance.”

Charitable Activities and Social Initiatives

The McDonald’s brand is enhanced through McDonald’s and our social responsibility initiatives, which include a wide range of programs focused on positively impacting our employees, customers and the communities in which we operate. The following discussion summarizes some of our principal programs and contributions:

Employment Experience

We are an important employer in Latin America and the Caribbean and are creating new economic opportunities for Latin America’s next generation. With more than 95,000 employees as of December 31, 2014, we are one of the largest employers in Latin America. For many of our employees, we are their first employer, providing formal jobs that include benefits, medical coverage, training and flexibility. We provide a strong foundation and teach them valuable customer service and leadership skills that can be applied to a wide range of career paths in the future.

We have been recognized by many independent organizations for being a “great place to work.” In 2014, the Great Place to Work Institute ranked us fourth among the top multinational employers in Latin America with more than 3,000 employees. The table below shows the good employer recognitions that we received in 2014:

Country	Award	Ranking
Argentina	“Best Companies to Work for” in Argentina	11th
Argentina	“Work and Life Balance” Certification	—
Brazil	“Best Companies to Work for” in Brazil	12th
Costa Rica	“Best Companies to Work for” in Costa Rica	13th
Costa Rica and Panama	“Work and Life Balance” Certification	—
Chile	“Best Companies to Work for” in Chile	16th
Ecuador	“Best Companies to Work for” in Ecuador	10th
Mexico	“Best Companies to Work for” in Mexico	6th
Panama	“Best Companies to Work for” in Panama	6th
Peru	“Best Companies to Work for” in Peru	9th
Uruguay	“Best Companies to Work for” in Uruguay	5th
Venezuela	“Best Companies to Work for” in Venezuela	6th

We pride ourselves on principles such as integrity, trust, honesty, hospitality and the importance of team work. To that end, we offer extensive training and continuing education opportunities for crew and corporate employees, and provide a collegial work environment that fosters teamwork and advancement. Each year, we dedicate resources to training and development in our restaurants, Regional Training Centers and McDonald’s University in order to provide our employees with the tools necessary to advance within our Company and help positively impact business results.

In April 2012, we became one of the first companies to join the New Employment Opportunities (NEO) Program. Developed by the Inter-American Development Bank and the International Youth Foundation, the program helps to increase the employability of the region’s youth. We strengthened that commitment in December 2013 as part of the Clinton Global Initiative.

Community

The wellbeing of the communities where we operate is of considerable importance to us. One of our major charitable causes is the Ronald McDonald House Charities, which is dedicated to creating, finding and supporting programs that directly improve the health and well-being of children, including by combating pediatric cancer, one of the leading causes of death for children in Latin America.

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As of December 31, 2014, there were 45 Ronald McDonald House Charities programs in 13 countries in Latin America and the Caribbean, including 19 Ronald McDonald Houses, 25 Ronald McDonald Family Rooms, which provide “a home away from home” to children undergoing serious medical treatment in hospitals and their families, and one Ronald McDonald Care Mobile, which was built to deliver pediatric care services to remote locations.

One of our biggest charitable events is McHappy Day, when McDonald’s restaurants across Latin America raise money for various children’s causes, including the Ronald McDonald House Charities foundation, by donating the proceeds generated from the sales of Big Macs on that day. McHappy Day has grown from being a “marketing” campaign to becoming a community-wide effort. In 2014, McHappy Day was celebrated in all of the Territories, involving more than 35,000 community volunteers and our franchisees and suppliers. In 2014, our McHappy Day activities raised over \$12.7 million. McHappy Day has become one of the most important campaigns, supporting children in Latin America and is the biggest source of revenue for the Ronald McDonald House Charities foundation.

Nutrition and Well-being

As part of our commitment to offering nutritious and quality products to our customers, we are dedicated to actively promoting a balanced lifestyle. This includes providing reliable, accessible information to guide educated nutritional decisions. We were the first restaurant chain in Latin America to provide full nutritional and calorie information about our menu on our websites in every country, as well as giving consumers within the restaurants full printed nutritional information on every tray liner. In 2014 we added a nutritional calculator on our websites to complement nutritional transparency with a personalized tool to enable our customers to make the right nutritional choices for their lifestyle.

From a safety and quality perspective, we only use products that have passed strict quality and hygiene controls throughout the production chain, inside our restaurants and up to the moment they are served to our customers. These products are sourced from our approved supplier network for all McDonald’s restaurants.

We participate in several educational, sports and well-being programs throughout Latin America and the Caribbean, promoting our brand and encouraging our employees and customers to participate. One such event is the McDonald’s 5K Women’s Run (*Las Mujeres Corremos*), a regional race held annually since 2010 that brought together nearly 60,000 women in 2014, running in 18 cities and 14 countries in Latin America.

Environmental Responsibility

We are committed to the continuous improvement of our environmental sustainability efforts, including frequently assessing our strengths and areas of improvement. We have made many positive strides, including publishing sustainability reports in Brazil, Argentina and Colombia, during 2014, to help us benchmark and set direct and measurable goals to pursue and achieve in the years ahead.

We strive to be an environmental steward dedicated to conserving natural resources and minimizing waste. We monitor and implement operational measures focused on reducing water consumption, energy utilization and waste production at our restaurants. We are committed to increasing our energy efficiency in restaurants by 20% by 2020 (using 2012 as the baseline). We execute paper and waste recycling campaigns at our restaurants, whenever possible. Our goal is to reduce in restaurant waste by 50% by 2020, with 2012 as the baseline. We are also exploring ways to recycle cooking oil from our restaurants, including an innovative program in Brazil that would power our delivery trucks with our recycled cooking oil.

We survey our key suppliers in Latin America and the Caribbean to ensure their operations meet the highest standards possible and partner with them on reducing our impact on the environment. This includes implementing and sharing best practices throughout the supply chain around sustainable sourcing, transportation, resource use, residue disposal and energy consumption, among other matters.

We strive to source from suppliers with strong standards of animal welfare. In April 2014 we committed to ensuring that by the end of 2016 all pork procured by Arcos Dorados will be sourced by producers that can demonstrate documented plans to promote group housing for their pigs.

The responsible use of antibiotics is important for animal health, as well as to ensure the future effectiveness of antimicrobial medicines. In March 2015 Arcos Dorados announced that it will only source from suppliers who can

guarantee that their animals (i) are raised without growth-stimulating antibiotics; (ii) have only received antibiotics to cure or prevent disease under veterinary supervision; (iii) are only administered antibiotics approved for veterinary use; and (iv) encourage healthy animal welfare and husbandry conditions to help reduce the need for antibiotic use.

Protecting the Amazon—one of Latin America’s greatest environmental treasures—is a top priority. One hundred percent of our suppliers have committed to ending procurement of any goods from the Amazon. In October 2011, McDonald’s signed a global moratorium against harvesting soy from the Amazon region and has maintained this commitment every year since, including actively supporting the 2014 renewal of the Brazilian Soy Moratorium, with validity until May 2016.

As of December 31, 2014, we had five ecological restaurants and one LEED-certified corporate university, which are more environmentally responsible and resource-efficient buildings throughout their life-cycle. In December 2008, we opened the first ecological restaurant in Latin America in Bertioga on the coast of São Paulo, Brazil. This restaurant received Leadership in Energy & Environmental Design, or LEED, certification, in September 2009, becoming the first McDonald’s restaurant in Latin America to be so certified. In August 2009, we opened our second ecological restaurant in Lindora, Costa Rica, which was the first of its kind in Central America. In August 2010, we opened our third ecological restaurant in Pilar, Argentina. In July 2011, we re-inaugurated the McDonald’s at Parque Hundido, in Mexico DF as our fourth ecological restaurant. This restaurant was awarded LEED certification by the US Green Building Council. In January 2013, we opened the fifth ecological restaurant in Guaynabo, Puerto Rico. In November 2013, it was awarded LEED certification by the US Green Building Council and verified by the Green Building Certification Institute.

The McDonald’s University in São Paulo, Brazil was remodeled and reopened in April 2011 as an ecological, LEED-certified building. This McDonald’s University, one of seven such units in the world, is the corporate training center for employees from all over Latin America and the Caribbean.

The know-how accumulated in the construction of these ecological buildings is being used for the development of new McDonald’s restaurants and the reimagining of certain existing ones in the Territories.

Sustainable Supply Chain

Our deep relationship with our suppliers is an important strategic asset. We work with more than 500 suppliers across Latin America who serve as strategic partners. Many of our suppliers have worked with McDonald’s since it first entered the Latin American market in the 1970s. All suppliers are evaluated for and must comply with global McDonald’s standards on core products such as beef, chicken, cheese, bread, beverages and others. This ensures a consistent customer experience throughout Latin America.

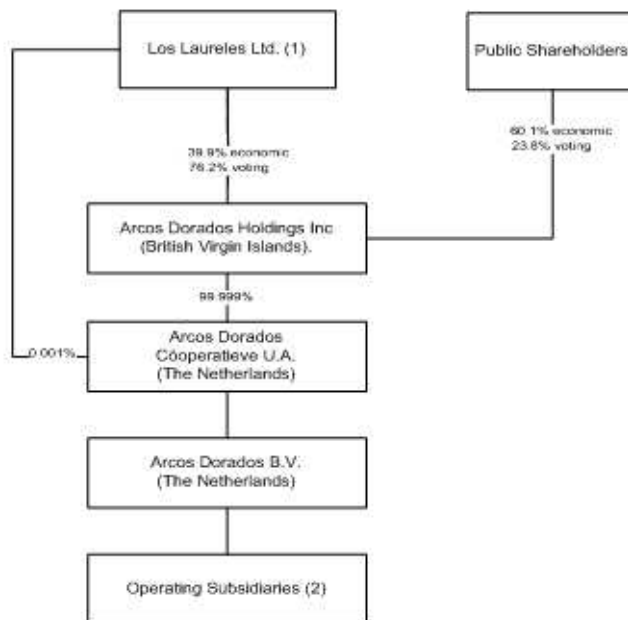
We hope to further strengthen our supply chain by developing local initiatives that meet our demand for goods while promoting the well-being and success of the farmers and suppliers we rely on. For example, we spearheaded a local community farming pilot program involving 22 farms with the Qorichacra lettuce growing venture in Cusco, launched together with the Syngenta Foundation. The learnings from Qorichacra have encouraged us to develop more local farming initiatives to supply our lettuce and tomatoes locally in a few cities in Brazil, Puerto Rico and Argentina. Our hope is that more such initiatives will flourish with our leadership as a provider of training, quality control and standards, and as a significant local buyer of lettuce and tomato. As another example, in Brazil we work with suppliers to educate local farmers about sustainable agriculture. To date, 26 farms have been created in Brazil and/or expanded to produce lettuce, tomatoes and other produce for McDonald’s restaurants in the region. This enables us to source produce from sustainable farms, while also contributing to the local economy through the creation of jobs.

C. Organizational Structure

We conduct substantially all our business through our indirect, wholly-owned Dutch subsidiary Arcos Dorados B.V. Our controlling shareholder is Los Laureles Ltd., a British Virgin Islands company, which is beneficially owned by Mr. Staton, our Chairman and CEO. Under the MFAs, Los Laureles Ltd. is required to hold at all times at least 51% of our voting interests, which is accomplished through its ownership of 100% of the class B shares of Arcos Dorados Holdings Inc., each having five votes per share. Los Laureles Ltd. has established a voting trust with respect to the voting interests in us held by Los Laureles Ltd. Los Laureles Ltd. is the beneficiary of the voting trust. See “Item 7. Major Shareholders and Related Party Transactions—A. Major Shareholders—Los Laureles Ltd.”

Arcos Dorados B.V. owns all the equity interests of LatAm, LLC, the master franchisee, and owns, directly or indirectly, all the equity interests of the subsidiaries operating our restaurants in the Territories.

The following chart shows our corporate structure as of April 27, 2015.



- (1) Includes class A shares and class B shares beneficially owned by Mr. Staton, our Chairman and CEO. Los Laureles Ltd. is beneficially owned by Mr. Staton. See “Item 7. Major Shareholders and Related Party Transactions—A. Major Shareholders—Los Laureles Ltd.” Mr. Staton directly owns 0.001% of the shares of Arcos Dorados Cöoperative U.A.
- (2) Includes operating subsidiaries held directly and, in some cases, indirectly through certain intermediate subsidiaries.

Other than as described above, all of our significant subsidiaries are wholly owned by us, except Arcos Dorados Argentina S.A., of which Mr. Staton owns 0.003%.

D. Property, Plants and Equipment

Property Operations

Our long-standing presence in Latin America and the Caribbean has allowed us to build a significant property portfolio with hard-to-replicate locations in key markets across the region that enhance our customers’ experience and ultimately support our brand and market position. As of December 31, 2014, we owned the land for 505 of our 2,121 restaurants (totaling approximately 1.1 million square meters). We owned the buildings for all but 12 of our stand-alone restaurants, all of which are under developmental licenses, whereby the licensees own or lease the land and buildings on which the restaurants are located. We lease the remaining real estate property where we operate. Accordingly, we are able to charge rent on the real estate that we own and lease to our franchisees. The rental payments generally are based on the greater of a flat fee or a percentage of sales reported by franchised restaurants. When we lease land, we match the term of our sublease to the term of the franchise. We may charge a higher rent to franchisees than that which we pay on our leases, therefore deriving additional rental income.

The selection, construction and maintenance of restaurant locations and other related real estate assets, which is a key element of our performance, is determined based on an evaluation of expected returns on investment and the most efficient allocation of our capital expenditures. In addition to our restaurant property, we own our corporate headquarters in Buenos Aires, Argentina, corporate offices, real estate in Venezuela, a manufacturing and logistics center in Sao Paulo, Brazil, and training centers in Sao Paulo, Brazil and Buenos Aires, Argentina.

ITEM 4A. UNRESOLVED STAFF COMMENTS

None.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

A. Operating Results

The following discussion of our financial condition and results of operations should be read in conjunction with the audited consolidated financial statements as of December 31, 2014 and 2013 and for the years ended December 31, 2014, 2013 and 2012, and the notes thereto, included elsewhere in this annual report, as well as the information presented under “Presentation of Financial and Other Information” and “Item 3. Key Information—A. Selected Financial Data.”

The following discussion contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those discussed in the forward-looking statements as a result of various factors, including those set forth in “Forward-Looking Statements” and “Item 3. Key Information—D. Risk Factors.”

Segment Presentation

We divide our operations into four geographical divisions: Brazil; the Caribbean division, consisting of Aruba, Colombia, Curaçao, French Guiana, Guadeloupe, Martinique, Puerto Rico, Trinidad and Tobago, the U.S. Virgin Islands of St. Croix and St. Thomas and Venezuela; the North Latin America division, or NOLAD, consisting of Costa Rica, Mexico and Panama; and the South Latin America division, or SLAD, consisting of Argentina, Chile, Ecuador, Peru and Uruguay. As of December 31, 2014, 40.8% of our restaurants were located in Brazil, 18.1% in SLAD, 24.2% in NOLAD and 16.9% in the Caribbean division. We focus on our customers by managing operations at the local level, including marketing campaigns and special offers, menu management and monitoring customer satisfaction, while leveraging our size by conducting administrative and strategic functions at the divisional or corporate level, as appropriate.

We are required to report information about operating segments in our financial statements in accordance with ASC 280. Operating segments are components of a company about which separate financial information is available that is regularly evaluated by the chief operating decision maker(s) in deciding how to allocate resources and assess performance. We have determined that our reportable segments are those that are based on our method of internal reporting, and we manage our business and operations through our four geographical divisions (Brazil, the Caribbean division, NOLAD and SLAD). The accounting policies of the segments are the same as those for the Company on a consolidated basis.

Principal Income Statement Line Items

Revenues

We generate revenues primarily from two sources: sales by Company-operated restaurants and revenue from franchised restaurants, which primarily consists of rental income, typically based on the greater of a flat fee or a percentage of sales reported by our franchised restaurants. This rent, along with occupancy and operating rights, is stipulated in our franchise agreements. These agreements typically have a 20-year term but may be shorter if necessary to mirror the term of the real estate lease. In 2014, sales by Company-operated restaurants and revenues from franchised restaurants represented 96.0% and 4.0% of our total revenues, respectively. In both 2013 and 2012, sales by Company-operated restaurants and revenues from franchised restaurants represented 95.7% and 4.3% of our total revenues, respectively.

Operating Costs & Expenses

Our sales are heavily influenced by brand advertising, menu selection and initiatives to improve restaurant operations. Sales are also affected by the timing of restaurant openings and closures. We do not record sales from our franchised restaurants as revenues.

Company-operated restaurants incur four types of operating costs and expenses:

- food and paper costs, which represent the costs of the products that we sell to customers in Company-operated restaurants;
- payroll and employee benefit costs, which represent the wages paid to Company-operated restaurant managers and crew, as well as the costs of benefits and training, and which tend to increase as we increase sales;
- occupancy and other operating expenses, which represent all other direct costs of our Company-operated restaurants, including advertising and promotional expenses, the costs of outside rent, which are generally tied to sales and therefore increase as we increase our sales, outside services, such as security and cash collection, building and leasehold improvement depreciation, depreciation on equipment, repairs and maintenance, insurance, restaurant operating supplies and utilities; and
- royalty fees, representing the continuing franchise fees we pay to McDonald's pursuant to the MFAs, which are determined as a percentage of gross product sales.

Franchised restaurant occupancy expenses include, mainly, as applicable, the costs of depreciating and maintaining the land and buildings upon which franchised restaurants are situated or the cost of leasing that property. A significant portion of our leases establish that rent payments are based on the greater of a flat fee or a specified percentage of the restaurant's sales.

We promote the McDonald's brand and our products by advertising in all of the Territories. Pursuant to the MFAs, we are required to spend at least 5% of our sales on advertisement and promotion activities annually. These activities are guided by our overall marketing plan, which identifies the key strategic platforms that we leverage to drive sales. Our franchisees are generally required to pay us 5% of their sales to cover advertising expenditures related to their restaurants. We account for these payments as a deduction to our advertising expenses. As a result, our advertising expenses only reflect the expenditures related to Company-operated restaurants. Advertising expenses are recorded within the "Occupancy and other operating expenses" line item in our consolidated income statement. The only exception to this policy is in Mexico, where both we and our franchisees contribute funds to a cooperative that is responsible for advertisement and promotion activities for Mexico.

General and administrative expenses include the costs of overhead, including salaries and facilities, travel expenses, depreciation of office equipment, buildings and vehicles, amortization of intangible assets, occupancy costs, professional services and the cost of field management for Company-operated and franchised restaurants, among others.

Other operating expenses, net, include gains and losses on asset acquisitions and dispositions, write-offs of property and equipment, insurance recovery, impairment charges, rental income and depreciation expenses of excess properties, results from distribution centers (until March 16, 2011), the equity awards granted to our CEO until 2011, accrual for contingencies, write-offs and write-downs of inventory, recovery of taxes and other miscellaneous items.

Other Line Items

Net interest expense primarily includes interest expense on our short-term and long-term debt as well as the amortization of deferred financing costs. Loss from derivative instruments relates to the negative change in the fair market value of certain of our derivatives not designated as hedging instruments, which are used to help mitigate some of our foreign currency exchange rate risk.

Foreign currency exchange results relate to the impact of remeasuring monetary assets and liabilities denominated in currencies other than our functional currencies. See "—Foreign Currency Translation."

Other non-operating income (expenses), net primarily include certain results related to tax credits, asset taxes and income tax adjustments related to prior years we are required to pay in certain countries and other non-operating charges.

Income tax expense includes both current and deferred income taxes. Current income taxes represents the amount accrued during the period to be paid to the tax authorities while deferred income taxes represent the earnings impact of the change in deferred tax assets and liabilities that are recognized in our balance sheet for future income tax consequences.

Net income attributable to non-controlling interests relate to the participation of non-controlling interests in the net income of certain subsidiaries that collectively owned 18 restaurants at December 31, 2014 (28 restaurants at December 31, 2013).

Impact of Inflation and Changing Prices

Some of the countries in which we operate have experienced, or are currently experiencing, high rates of inflation. In general, we believe that, over time, we have demonstrated the ability to manage inflationary environments effectively. During 2014, our revenues were favorably impacted by our pricing strategy in many of these inflationary environments, as we have generally been able to increase average check to keep pace with inflation.

The Venezuelan market is also subject to price controls, which limits our ability to increase prices to offset the impact of continuing high inflation on our operating costs. As part of the January 2014 announcements, the Venezuelan government also issued a new regulation (further amended in November 2014), establishing a maximum profit margin for companies and maximum prices for certain goods and services. Although we managed to navigate the negative impact of this regulation on our operations during 2014, the existence of such laws and regulations continues to present a risk to our business. We continue to closely monitor developments in this dynamic environment.

Key Business Measures

We track our results of operations and manage our business by using three key business measures: comparable sales growth, average restaurant sales and sales growth. In addition, we use Adjusted EBITDA to facilitate operating performance comparisons from period to period. See “Presentation of Financial and Other Information—Other Financial Measures” and “Item 3. Key Information—A. Selected Financial Data.” Systemwide results are driven primarily by our Company-operated restaurants, as 74.4% of our systemwide restaurants are Company-operated as of December 31, 2014. Systemwide data represents measures for both Company-operated and franchised restaurants. While sales by franchisees are not recorded as revenues by us, management believes the information is important in understanding our financial performance because these sales are the basis on which we calculate and record franchised restaurant revenues and are indicative of the financial health of our franchisee base. Unless otherwise stated, comparable sales growth, average restaurant sales and sales growth are presented on a systemwide basis.

Comparable Sales

Comparable sales is a key performance indicator used within the retail industry and is indicative of the success of our initiatives as well as local economic, competitive and consumer trends. Comparable sales are driven by changes in traffic and average check, which is affected by changes in pricing and product mix. Increases or decreases in comparable sales represent the percent change in sales from the prior year for all restaurants in operation for at least thirteen months, including those temporarily closed. Some of the reasons restaurants may close temporarily include reimagining or remodeling, rebuilding, road construction and natural disasters. With respect to restaurants where there are changes in ownership, primarily changes from being franchised restaurants to becoming Company-operated restaurants, all previous months’ sales are reclassified according to the new ownership category when reporting comparable sales. As a result, there will be discrepancies between the sales figures used to calculate comparable sales and our results of operations. We report on a calendar basis, and therefore the comparability of the same month, quarter and year with the corresponding period for the prior year is impacted by the mix of days. The number of weekdays, weekend days and timing of holidays in a period can impact comparable sales positively or negatively. We refer to these impacts as calendar shift/trading day adjustments. These impacts vary geographically due to consumer spending patterns and have the greatest effect on monthly comparable sales while annual impacts are typically minimal.

We calculate and analyze comparable sales and average check in our divisions and systemwide on a constant currency basis, which means they are calculated using the same exchange rate in the applicable division or

systemwide, as applicable, over the periods under comparison to remove the effects of currency fluctuations from the analysis. We believe these constant currency measures provide a more meaningful analysis of our business by identifying the underlying business trend, without distortion from the effect of foreign currency fluctuations.

Company-operated comparable sales growth refers to comparable sales growth for Company-operated restaurants and franchised comparable sales growth refers to comparable sales growth for franchised restaurants. We believe comparable sales growth is a key indicator of our performance, as influenced by our strategic initiatives and those of our competitors.

Average Restaurant Sales

Average restaurant sales, or ARS, is an important measure of the financial performance of our systemwide restaurants and changes in the overall direction and trends of sales. ARS is calculated by dividing the sales for the relevant period by the arithmetic mean of the number of restaurants at the beginning and end of such period. ARS is influenced mostly by comparable sales performance and restaurant openings and closures. As ARS is provided in nominal terms, it is affected by movements in foreign currency exchange rates.

Sales Growth

Sales growth refers to the change in sales by all restaurants, whether operated by us or by franchisees, from one period to another. We present sales growth both in nominal terms and on a constant currency basis, which means the latter is calculated using the same exchange rate over the periods under comparison to remove the effects of currency fluctuations from the analysis.

Foreign Currency Translation

The financial statements of our foreign operating subsidiaries are translated in accordance with guidance in ASC 830, Foreign Currency Matters. See Note 3 to our consolidated financial statements. Except for our Venezuelan operations, the functional currencies of our foreign operating subsidiaries are the local currencies of the countries in which we conduct our operations. Therefore, the assets and liabilities of these subsidiaries are translated into U.S. dollars at the exchange rates as of the balance sheet date, and revenues and expenses are translated at the average exchange rates prevailing during the period. Translation adjustments are included in the “Accumulated other comprehensive loss” component of shareholders’ equity. We record foreign currency exchange results related to monetary assets and liabilities denominated in currencies other than our functional currencies in our consolidated income statement.

Effective January 1, 2010, Venezuela is considered to be highly inflationary. Under U.S. GAAP, an economy is considered to be highly inflationary when its three-year cumulative rate of inflation meets or exceeds 100%. Under the highly inflationary basis of accounting, the financial statements of our Venezuelan subsidiaries are remeasured as if their functional currency were our reporting currency (U.S. dollars), with remeasurement gains and losses recognized in earnings, rather than in the cumulative translation adjustment component of other comprehensive loss within shareholders’ equity.

For more details about the Venezuelan exchange rate used for financial reporting, see Notes 21 and 26 to our consolidated financial statements.

Factors Affecting Comparability of Results

Seasonality

Our sales and revenues are generally greater in the second half of the year than in the first half. Although the impact on our results of operations is relatively small, this impact is due to increased consumption of our products during the winter and summer holiday seasons, affecting July and December, respectively.

Critical Accounting Policies and Estimates

This management’s discussion and analysis of financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and

judgments that affect the reported amounts of assets, liabilities, revenues and expenses as well as related disclosures. On an ongoing basis, we evaluate our estimates and judgments based on historical experience and various other factors that we believe to be reasonable under the circumstances. Actual results may differ from these estimates under varying assumptions or conditions.

We consider an accounting estimate to be critical if:

- the nature of the estimates or assumptions is material due to the levels of subjectivity and judgment necessary to account for highly uncertain matters or the susceptibility of such matters to change; and
- the impact of the estimates and assumptions on our financial condition or operating performance is material.

We believe that of our significant accounting policies, the following encompass a higher degree of judgment and/or complexity.

Depreciation of Property and Equipment

Accounting for property and equipment involves the use of estimates for determining the useful lives of the assets over which they are to be depreciated. We believe that the estimates we make to determine an asset's useful life are critical accounting estimates because they require our management to make estimates about technological evolution and competitive uses of assets. We depreciate property and equipment on a straight-line basis over their useful lives based on management's estimates of the period over which these assets will generate revenue (not to exceed the lease term plus renewal options for leased property). The useful lives are estimated based on historical experience with similar assets, taking into account anticipated technological or other changes. We periodically review these lives relative to physical factors, economic considerations and industry trends. If there are changes in the planned use of property and equipment, or if technological changes occur more rapidly than anticipated, the useful lives assigned to these assets may need to be shortened, resulting in the recognition of increased depreciation and amortization expense or write-offs in future periods. No significant changes to useful lives have been recorded in the past. A significant change in the facts and circumstances that we relied upon in making our estimates may have a material impact on our operating results and financial condition.

Impairment of Long-Lived Assets and Goodwill

We review long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. We review goodwill for impairment annually in the fourth quarter. In assessing the recoverability of our long-lived assets and goodwill, we consider changes in economic conditions and make assumptions regarding, among other factors, estimated future cash flows by market and by restaurant, discount rates by country and the fair value of the assets. Estimates of future cash flows are highly subjective judgments based on our experience and knowledge of our operations. These estimates can be significantly impacted by many factors, including changes in global and local business and economic conditions, operating costs, inflation, competition, and consumer and demographic trends. A key assumption impacting estimated future cash flows is the estimated change in comparable sales.

During June 2014, we performed impairment testing on our long-lived assets in Venezuela considering the operating losses incurred in this market as a consequence of the currency exchange rate change (indicator of potential impairment). As a result of this analysis, we recorded an impairment charge of \$45.2 million using a fair market value approach. This change is primarily associated with a piece of real estate acquired during the fourth quarter of 2013. The impairment charge also included certain restaurants with undiscounted future cash flows insufficient to recover their carrying value.

See Note 3 to our consolidated financial statements for a detail of markets for which we performed impairment tests of our long-lived assets and goodwill, as well as impairment charges recorded.

If our estimates or underlying assumptions change in the future, we may be required to record additional impairment charges.

Share-Based Compensation

We have share-based compensation plans outstanding pursuant to which we granted liability awards to certain employees under a long-term incentive plan. The accrued liability is remeasured at the end of each reporting period until settlement. The fair value of our liability awards is estimated using the Black-Scholes model. Accounting for our share-based compensation plans involves the use of estimates for determining: (a) the number of units that will vest based on the estimated completion of the requisite service period, and (b) the assumptions required by the closed-form pricing model (expected volatility, dividend yield, risk-free interest rate and expected term). These assumptions are estimated as follows:

- Expected volatility: based on implied volatility of our class A shares.
- Dividend yield: based on estimated annual dividends over Company's market capitalization.
- Risk-free interest: prevailing implied interest rate of the U.S. Treasury zero-coupon strips with a remaining time to maturity similar to the expected term of the plan.
- Expected term: estimated as an average of the vesting term and the original contractual term of the plan.

All of these assumptions significantly impact the estimated fair value of the awards. We use historical data and estimates to determine these assumptions, and if these assumptions and/or the stock price change significantly in the future, our operating results and financial condition could be significantly impacted. See Note 16 to our consolidated financial statements for additional detail on the assumptions used in our estimates and the amounts involved.

In March 2011, we adopted our Equity Incentive Plan, or 2011 Plan, to attract and retain the most highly qualified and capable professionals and to promote the success of our business through an annual award program. The 2011 Plan permits grants of awards relating to our class A shares, including awards in the form of share (also referred to as stock) options, restricted shares, restricted share units, share appreciation rights, performance awards and other share-based awards as will be determined by our Board of Directors. The maximum number of shares that may be issued under the 2011 Plan is 5,238,235 class A shares, equal to 2.5% of our total outstanding class A and class B shares immediately following our initial public offering on April 14, 2011.

Restricted share units are measured at the grant-date market price of our class A shares. Stock options are accounted for at their grant-date fair value. Fair value of stock options is calculated using the Black-Scholes option pricing model. This calculation is affected by our stock price as well as assumptions regarding a number of highly complex and subjective variables (expected volatility, dividend yield, risk-free interest rate and expected term). These assumptions are estimated as was previously described for our liability awards. See Note 16 to our consolidated financial statements for additional detail on the assumptions used in our estimates and the amounts involved.

Accounting for Taxes

We record a valuation allowance to reduce the carrying value of deferred tax assets if it is more likely than not that some portion or all of our deferred assets will not be realized. Our valuation allowance as of December 31, 2014, 2013 and 2012 amounted to \$301.0 million, \$270.1 million and \$236.6 million, respectively. We have considered future taxable income and ongoing prudent and feasible tax strategies in assessing the need for the valuation allowance. This assessment is carried out on the basis of internal projections, which are updated to reflect our most recent operating trends, such as expiration date for tax loss carryforwards. Because of the imprecision inherent in any forward-looking data, the further into the future our estimates cover, the less objectively verifiable they become. Therefore, we apply judgment to define the period of time to include projected future income to support the future realization of the tax benefit of an existing deductible temporary difference or carryforward and whether there is sufficient evidence to support the projections at a more-likely-than-not level for this period of time. Determining whether a valuation allowance for deferred tax assets is necessary often requires an extensive analysis of positive (e.g., a history of accurately projecting income) and negative evidence (e.g., historic operating losses) regarding realization of the deferred tax assets and inherent in that, an assessment of the likelihood of sufficient future taxable income. In 2014 and 2013, we recognized a loss amounting to \$71.7 million and \$39.6 million, respectively, related to tax loss carryforwards for which realization is not expected to occur. During 2012, we

recognized a gain for the change in the valuation allowance amounting to \$7.7 million due to improvements in projected taxable income and a relative increase of positive evidence as compared to negative evidence due to the reversal of trends of historic operating losses in some markets. If these estimates and assumptions change in the future, we may be required to adjust the valuation allowance. This could result in a charge to, or an increase in, income in the period this determination is made.

In addition, the Company operates within multiple taxing jurisdictions and is subject to audit in these jurisdictions. The Company assesses the likelihood of any adverse judgments or outcomes on its tax positions, including income tax and other taxes, based on the technical merits of a tax position derived from authorities such as legislation and statutes, legislative intent, regulations, rulings and case law and their applicability to the facts and circumstances of the tax position. Such outcomes may change in the future due to new developments in each matter.

Provision for Contingencies

We have certain contingent liabilities with respect to existing or potential claims, lawsuits and other proceedings, including those involving labor, tax and other matters. Accounting for contingencies involves the use of estimates for determining the probability of each contingency and the estimated amount to settle the obligation, including related costs. We accrue liabilities when it is probable that future costs will be incurred and the costs can be reasonably estimated. The accruals are based on all the information available at the issuance date of the financial statements, including our estimates of the outcomes of these matters and our lawyers' experience in contesting, litigating and settling similar matters. If we are unable to reliably measure the obligation, no provision is recorded and information is then presented in the notes to our consolidated financial statements. As the scope of the liabilities becomes better defined, there may be changes in the estimates of future costs. Because of the inherent uncertainties in this estimation, actual expenditures may be different from the originally estimated amount recognized. See "Item 8. Financial Information—A. Consolidated Statements and Other Financial Information—Legal Proceedings" for a description of significant claims, lawsuits and other proceedings.

See Note 17 to our consolidated financial statements for more information.

Results of Operations

We have based the following discussion on our consolidated financial statements. You should read it along with these financial statements, and it is qualified in its entirety by reference to them.

In a number of places in this annual report, in order to analyze changes in our business from period to period, we present our results of operations and financial condition on a constant currency basis, which isolates the effects of foreign exchange rates on our results of operations and financial condition. In particular, we have isolated the effects of appreciation and depreciation of local currencies in the Territories against the U.S. dollar because we believe that doing so is useful in understanding the development of our business. For these purposes, we eliminate the effect of movements in the exchange rates by converting the balances for both periods being compared from their local currencies to the U.S. dollar using the same exchange rate.

Year Ended December 31, 2014 Compared to Year Ended December 31, 2013

Set forth below are our results of operations for the years ended December 31, 2014 and 2013.

	For the Years Ended December 31,		% Increase (Decrease)
	2014	2013	
	(in thousands of U.S. dollars)		
Sales by Company-operated restaurants	\$ 3,504,302	\$ 3,859,883	(9.2)%
Revenues from franchised restaurants	146,763	173,427	(15.4)
Total revenues	3,651,065	4,033,310	(9.5)
Company-operated restaurant expenses:			
Food and paper	(1,243,907)	(1,350,515)	(7.9)
Payroll and employee benefits	(734,093)	(814,112)	(9.8)
Occupancy and other operating expenses	(997,065)	(1,055,188)	(5.5)
Royalty fees	(173,663)	(188,885)	(8.1)
Franchised restaurants – occupancy expenses	(63,939)	(63,273)	1.1
General and administrative expenses	(272,065)	(317,745)	(14.4)
Other operating expenses, net	(95,476)	(15,070)	533.6
Total operating costs and expenses	(3,580,208)	(3,804,788)	(5.9)
Operating income	70,857	228,522	(69.0)
Net interest expense	(72,750)	(88,156)	(17.5)
Loss from derivative instruments	(685)	(4,141)	(83.5)
Foreign currency exchange results	(74,117)	(38,783)	91.1
Other non-operating expenses, net	146	(848)	(117.2)
(Loss) income before income taxes	(76,549)	96,594	(179.2)
Income tax expense	(32,479)	(42,722)	(24.0)
Net (loss) income	(109,028)	53,872	(302.4)
Less: Net income attributable to non-controlling interests	(305)	(18)	1,594.4
Net (loss) income attributable to Arcos Dorados Holdings Inc.	(109,333)	53,854	(303.0)

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Set forth below is a summary of changes to our systemwide, Company-operated and franchised restaurant portfolios in 2014 and 2013.

	For the Years Ended December 31,	
	2014	2013
Systemwide Restaurants		
Systemwide restaurants at beginning of period	2,062	1,948
Restaurant openings	82	130
Restaurant closings	(23)	(16)
Systemwide restaurants at end of period	<u>2,121</u>	<u>2,062</u>
For the Years Ended December 31,		
	2014	2013
Company-operated Restaurants		
Company-operated restaurants at beginning of period	1,538	1,453
Restaurant openings	56	95
Restaurant closings	(19)	(8)
Net conversions of franchised restaurants to Company-operated restaurants	2	(2)
Company-operated restaurants at end of period	<u>1,577</u>	<u>1,538</u>
For the Years Ended December 31,		
	2014	2013
Franchised Restaurants		
Franchised restaurants at beginning of period	524	495
Restaurant openings	26	35
Restaurant closings	(4)	(8)
Net conversions of franchised restaurants to Company-operated restaurants	(2)	2
Franchised restaurants at end of period	<u>544</u>	<u>524</u>

Key Business Measures

We track our results of operations and manage our business by using three key business measures: comparable sales growth, average restaurant sales and sales growth. Unless otherwise stated, comparable sales growth, average restaurant sales and sales growth are presented on a systemwide basis.

Comparable Sales

	For the Year Ended December 31, 2014
Arcos Dorados	
Systemwide comparable sales growth	10.0%
Company-operated comparable sales growth	8.5
Franchised comparable sales growth	14.0
Systemwide Comparable Sales Growth by Division	
Brazil	1.8
Caribbean division	24.7
NOLAD	(4.6)
SLAD	21.1
Company-operated Comparable Sales Growth by Division	
Brazil	1.2
Caribbean division	18.5
NOLAD	(5.6)
SLAD	19.8
Franchised Comparable Sales Growth by Division	
Brazil	3.2%
Caribbean division	38.7
NOLAD	(2.6)
SLAD	30.4

Our comparable sales growth on a systemwide basis in 2014 was driven by the increase in average check, which resulted mainly from price increases.

Average Restaurant Sales

	For the Years Ended December 31,	
	2014	2013
	(in thousands of U.S. dollars)	
Systemwide average restaurant sales	\$ 2,268	\$ 2,611
Company-operated average restaurant sales	2,250	2,581
Franchised average restaurant sales	2,319	2,697

Our ARS decreased in 2014 because of the depreciation of most currencies in the Territories against the U.S. dollar, partially offset by comparable sales growth of 10.0%.

Sales Growth

	For the Year Ended December 31, 2014	
	(in nominal terms)	(in constant currency)
Brazil	—%	9.2%
Caribbean division	(31.9)	26.2
NOLAD	(5.6)	(1.8)
SLAD	(9.3)	24.2
Total Systemwide Sales Growth	(9.4)	14.7

In nominal terms, sales decreased during 2014 due to the negative impact of the depreciation of most currencies in the Territories against the U.S. dollar. This was partially offset by comparable sales growth of 10.0% and the net addition of 173 restaurants systemwide since January 1, 2013. We had 1,577 Company-operated restaurants and 544 franchised restaurants as of December 31, 2014, compared to 1,538 Company-operated restaurants and 524 franchised restaurants as of December 31, 2013.

Revenues

	For the Years Ended December 31,		% Decrease
	2014	2013	
	(in thousands of U.S. dollars)		
Sales by Company-operated Restaurants			
Brazil	\$ 1,724,889	\$ 1,755,716	(1.8)%
Caribbean division	574,540	780,675	(26.4)
NOLAD	367,075	388,246	(5.5)
SLAD	837,798	935,246	(10.4)
Total	3,504,302	3,859,883	(9.2)
Revenues from Franchised Restaurants			
Brazil	91,157	86,608	5.3%
Caribbean division	19,680	49,772	(60.5)
NOLAD	18,039	19,526	(7.6)
SLAD	17,887	17,521	2.1
Total	146,763	173,427	(15.4)
Total Revenues			
Brazil	1,816,046	1,842,324	(1.4)%
Caribbean division	594,220	830,447	(28.4)
NOLAD	385,114	407,772	(5.6)
SLAD	855,685	952,767	(10.2)
Total	3,651,065	4,033,310	(9.5)

Sales by Company-operated Restaurants

Total sales by Company-operated restaurants decreased by \$355.6 million, or 9.2%, from \$3,859.9 million in 2013 to \$3,504.3 million in 2014, mainly as a result of the depreciation of most currencies in the Territories against the U.S. dollar (\$852.3 million). This was partially offset by 8.5% growth in comparable sales, due to a higher average check, which caused sales to increase by \$324.5 million, coupled with a \$172.2 million increase as a result of 124 net restaurant openings since January 1, 2013. Sales were negatively affected by the Football World Cup held in Brazil in June and July 2014 and a worsening macroeconomic environment in our main countries.

In Brazil, sales by Company-operated restaurants decreased by \$30.8 million, or 1.8%, to \$1,724.9 million. This was a consequence of the depreciation of the real against the U.S. dollar, which caused sales to decrease by \$157.2 million. This was partially offset by 80 net restaurant openings and the conversion of 1 franchised restaurant into a Company-operated restaurant since January 1, 2013 which contributed \$104.7 million to the increase. Average check growth was the driver of comparable sales growth of 1.2%, which contributed \$21.6 million to the increase in sales.

In the Caribbean division, sales by Company-operated restaurants decreased by \$206.1 million, or 26.4%, to \$574.5 million. The main driver of this decrease was the adoption of SICAD and SICAD II as the reporting exchange rate in Venezuela, which caused sales to decrease by \$377.2 million. This was partially offset by 18.5% growth in comparable sales, which contributed \$144.5 million to the increase in sales. Average check growth was the driver of comparable sales growth and resulted from price increases. In addition, the net opening of 10 restaurants and the conversion of 1 franchised restaurant into a Company-operated restaurant since January 1, 2013 contributed \$26.5 million to the increase in sales.

In NOLAD, sales by Company-operated restaurants decreased by \$21.2 million, or 5.5%, to \$367.1 million. Decrease in comparable guest counts related to the unfavorable economic environment and tougher competitive environment coupled with a lower average check, resulting from a negative change in product mix, caused comparable sales to decrease by 5.6%, negatively impacting sales by \$21.5 million. In addition, depreciation of local currencies caused sales to decrease by \$16.1 million. This was partially offset by 14 net restaurant openings and the conversion of 3 franchised restaurants into Company-operated restaurants since January 1, 2013, which resulted in a sales increase of \$16.4 million.

In SLAD, sales by Company-operated restaurants decreased by \$97.4 million, or 10.4%, to \$837.8 million. The depreciation of most currencies in the region against the U.S. dollar caused sales to decrease by \$301.8 million. This was partially offset by 19.8% growth in comparable sales, resulting from a higher average check, which caused sales to increase by \$179.9 million. In addition, the net opening of 20 restaurants, partially offset by the conversion of 5 Company-operated restaurants into franchised restaurants since January 1, 2013, contributed \$24.5 million to the increase in sales.

Revenues from Franchised Restaurants

Our total revenues from franchised restaurants decreased by \$26.7 million, or 15.4%, from \$173.4 million in 2013 to \$146.8 million in 2014. The main contributors to this decrease were the depreciation of most currencies in the Territories against the U.S. dollar by \$44.6 million, and lower rental income as a percentage of sales which decreased from 12.6% in 2013 to 11.9% in 2014, amounting \$18.8 million. This was partially offset by comparable sales growth of 14.0%, which resulted in an increase in revenues of \$26.7 million, and the net opening of 49 franchised restaurants since January 1, 2013, which caused revenues from franchised restaurants to increase by \$10.1 million. In 2014, 84.5% and 15.5% of revenues from franchised restaurants were earned on the basis of a percentage of sales and on a flat fee basis, respectively. In 2013, 85% and 15% of revenues from franchised restaurants were earned on the basis of a percentage of sales and on a flat fee basis, respectively.

In Brazil, revenues from franchised restaurants increased by \$4.5 million, or 5.3%, to \$91.2 million primarily as a result of 55 net franchised restaurant openings, which was partly offset by the conversion of 1 franchised restaurant into a Company-operated restaurant, since January 1, 2013, and comparable sales growth of 3.2%, which explained \$9.2 million and \$2.8 million of the increase, respectively. In addition, increased rental income, resulted in increased revenues from franchised restaurants of \$0.9 million. This was partially offset by the depreciation of the *real* against the U.S. dollar by \$8.4 million.

In the Caribbean division, revenues from franchised restaurants decreased by \$30.1 million, or 60.5%, to \$19.7 million. This decrease was driven by the adoption of SICAD and SICAD II as the reporting exchange rate in Venezuela, lower rental income, and the net closing of 4 restaurants as well as the conversion of one franchised restaurant into a Company-operated restaurant since January 1, 2013, impacting revenues by \$28.0 million, \$19.9 million and 0.8 million, respectively. This was partially offset by comparable sales growth of 38.7%, resulting in an \$18.6 million increase in revenues. Rental income was negatively affected by new Venezuelan governmental regulations on rental contracts, which imposed a limit on the rent that we can charge to lessees since December 2013.

In NOLAD, revenues from franchised restaurants decreased by \$1.5 million, or 7.6%, to \$18.0 million. This decrease was a result of the depreciation of the Mexican *peso* against the U.S. dollar, contributing \$0.6 million, coupled with a 2.6% decrease in comparable sales and lower rental income, amounting to \$0.5 million and \$0.3 million, respectively. In addition, the net closing of 4 restaurants and the conversion of 3 franchised restaurants into Company-operated restaurants since January 1, 2013, caused revenues from franchised restaurants to decrease by \$0.1 million.

In SLAD, revenues from franchised restaurants increased by \$0.4 million, or 2.1%, to \$17.9 million. This growth mainly resulted from a comparable sales growth of 30.4%, which accounted for \$5.8 million. In addition, the net openings of two restaurants, coupled with the conversion of five Company-operated restaurants into franchised restaurants since January 1, 2013 and higher rental income caused revenues to increase by \$1.7 million and \$0.6 million, respectively. The depreciation of the local currencies in Argentina and Chile against the U.S. dollar represented a decrease in revenues of \$7.8 million.

Operating Costs and Expenses

Food and Paper

Our total food and paper costs decreased by \$106.6 million, or 7.9%, to \$1,243.9 million in 2014, as compared to 2013. As a percentage of our total sales by Company-operated restaurants, food and paper costs increased by 0.5 percentage points to 35.5%, primarily due to higher input costs in SLAD resulting from the devaluation of Argentinian *Peso* and an increase in beef cost. In addition, an unfavorable change in product mix in Brazil and higher input costs in Brazil explain food and paper cost increase as a percentage of sales by Company-operated restaurants.

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In Brazil, food and paper costs increased by \$0.1 million, to \$553.2 million. As a percentage of the division's sales by Company-operated restaurants, food and paper costs increased by 0.6 percentage points to 32.1%, primarily as a result of an unfavorable change in product mix and cost increases that were higher than the increase in sales prices.

In the Caribbean division, food and paper costs decreased by \$84.9 million, or 26.7%, to \$233.4 million. As a percentage of the division's sales by Company-operated restaurants, food and paper costs decreased by 0.1 percentage points to 40.6%, mainly due to a change in Venezuela's weight in the Division's food and paper cost structure related to the adoption of SICAD and SICAD II as the reporting exchange rate, as Venezuela's food and paper cost as percentage of sales is higher than the rest of the countries in the Division.

In NOLAD, food and paper costs decreased by \$16.4 million, or 10.5%, to \$139.5 million. As a percentage of the division's sales by Company-operated restaurants, food and paper costs decreased by 2.1 percentage points to 38.0%, resulting primarily from price increases that were higher than the increase in costs throughout all markets, coupled with favorable product mix changes in Mexico.

In SLAD, food and paper costs decreased by \$15.9 million, or 4.9%, to \$307.2 million. As a percentage of the division's sales by Company-operated restaurants, food and paper costs increased by 2.1 percentage points to 36.7%, mostly as a result of higher input costs resulting from the devaluation of Argentinian *Peso* and an increase in beef cost.

Payroll and Employee Benefits

Our total payroll and employee benefits costs decreased by \$80.0 million, or 9.8%, to \$734.1 million in 2014, as compared to 2013. As a percentage of our total sales by Company-operated restaurants, payroll and employee benefits costs decreased 0.1 percentage points to 20.9%. This decrease in payroll and employee benefits costs as a percentage of our total sales by Company-operated restaurants is mostly attributable to a tax credit related to salaries in Brazil.

In Brazil, payroll and employee benefits costs decreased by \$17.1 million, or 4.5%, to \$359.7 million. As a percentage of the division's sales by Company-operated restaurants, payroll and employee benefits costs decreased by 0.6 percentage points to 20.9% as a result of a tax over salaries credit.

In the Caribbean division, payroll and employee benefits costs decreased by \$35.0 million, or 22.3%, to \$122.1 million. As a percentage of the division's sales by Company-operated restaurants, payroll and employee benefits costs increased by 1.1 percentage points to 21.2%, mainly due to a greater increase in salaries than in average check in Venezuela and Puerto Rico.

In NOLAD, payroll and employee benefits costs decreased by \$2.2 million, or 3.4%, to \$63.2 million. As a percentage of the division's sales by Company-operated restaurants, payroll and employee benefits costs increased 0.4 percentage points to 17.2%, resulting from negative comparable sales in all markets and the bi-annual increase in the government-mandated minimum wage in Panama.

In SLAD, payroll and employee benefits costs decreased by \$25.7 million, or 12.0%, to \$189.2 million. As a percentage of the division's sales by Company-operated restaurants, payroll and employee benefits decreased by 0.4 percentage points to 22.6% as a result of an increase in operational efficiency mainly in Argentina.

Occupancy and Other Operating Expenses

Our total occupancy and other operating expenses decreased by \$58.1 million, or 5.5%, to \$997.1 million in 2014, as compared to 2013. As a percentage of our total sales by Company-operated restaurants, occupancy and other operating expenses increased 1.1 percentage points to 28.5%, mainly due to the adoption of SICAD and SICAD II as reporting exchange rates in Venezuela, since certain costs are measured in U.S. dollars at historical exchange rates while sales are translated at applicable SICAD or SICAD II exchange rates. In addition, negative comparable sales growth in NOLAD and higher depreciation and amortization and labor contingencies in Brazil, related to the increased efficiency of Brazilian courts in managing these types of claims, also contributed to the decrease in total occupancy and other operating expenses.

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In Brazil, occupancy and other operating expenses increased by \$0.4 million, or 0.1%, to \$496.7 million. As a percentage of the division's sales by Company-operated restaurants, occupancy and other operating expenses increased by 0.5 percentage points to 28.8% as a result of an increase in depreciation and amortization expenses, and an increase in labor contingencies, due to the greater efficiency of the Brazilian courts in managing these types of claims.

In the Caribbean division, occupancy and other operating expenses decreased by \$33.6 million, or 15.6%, to \$181.4 million. As a percentage of the division's sales by Company-operated restaurants, occupancy and other operating expenses increased by 4.0 percentage points to 31.6% due to the adoption of SICAD and SICAD II as the reporting exchange rates in Venezuela, since sales are translated at the applicable SICAD or SICAD II exchange rates, while depreciation and amortization, insurances and certain operational inventories, are valued at historical U.S. dollar cost.

In NOLAD, occupancy and other operating expenses decreased by \$0.7 million, or 0.5%, to \$128.1 million. As a percentage of the division's sales by Company-operated restaurants, occupancy and other operating expenses increased 1.7 percentage points to 34.9%, mainly due to the impact of the comparable sales decrease over fixed costs, and higher rent expense related to store and dessert center openings.

In SLAD, occupancy and other operating expenses decreased by \$26.5 million, or 11.1%, to \$213.0 million. As a percentage of the division's sales by Company-operated restaurants, occupancy and other operating expenses decreased by 0.2 percentage points to 25.4%, mainly due to cost efficiencies.

Royalty Fees

Our total royalty fees decreased by \$15.2 million, or 8.1%, to \$173.7 million in 2014, as compared to 2013. As a percentage of sales, royalty fees increased by 0.1 percentage points to 5.0% due to the lower weight of Venezuela's royalty fees within the consolidated royalty fee structure, as Venezuela's royalty fees as a percentage of sales is lower than the rest of the Territories due to relief granted by the McDonald's Corporation.

In Brazil, royalty fees decreased by \$1.6 million, or 1.7%, to \$92.7 million in 2014, as compared to 2013, in line with the increase in sales by Company-operated restaurants.

In the Caribbean division, royalty fees decreased by \$7.9 million, or 26.3%, to \$22.2 million in 2014, as compared to 2013. As a percentage of sales by Company-operated restaurants, royalty fees remained unchanged at 3.9% due to a lower weight of Venezuela's royalty fees within the division's royalty fee structure, as Venezuela's royalty costs as a percentage of sales is lower than the rest of the Territories due to the relief granted by McDonald's Corporation. This is related to the adoption of the SICAD and SICAD II as the reporting exchange rate.

In NOLAD, royalty fees decreased by \$0.9 million, or 5.1%, to \$17.8 million in 2014, as compared to 2013, in line with the increase in sales by Company-operated restaurants.

In SLAD, royalty fees decreased by \$4.8 million, or 10.5%, to \$40.9 million in 2014, as compared to 2013. As a percentage of sales by Company-operated restaurants, royalty fees remained unchanged at 4.9%.

Franchised Restaurants—Occupancy Expenses

Occupancy expenses from franchised restaurants increased by \$0.7 million or 1.1%, to \$63.9 million in 2014, as compared to 2013, due to higher depreciation and amortization in Brazil and higher allowances for doubtful accounts in Puerto Rico, partially offset by lower rent expenses for leased properties in Venezuela.

In Brazil, occupancy expenses from franchised restaurants increased by \$2.9 million, or 7.5%, to \$40.8 million in 2014, as compared to 2013, primarily due to higher depreciation and amortization expenses for owned properties and increased rent expenses for leased properties, the latter as a consequence of the increase in sales from franchised restaurants and store openings. This was partially offset by the depreciation of Brazilian *real*.

In the Caribbean division, occupancy expenses from franchised restaurants decreased by \$1.9 million, or 15.7% to \$10.4 million. This was mainly due to a decrease in rent expenses for leased properties as a consequence of new Venezuelan governmental regulations on rental contracts in place since December 2013, coupled with the adoption

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of SICAD and SICAD II as the reporting exchange rate in Venezuela. This was partially offset by higher allowances for doubtful accounts in Puerto Rico and Venezuela.

In NOLAD, occupancy expenses from franchised restaurants decreased by \$0.1 million, or 1.2%, to \$11.0 million in 2014, as compared to 2013, mainly due to the depreciation of the Mexican *peso* against the U.S. dollar.

In SLAD, occupancy expenses from franchised restaurants decreased by \$0.2 million, or 4.7%, to \$4.1 million in 2014, as compared to 2013, mainly due to the depreciation of local currencies against the U.S. dollar in Argentina and Chile.

Set forth below are the margins for our franchised restaurants in 2014, as compared to 2013. The margin for our franchised restaurants is expressed as a percentage and is equal to the difference between revenues from franchised restaurants and occupancy expenses from franchised restaurants, divided by revenues from franchised restaurants.

	For the Years Ended December 31,	
	2014	2013
Brazil	55.3%	56.2%
Caribbean Division	46.9%	75.1%
NOLAD	38.9%	42.9%
SLAD	77.3%	75.7%
Total	56.4%	63.5%

General and Administrative Expenses

General and administrative expenses decreased by \$45.7 million, or 14.4%, to \$272.1 million in 2014, as compared to 2013. This decrease was mostly due to the depreciation of most currencies in the Territories against the U.S. dollar, amounting to \$61.7 million, a decrease in payroll due to staff restructuring carried out during the last quarter of 2013 and the second quarter of 2014, amounting to \$17.9 million and lower bonuses and other variable compensation provisions amounting to \$7.7 million. This was partially offset by salary increases mainly linked to Argentina's and Venezuela's inflation amounting to \$22.9 million, and severance payments as a consequence of the restructuring of staff amounting to \$6.7 million. In addition, the decrease was partially offset by higher IT services amounting to \$8.9 million, coupled with lower capitalization of costs and increases in occupancy expenses amounting to \$1.6 million and \$1.5 million, respectively.

In Brazil, general and administrative expenses decreased by \$6.1 million, or 6.6%, to \$86.2 million in 2014, as compared to 2013. The decrease resulted primarily from the depreciation of the real against the U.S. dollar amounting to \$8.1 million, coupled with a decrease in payroll due to staff restructuring carried out during last quarter of 2013 and second quarter of 2014 amounting to \$5.7 million and lower bonuses and other variable compensation provisions amounting to \$0.8 million. This was partially offset by salary increases amounting to \$5.0 million coupled with severance payment which amounted to \$0.4 million. In addition, this decrease was partially offset by an increase in software amortization amounting to \$1.0 million, consulting services related to tax projects amounting to \$0.9 million, higher employee meal and other expenses of \$0.6 million, lower capitalization costs amounting to \$0.4 million and higher occupancy expenses amounting to \$0.2 million.

In the Caribbean division, general and administrative expenses decreased by \$11.7 million, or 21.4%, to \$43.2 million in 2014, as compared to 2013. This decrease was mainly due to the adoption of SICAD and SICAD II as the reporting exchange rates in Venezuela amounting to \$16.8 million, coupled with a decrease in payroll cost due to staff restructurings carried out in the last quarter of 2013 and the second quarter of 2014 amounting to \$3.2 million, partially offset by salary increases, mainly due to Venezuela's inflation, amounting to \$5.1 million, higher bonuses and other variable compensation provisions amounting to \$1.8 million and severance payments of \$1.5 million.

In NOLAD, general and administrative expenses decreased by \$0.5 million, or 1.9%, to \$26.9 million in 2014, as compared to 2013. The decrease was mostly due to the depreciation of the Mexican peso against the U.S. dollar amounting to \$1.1 million, coupled with a decrease in payroll due to staff restructurings carried out during the last quarter of 2013 and the second quarter of 2014 amounting to \$1.4 million, partially offset by higher bonuses and other variable compensation provisions amounting to \$1.2 million, salary increases and severance payments amounting to \$0.8 million and \$0.8 million, respectively. In addition, the decrease is a result of higher management

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fees charged by McDonald's Corporation for services rendered to other markets that do not belong to Arcos Dorados, amounting to \$0.4 million and a decrease in other payroll costs and shared service center fees amounting to \$0.2 and \$0.1 million, respectively.

In SLAD, general and administrative expenses decreased by \$8.6 million, or 21.9%, to \$30.6 million in 2014, as compared to 2013. This decrease was mainly due to the depreciation of the Argentine *Peso* against the U.S. dollar amounting to \$9.2 million, coupled with a decrease in payroll costs due to staff restructurings carried out during the fourth quarter of 2013 and the second quarter of 2014 amounting to \$2.0 million and lower bonus provisions amounting to \$1.9 million. This was partially offset by salary increases linked to Argentina's inflation amounting to \$2.2 million and severance payments amounting to \$1.5 million. In addition, this decrease was offset by an increase in expatriate costs and travel expenses amounting to \$0.3 million and \$0.3 million, respectively, and increases in occupancy expenses and outside services amounting to \$0.2 million.

General and administrative expenses for Corporate and others decreased by \$18.8 million, or 18.0%, to \$85.2 million in 2014, as compared to 2013. This decrease was mostly due to the depreciation of the Argentine *Peso* against the U.S. dollar, as our corporate headquarters are located in Argentina, amounting to \$26.5 million, coupled with a decrease in payroll due to staff restructurings carried out during the last quarter of 2013 and the second quarter of 2014 amounting to \$5.6 million and lower bonuses and other variable compensation provisions amounting to \$8.0 million. This was more than offset by salary increases linked to Argentina's inflation, amounting to \$9.8 million and severance payments amounting to \$2.6 million, coupled with higher IT services costs amounting to \$8.9 million.

Other Operating Expenses, Net

Other operating expenses, net increased by \$80.4 million, to \$95.5 million in 2014, as compared to 2013. This increase was primarily attributable to the impairment of long-lived assets in Venezuela (\$45.2 million) and other countries (\$2.7 million), impairment of goodwill in Puerto Rico (\$ 2.0 million), write-down of certain inventories in Venezuela amounting to \$19.4 million, due to the impact of the currency exchange rate change on their net recoverable value (of which \$17.5 million was due to the adoption of SICAD and SICAD II), lower gain related with property sales (\$6.9 million) and lower gains resulting from the purchase of franchisee operated restaurants (\$3.8 million).

Operating Income

	For the Years Ended December 31,		% Increase (Decrease)
	2014	2013	
	(in thousands of U.S. dollars)		
Brazil	\$ 172,787	\$ 188,445	(8.3)%
Caribbean division	(88,711)	37,837	(334.5)
NOLAD	(6,484)	(5,314)	22.0
SLAD	67,885	84,324	(19.5)
Corporate and others and purchase price allocation	(74,620)	(76,770)	(2.8)
Total	70,857	228,522	(69.0)

Operating income decreased by \$157.7 million, or 69.0%, to \$70.9 million in 2014, as compared to 2013.

Net Interest Expense

Net interest expense decreased by \$15.4 million, or 17.5%, to \$72.8 million in 2014, as compared to 2013, mainly due to the losses incurred in 2013 in connection with the purchase, exchange and redemption of the 2019 notes totaling \$23.5 million, partially offset by \$3.9 million increase in interest payments due to higher average debt balances in 2014.

Loss from Derivative Instruments

Loss from derivative instruments decreased by \$3.5 million to \$0.7 million in 2014, as compared to \$4.1 million in 2013, primarily due to the unwinding of our cross-currency interest rate swaps (\$4.2 million) in 2013.

Foreign Currency Exchange Results

Foreign currency exchange results decreased by \$35.3 million, to a \$74.1 million loss in 2014, from \$38.8 million in 2013, mainly due to the adoption of SICAD and SICAD II as the reporting exchange rates in Venezuela, partially offset by the remeasurement of our bond debt denominated in Brazilian *reals* due to the depreciation of the exchange rate.

Other Non-Operating Expenses, Net

Other non-operating expenses, net decreased by \$1.0 million to a \$0.1 million loss in 2014, as compared to a \$0.8 million loss in 2013.

Income Tax Expense

Income tax expense decreased by \$10.2 million, from \$42.7 million in 2013 to \$32.5 million in 2014. Our consolidated effective tax rate decreased by 86.6 percentage points to (42.4)% in 2014, as compared to 2013, mainly due to the adoption of SICAD and SICAD II as the reporting exchange rates in Venezuela, neither of which had any related tax benefits.

Net Income Attributable to Non-controlling Interests

Net income attributable to non-controlling interests for 2014 increased by \$0.3 million when compared to 2013.

Net Income Attributable to Arcos Dorados Holdings Inc.

As a result of the foregoing, net (loss) income attributable to Arcos Dorados Holdings Inc. decreased by \$163.2 million, or 303.0%, to a loss of \$(109.3) million in 2014, as compared to 2013.

Year Ended December 31, 2013 Compared to Year Ended December 31, 2012

In January 2013, we made certain organizational changes to the structure of our geographical divisions in order to balance their relative weight in terms of number of restaurants and revenues. As a result of the reorganization effective January 1, 2013, Colombia and Venezuela became part of the Caribbean division with headquarters located in Colombia. For purposes of our annual report on Form 20-F for the year ended December 31, 2013, we restated the discussion of our financial condition and results of operations for fiscal year 2013 compared to fiscal year 2012 by applying the structure prevailing as of the date of our annual report on Form 20-F for the year ended December 31, 2013 on a retroactive basis.

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Set forth below are our results of operations for the years ended December 31, 2013 and 2012.

	For the Years Ended December 31,		% Increase (Decrease)
	2013	2012	
	(in thousands of U.S. dollars)		
Sales by Company-operated restaurants	\$ 3,859,883	\$ 3,634,371	6.2%
Revenues from franchised restaurants	173,427	163,023	6.4
Total revenues	4,033,310	3,797,394	6.2
Company-operated restaurant expenses:			
Food and paper	(1,350,515)	(1,269,146)	6.4
Payroll and employee benefits	(814,112)	(753,120)	8.1
Occupancy and other operating expenses	(1,055,188)	(984,004)	7.2
Royalty fees	(188,885)	(180,547)	4.6
Franchised restaurants – occupancy expenses	(63,273)	(56,057)	12.9
General and administrative expenses	(317,745)	(314,619)	1.0
Other operating expenses, net	(15,070)	(3,261)	362.1
Total operating costs and expenses	(3,804,788)	(3,560,754)	6.9
Operating income	228,522	236,640	(3.4)
Net interest expense	(88,156)	(54,247)	62.5
Loss from derivative instruments	(4,141)	(891)	364.8
Foreign currency exchange results	(38,783)	(18,420)	110.5
Other non-operating (expenses) income, net	(848)	(2,119)	(60.0)
Income before income taxes	96,594	160,963	(40.0)
Income tax expense	(42,722)	(46,375)	(7.9)
Net income	53,872	114,588	(53.0)
Less: Net income attributable to non-controlling interests	(18)	(256)	(93.0)
Net income attributable to Arcos Dorados Holdings Inc.	\$ 53,854	\$ 114,332	(52.9)

Set forth below is a summary of changes to our systemwide, Company-operated and franchised restaurant portfolios in 2013 and 2012.

Systemwide Restaurants	For the Years Ended December 31,	
	2013	2012
Systemwide restaurants at beginning of period	1,948	1,840
Restaurant openings	130	130
Restaurant closings	(16)	(22)
Systemwide restaurants at end of period	2,062	1,948

Company-operated Restaurants	For the Years Ended December 31,	
	2013	2012
Company-operated restaurants at beginning of period	1,453	1,358
Restaurant openings	95	99
Restaurant closings	(8)	(16)
Net conversions of franchised restaurants to Company-operated restaurants	(2)	12
Company-operated restaurants at end of period	1,538	1,453

Franchised Restaurants	For the Years Ended December 31,	
	2013	2012
Franchised restaurants at beginning of period	495	482
Restaurant openings	35	31
Restaurant closings	(8)	(6)
Net conversions of franchised restaurants to Company-operated restaurants	2	(12)
Franchised restaurants at end of period	524	495

Key Business Measures

We track our results of operations and manage our business by using three key business measures: comparable sales growth, average restaurant sales and sales growth. Unless otherwise stated, comparable sales growth, average restaurant sales and sales growth are presented on a systemwide basis.

Comparable Sales

	For the Year Ended December 31, 2013
Arcos Dorados	
Systemwide comparable sales growth	11.2%
Company-operated comparable sales growth	10.8
Franchised comparable sales growth	12.3
Systemwide Comparable Sales Growth by Division	
Brazil	6.6%
Caribbean division	19.6
NOLAD	(0.9)
SLAD	20.8
Company-operated Comparable Sales Growth by Division	
Brazil	6.6%
Caribbean division	16.3
NOLAD	(0.9)
SLAD	20.1
Franchised Comparable Sales Growth by Division	
Brazil	6.7%
Caribbean division	26.8
NOLAD	(1.0)
SLAD	26.5

Our comparable sales growth on a systemwide basis in 2013 was driven by the increase in average check, which resulted mainly from price increases.

Average Restaurant Sales

	For the Years Ended December 31,	
	2013	2012
	(in thousands of U.S. dollars)	
Systemwide average restaurant sales	\$ 2,611	\$ 2,603
Company-operated average restaurant sales	2,581	2,586
Franchised average restaurant sales	2,697	2,654

Our ARS increased slightly in 2013 because of comparable sales growth of 11.2%, which was mostly offset by the depreciation of most currencies in the Territories against the U.S. dollar.

Sales Growth

	For the Year Ended December 31, 2013	
	(in nominal terms)	(in constant currency)
Brazil	3.0%	13.9%
Caribbean division	10.3	21.3
NOLAD	4.7	2.6
SLAD	10.4	26.7
Total Systemwide Sales Growth	6.2%	16.7%

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In nominal terms, sales increased during 2013 due to comparable sales growth of 11.2% and the net addition of 222 restaurants systemwide since January 1, 2012. We had 1,538 Company-operated restaurants and 524 franchised restaurants as of December 31, 2013, compared to 1,453 Company-operated restaurants and 495 franchised restaurants as of December 31, 2012. This was partially offset by the negative impact of the depreciation of most currencies in the Territories against the U.S. dollar.

Revenues

	For the Years Ended		% Increase (Decrease)
	December 31, 2013	December 31, 2012	
	(in thousands of U.S. dollars)		
Sales by Company-operated Restaurants			
Brazil	\$ 1,755,716	\$ 1,717,761	2.2%
Caribbean division	780,675	706,990	10.4
NOLAD	388,246	364,588	6.5
SLAD	935,246	845,032	10.7
Total	3,859,883	3,634,371	6.2
Revenues from Franchised Restaurants			
Brazil	86,608	79,795	8.5%
Caribbean division	49,772	47,740	4.3
NOLAD	19,526	19,453	0.4
SLAD	17,521	16,035	9.3
Total	173,427	163,023	6.4
Total Revenues			
Brazil	1,842,324	1,797,556	2.5%
Caribbean division	830,447	754,730	10.0
NOLAD	407,772	384,041	6.2
SLAD	952,767	861,067	10.6
Total	\$ 4,033,310	\$ 3,797,394	6.2%

Sales by Company-operated Restaurants

Total sales by Company-operated restaurants increased by \$225.5 million, or 6.2%, from \$3,634.4 million in 2012 to \$3,859.9 million in 2013. The 10.8% growth in comparable sales, which resulted from a higher average check, caused sales to increase by \$391.2 million. In addition, sales by Company-operated restaurants increased by \$214.5 million as a result of 170 net restaurant openings and the conversion of 10 franchised restaurants into Company-operated restaurants since January 1, 2012. This was offset by \$380.2 million as a result of the depreciation of most currencies in the Territories against the U.S. dollar.

In Brazil, sales by Company-operated restaurants increased by \$38.0 million, or 2.2%, to \$1,755.7 million. This was a consequence of comparable sales growth of 6.6%, which contributed \$112.0 million to the increase in sales. Average check growth was the driver of comparable sales growth in Brazil. In addition, 94 net restaurant openings and the conversion of one franchised restaurant into a Company-operated restaurant since January 1, 2012 contributed \$111.3 million to the increase. Sales were negatively affected by the depreciation of the *real* against the U.S. dollar, which caused sales to decrease by \$185.4 million.

In the Caribbean division, sales by Company-operated restaurants increased by \$73.7 million, or 10.4%, to \$780.7 million. The main driver of this increase was 16.3% growth in comparable sales, which represented \$114.1 million. Average check growth was the driver of comparable sales growth and resulted from price increases. In addition, the net opening of 20 restaurants and the conversion of one franchised restaurant into a Company-operated restaurant since January 1, 2012 contributed \$26.0 million to the increase in sales. This was offset by the depreciation of local currencies in the Territories, which caused sales to decrease by \$66.5 million (mainly the depreciation of the Venezuelan *bolívar* from 5.30 *bolívars* per U.S. dollar to 6.30 *bolívars* per U.S. dollar).

In NOLAD, sales by Company-operated restaurants increased by \$23.7 million, or 6.5%, to \$388.2 million. This growth was mainly explained by 23 net restaurant openings and the conversion of 8 franchised restaurants into Company-operated restaurants since January 1, 2012, which resulted in a sales increase of \$19.9 million. In addition,



appreciation of local currencies caused sales to increase by \$6.9 million. A lower average check, resulting from a negative product mix change, caused comparable sales to decrease by 0.9%, negatively impacting sales by \$3.1 million.

In SLAD, sales by Company-operated restaurants increased by \$90.2 million, or 10.7%, to \$935.2 million. The 20.1% growth in comparable sales caused sales to increase by \$168.2 million due to a higher average check resulting from price increases. In addition, the net opening of 33 Company-operated restaurants since January 1, 2012 resulted in a sales increase of \$57.3 million. This was partially offset by the depreciation of most currencies in the region against the U.S. dollar, which offset the increase in sales by \$135.2 million.

Revenues from Franchised Restaurants

Our total revenues from franchised restaurants increased by \$10.4 million, or 6.4%, from \$163.0 million in 2012 to \$173.4 million in 2013. The main contributors to this increase were comparable sales growth of 12.3%, which resulted in an increase in revenues of \$21.7 million, and the net opening of 52 franchised restaurants since January 1, 2012, which was partially offset by the conversion of 10 franchised restaurants into Company-operated restaurants during the same period, which caused revenues from franchised restaurants to increase by \$7.0 million. Rental income as a percentage of sales remained unchanged from 2012 and therefore had no impact on the revenue increase. In 2013, 85% and 15% of revenues from franchised restaurants were earned on the basis of a percentage of sales and on a flat fee basis, respectively. In 2012, 71% and 29% of revenues from franchised restaurants were earned on the basis of a percentage of sales and on a flat fee basis, respectively. The depreciation of most currencies in the Territories against the U.S. dollar offset the increase in revenues by \$18.3 million.

In Brazil, revenues from franchised restaurants increased by \$6.8 million, or 8.5%, to \$86.6 million primarily as a result of 56 net franchised restaurant openings, which were partly offset by the conversion of one franchised restaurant into a Company-operated restaurant, since January 1, 2012, and comparable sales growth of 6.7%, which explained \$7.5 million and \$5.3 million of the increase, respectively. In addition, increased rental income (most of our franchise agreements provide for increases in rent when sales increase) and higher location fee income (charged to new franchisees) from new restaurant openings, resulted in increased revenues from franchised restaurants of \$3.1 million. This was partially offset by the depreciation of the *real* against the U.S. dollar by \$9.2 million.

In the Caribbean division, revenues from franchised restaurants increased by \$2.0 million, or 4.3%, to \$49.8 million. This increase was driven by comparable sales growth of 26.8%, resulting in a \$12.3 million increase. This was partially offset by the depreciation of the Venezuelan *bolívar*, amounting to \$6.6 million, lower rental income, amounting to \$3.2 million, and the impact from the net closing of 6 restaurants as well as the conversion of one franchised restaurant into a Company-operated restaurant since January 1, 2012 of \$0.6 million. Rental income was negatively affected, mainly by new Venezuelan governmental regulations on rental contracts, which imposed a limit on the rent that we can charge to lessees beginning in December 2013.

In NOLAD, revenues from franchised restaurants increased by \$0.1 million, or 0.4%, to \$19.5 million. This growth was a result of the appreciation of the Mexican *peso* against the U.S. dollar, contributing \$0.4 million, partially offset by a 1.0% decrease in comparable sales, the conversion of 8 franchised restaurants into Company-operated restaurants since January 1, 2012, amounting to \$0.2 million, and lower rental income, which caused revenues from franchised restaurants to decrease \$0.1 million.

In SLAD, revenues from franchised restaurants increased by \$1.5 million, or 9.3%, to \$17.5 million. This growth mainly resulted from a comparable sales growth of 26.5%, which accounted for \$4.2 million. In addition, the net openings of 2 restaurants since January 1, 2012 and higher rental income caused revenues to increase by \$0.1 million and \$0.1 million, respectively. The depreciation of the local currencies in Argentina and Chile against the U.S. dollar represented a decrease in revenues of \$3.0 million.

Operating Costs and Expenses

Food and Paper

Our total food and paper costs increased by \$81.4 million, or 6.4%, to \$1,350.5 million in 2013, as compared to 2012. As a percentage of our total sales by Company-operated restaurants, food and paper costs increased by 0.1 percentage points to 35.0%, primarily due to the higher cost of dollar-denominated inputs, especially in Venezuela.

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In Brazil, food and paper costs increased by \$2.0 million, or 0.4%, to \$553.3 million. As a percentage of the division's sales by Company-operated restaurants, food and paper costs decreased by 0.6 percentage points to 31.5%, primarily as a result of an average check increase that was higher than the increase in costs.

In the Caribbean division, food and paper costs increased by \$48.3 million, or 17.9%, to \$318.3 million. As a percentage of the division's sales by Company-operated restaurants, food and paper costs increased by 2.6 percentage points to 40.8%, mainly due to the higher cost of dollar-denominated inputs in Venezuela.

In NOLAD, food and paper costs increased by \$4.1 million, or 2.7%, to \$155.8 million. As a percentage of the division's sales by Company-operated restaurants, food and paper costs decreased by 1.5 percentage points to 40.1%, resulting primarily from price increases that were higher than the increase in costs throughout all markets, coupled with favorable product mix changes.

In SLAD, food and paper costs increased by \$27.0 million, or 9.1%, to \$323.1 million. As a percentage of the division's sales by Company-operated restaurants, food and paper costs decreased by 0.5 percentage points to 34.5%, mostly as a result of an average check increase that was higher than the increase in costs in Argentina.

Payroll and Employee Benefits

Our total payroll and employee benefits costs increased by \$61.0 million, or 8.1%, to \$814.1 million in 2013, as compared to 2012. As a percentage of our total sales by Company-operated restaurants, payroll and employee benefits costs increased 0.4 percentage points to 21.1%. This increase in payroll and employee benefits costs as a percentage of our total sales by Company-operated restaurants is mostly attributable to wage increases that outpaced our sales growth in several markets. Wages increased mostly due to government-mandated minimum wage increases in our major Territories.

In Brazil, payroll and employee benefits costs increased by \$21.3 million, or 6.0%, to \$376.7 million. As a percentage of the division's sales by Company-operated restaurants, payroll and employee benefits costs increased by 0.8 percentage points to 21.5% as a result of the government-mandated minimum wage increases above average check growth, coupled with the initial costs of the migration to a fixed-hour schedule and a decrease in operational efficiency. Operational efficiency is defined as the number of transactions (receipts issued by cashiers) per crew hour.

In the Caribbean division, payroll and employee benefits costs increased by \$13.5 million, or 9.4%, to \$157.1 million. As a percentage of the division's sales by Company-operated restaurants, payroll and employee benefits costs decreased by 0.2 percentage points to 20.1%, mainly as a result of average check growth being higher than salary increases.

In NOLAD, payroll and employee benefits costs increased by \$6.2 million, or 10.5%, to \$65.3 million. As a percentage of the division's sales by Company-operated restaurants, payroll and employee benefits costs increased 0.6 percentage points to 16.8% resulting from the average check increasing at a lower rate than wages in all markets. This was partially offset by an increase in operational efficiency.

In SLAD, payroll and employee benefits costs increased by \$20.0 million, or 10.2%, to \$214.9 million. As a percentage of the division's sales by Company-operated restaurants, payroll and employee benefits decreased by 0.1 percentage points to 23.0% as a result of an increase in operational efficiency in all markets.

Occupancy and Other Operating Expenses

Our total occupancy and other operating expenses increased by \$71.2 million, or 7.2%, to \$1,055.2 million in 2013, as compared to 2012. As a percentage of our total sales by Company-operated restaurants, occupancy and other operating expenses increased 0.3 percentage points to 27.3%, mainly due to an increase in depreciation and amortization and higher rent expense as a result of new restaurant openings.

In Brazil, occupancy and other operating expenses increased by \$12.9 million, or 2.7%, to \$496.3 million. As a percentage of the division's sales by Company-operated restaurants, occupancy and other operating expenses increased by 0.1 percentage points to 28.3% as a result of an increase in depreciation and amortization expenses.

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In the Caribbean division, occupancy and other operating expenses increased by \$18.7 million, or 9.5%, to \$215.0 million. As a percentage of the division's sales by Company-operated restaurants, occupancy and other operating expenses decreased by 0.2 percentage points to 27.5% due to cost increases that were lower than sales increases, mainly in Venezuela.

In NOLAD, occupancy and other operating expenses increased by \$8.1 million, or 6.7%, to \$128.8 million. As a percentage of the division's sales by Company-operated restaurants, occupancy and other operating expenses increased 0.1 percentage points to 33.2%, mainly due to the impact of the comparable sales decrease on minimum rent contracts.

In SLAD, occupancy and other operating expenses increased by \$28.3 million, or 13.4%, to \$239.6 million. As a percentage of the division's sales by Company-operated restaurants, occupancy and other operating expenses increased by 0.6 percentage points to 25.6%, mainly due to higher utilities costs in Argentina related to shortages of electricity and the need to utilize electricity generators, and depreciation and amortization.

Royalty Fees

Our total royalty fees increased by \$8.3 million, or 4.6%, to \$188.9 million in 2013, as compared to 2012. As a percentage of sales, royalty fees decreased by 0.1 percentage points to 4.9% due to the additional relief granted by McDonald's Corporation in Venezuela due to the economic environment prevailing in that country.

In Brazil, royalty fees increased by \$2.2 million, or 2.4%, to \$94.3 million in 2013, as compared to 2012, in line with the increase in sales by Company-operated restaurants.

In the Caribbean division, royalty fees increased by \$0.4 million, or 1.5%, to \$30.1 million in 2013, as compared to 2012. As a percentage of sales, royalty fees decreased by 0.3 percentage points due to the additional relief granted by McDonald's Corporation in Venezuela because of the economic environment prevailing in that country.

In NOLAD, royalty fees increased by \$1.2 million, or 6.8%, to \$18.7 million in 2013, as compared to 2012, in line with the increase in sales by Company-operated restaurants.

In SLAD, royalty fees increased by \$4.5 million, or 10.8%, to \$45.7 million in 2013, as compared to 2012. As a percentage of sales by Company-operated restaurants, royalty fees remained unchanged at 4.9%.

Franchised Restaurants—Occupancy Expenses

Occupancy expenses from franchised restaurants increased by \$7.2 million, or 12.9%, to \$63.3 million in 2013, as compared to 2012, primarily due to higher depreciation expenses for owned properties as well as higher rent expenses for leased properties as a consequence of the increase in sales generated by franchised restaurants.

In Brazil, occupancy expenses from franchised restaurants increased by \$5.1 million, or 15.7%, to \$37.9 million in 2013, as compared to 2012, primarily due to higher depreciation expenses for owned properties and increased rent expenses for leased properties as a consequence of the increase in sales from franchised restaurants.

In the Caribbean division, occupancy expenses from franchised restaurants remained unchanged at \$12.4 million. Increased rent expenses for leased properties as a consequence of the increase in sales from franchised restaurants were offset by the depreciation of Venezuelan *bolívar* against the U.S. dollar and the positive effect of new governmental regulations in Venezuela that imposed limits on rental prices beginning in December 2013.

In NOLAD, occupancy expenses from franchised restaurants increased by \$0.7 million, or 7.0%, to \$11.2 million in 2013, as compared to 2012, mainly due to reversal of allowances for doubtful accounts in Mexico in 2012 and higher rent expenses in Panama in 2013.

In SLAD, occupancy expenses from franchised restaurants increased by \$1.3 million, or 44.1%, to \$4.3 million in 2013, as compared to 2012. This resulted from the reversal of allowances for doubtful accounts in Chile in 2012 and increased rent expenses for leased properties as a consequence of the increase in sales from franchised restaurants in 2013.

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Set forth below are the margins for our franchised restaurants in 2013, as compared to 2012. The margin for our franchised restaurants is expressed as a percentage and is equal to the difference between revenues from franchised restaurants and occupancy expenses from franchised restaurants, divided by revenues from franchised restaurants.

	For the Years Ended December 31,	
	2013	2012
Brazil	56.2%	58.9%
Caribbean Division	75.1	74.1
NOLAD	42.9	46.4
SLAD	75.7	81.5
Total	63.5%	65.6%

General and Administrative Expenses

General and administrative expenses increased by \$3.1 million, or 1.0%, to \$317.7 million in 2013, as compared to 2012. This increase was mainly due to higher payroll costs as a result of salary increases linked to Argentina's inflation and new hiring, mainly in Brazil, due to our market expansion plan, which amounted to an aggregate of \$30.0 million. In addition, our long-term incentive plan explains a \$12.9 million increase in stock-based compensation expense, resulting from a gain of \$11.6 million recorded in 2012, compared to a loss of \$1.2 million in 2013 (net of the result of the total return equity swap transaction entered into in August 2012 with the objective of minimizing the impact of share price variation on our income statement). This was partially offset by the depreciation of most currencies in the Territories against the U.S. dollar, amounting to \$32.3 million, lower other compensation expense amounting to \$4.3 million (mainly due to the forfeitures of units granted under our Equity Incentive Plan), lower professional services expenses amounting to \$1.8 million and lower occupancy and other expenses, amounting to \$1.5 million.

In Brazil, general and administrative expenses decreased by \$0.7 million, or 0.7%, to \$92.3 million in 2013, as compared to 2012. The decrease resulted primarily from the depreciation of the *real* against the U.S. dollar amounting to \$9.7 million. The increase in general and administrative expenses as measured in local currency was a consequence of higher payroll costs as a result of salary increases and the hiring of employees to fill new positions, most of which were related to our expansion plan and higher professional services, which totaled \$8.9 million and \$2.7 million, respectively. This was partially offset by lower occupancy expenses, amounting to \$1.6 million, and higher capitalized costs linked to new openings expenses, which amounted to \$0.6 million.

In the Caribbean division, general and administrative expenses decreased by \$1.0 million, or 1.8%, to \$54.9 million in 2013, as compared to 2012. This decrease was mainly due to the depreciation of the Venezuelan *bolivar* against the U.S. dollar amounting to \$4.2 million. The increase in general and administrative expenses as measured in local currencies was mostly due to higher payroll costs of \$1.7 million, higher professional services in Venezuela as a consequence of the country's inflation, amounting to \$1.3 million, and higher moving expenses due to the relocation of the divisional office, amounting to \$1.0 million, partially offset by lower occupancy and other expenses, which amounted to \$0.7 million.

In NOLAD, general and administrative expenses increased by \$2.9 million, or 11.9%, to \$27.4 million in 2013, as compared to 2012. Higher payroll costs due to salary and headcount increases and severance payments accounted for \$2.7 million. In addition, the appreciation of the local currency in Mexico against the U.S. dollar contributed to a \$0.7 million increase in general and administrative expenses, partially offset by a \$0.5 million decrease in other expenses.

In SLAD, general and administrative expenses increased by \$2.2 million, or 5.9%, to \$39.2 million in 2013, as compared to 2012, primarily as a result of higher payroll costs and professional services, mainly in Argentina, due to its relatively high inflation levels, which explained \$5.8 million and \$1.0 million, respectively. This was partially offset by the depreciation of the Argentine *peso* against the U.S. dollar, which caused general and administrative expenses to decrease by \$4.6 million.

General and administrative expenses for Corporate and others decreased by \$0.3 million, or 0.3%, to \$103.9 million in 2013, as compared to 2012. This decrease was mainly due to the depreciation of the Argentine *peso* against the U.S. dollar, which explained \$14.5 million, lower professional services, amounting to \$6.7 million, and

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lower other compensation expense amounting to \$4.3 million (mainly due to the forfeitures of units granted under our Equity Incentive Plan). This was partially offset by higher payroll costs due to salary increases linked to Argentina's inflation, as our corporate headquarters are located in Argentina, and an increase in the headcount of our regional shared service center, replacing previously outsourced people, amounting to \$9.0 million and \$2.0 million, respectively. In addition, our long-term incentive plan explains a \$12.9 million increase in stock-based compensation expense, resulting from a gain of \$11.6 million recorded in 2012 compared to a loss of \$1.2 million in 2013 (net of the result of the total return equity swap transaction entered into in August 2012 with the objective of minimizing the impact of share price variation on our income statement). General and administrative expenses also increased by \$1.4 million due to higher software amortization.

Other Operating Expenses, Net

Other operating expenses, net increased by \$11.8 million, to \$15.1 million in 2013, as compared to 2012. This increase was primarily attributable to the recovery of Brazilian tax credits in 2012 totaling \$12.0 million.

Operating Income

	For the Years Ended		% Increase (Decrease)
	December 31,		
	2013	2012	
	(in thousands of U.S. dollars)		
Brazil	\$ 188,445	\$ 193,339	(2.5)%
Caribbean division	37,837	40,692	(7.0)
NOLAD	(5,314)	(5,557)	4.4
SLAD	84,324	74,824	12.7
Corporate and others and purchase price allocation	(76,770)	(66,658)	(15.2)
Total	\$ 228,522	\$ 236,640	(3.4)%

Operating income decreased by \$8.1 million, or 3.4%, to \$228.5 million in 2013, as compared to 2012.

Net Interest Expense

Net interest expense increased by \$33.9 million, or 62.5%, to \$88.2 million in 2013, as compared to 2012, mainly due to the losses incurred in 2013 in connection with the purchase, exchange and redemption of the 2019 notes totaling \$23.5 million, partially offset by lower accrued interest in 2013 for \$4.4 million as a consequence of these transactions, and increases in interest expense of \$8.2 million as a result of the issuance of the 2023 notes in September 2013, and \$1.4 million as a result of the issuances of the 2016 notes in April 2012 and July 2011.

Loss from Derivative Instruments

Loss from derivative instruments increased by \$3.3 million to \$4.1 million in 2013, as compared to \$0.9 million in 2012, primarily due to the unwinding of our cross-currency interest rate swaps (\$4.2 million).

Foreign Currency Exchange Results

Foreign currency exchange results decreased by \$20.4 million, to a \$38.8 million loss in 2013, mainly due to the loss incurred in remeasuring our net monetary asset position in Venezuela as a result of the devaluation of the official exchange rate that occurred in early 2013.

Other Non-Operating Expenses, Net

Other non-operating expenses, net decreased by \$1.3 million to a \$0.9 million loss in 2013, as compared to a \$2.1 million loss in 2012.

Income Tax Expense

Income tax expense decreased by \$3.7 million, from \$46.4 million in 2012 to \$42.7 million in 2013. Our consolidated effective tax rate increased by 15.4 percentage points to 44.2% in 2013, as compared to 2012, mainly as a result of the one-time charges related to the redemption of the 2019 notes and the loss incurred as a result of the devaluation in Venezuela, both of which had no related tax benefits.

Net Income Attributable to Non-controlling Interests

Net income attributable to non-controlling interests for 2013 increased by \$0.2 million when compared to 2012.

Net Income Attributable to Arcos Dorados Holdings Inc.

As a result of the foregoing, net income attributable to Arcos Dorados Holdings Inc. decreased by \$60.5 million, or 52.9%, to \$53.9 million in 2013, as compared to 2012.

B. Liquidity and Capital Resources

Our financial condition and liquidity is and will continue to be influenced by a variety of factors, including:

- our ability to generate cash flows from our operations;
- the level of our outstanding indebtedness and the interest we pay on this indebtedness;
- our dividend policy;
- changes in exchange rates which will impact our generation of cash flows from operations when measured in U.S. dollars; and
- our capital expenditure requirements.

Under the MFAs, we are required to agree with McDonald's on a restaurant opening plan and a reinvestment plan for each three-year period during the term of the MFAs. The restaurant opening plan specifies the number and type of new restaurants to be opened in the Territories during the applicable three-year period, while the reinvestment plan specifies the amount we must spend reimaging or upgrading restaurants during the applicable three-year period. As part of the reinvestment plan with respect to the three-year period that commenced on January 1, 2014, we must reinvest an aggregate of at least \$180 million in the Territories. In addition, we have committed to open 250 new restaurants during the current three-year restaurant opening plan. We estimate that the cost to comply with our restaurant opening commitments under the MFAs from 2014 through 2016 will be between \$175 million and \$350 million, depending on, among other factors, the type and location of restaurants we open. We expect to fund these commitments using cash flow from operations and possible future debt and/or equity financings. However, we have submitted a proposal to McDonald's to amend the 2014-2016 opening and reinvestment plans, in order to adjust these plans to the current economic realities of the region. No assurances can be given that we will be able to come to an agreement with McDonald's on an amendment to these plans.

Our management believes in our ability to obtain the sources of liquidity and capital resources that are necessary in this challenging economic environment, and also believes that our liquidity and capital resources, including working capital, are adequate for our present requirements and business operations and will be adequate to satisfy our presently anticipated requirements during at least the next twelve months for working capital, capital expenditures and other corporate needs.

Overview

Net cash provided by operations was \$193.1 million in 2014, compared to \$217.0 million in 2013. Our investing activities program decreased by \$141.7 million in 2014 to \$169.0 million. Cash provided by financing activities decreased by \$101.1 million, from an inflow of \$102.3 million in 2013 to an inflow of \$1.2 million in 2014. This was mainly as a result of the issuance of the 2023 notes for \$378.4 million in 2013 and higher dividend payments in 2014. This was partially offset by an increase related to the purchase and call of the 2019 notes of \$237.0 million and net payment of derivative instruments of \$10.0 million in 2013 and higher issuance of other long-term debt and short-term borrowings in 2014.

Net cash provided by operations was \$217.0 million in 2013, compared to \$230.1 million in 2012. Our investing activities program increased by \$4.2 million in 2013 to \$310.7 million. Cash provided by financing activities increased by \$11.7 million, from an inflow of \$90.6 million in 2012 to an inflow of \$102.3 million in 2013. This was mainly as a result of the issuance of the 2023 notes for \$378.4 million, higher issuance of short-term debt for \$8.9 million, higher issuance of long-term debt for \$5.4 million and lower dividend payments of \$12.5

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million. This was partially offset by a decrease related to the issuance of the 2016 notes of \$149.7 million, higher net payments of derivative instruments of \$5.7 million and the purchase and call of 2019 notes for \$237.0 million in 2013.

At December 31, 2014, our total financial debt was \$801.2 million, consisting of \$32.5 million in short-term debt, \$767.2 million in long-term debt (of which \$469.0 million related to the 2023 notes, including the original issue discount, and \$255.0 million related to the 2016 notes), and \$1.4 million related to the fair market value of our outstanding derivative instruments (net of the asset portion amounting to \$9.5 million).

At December 31, 2013, our total financial debt was \$785.0 million, consisting of \$7.5 million in short-term debt, \$775.9 million in long-term debt (of which \$468.5 million related to the 2023 notes, including the original issue discount, and \$287.5 million related to the 2016 notes), and \$1.6 million related to the fair market value of our outstanding derivative instruments (net of the asset portion amounting to \$0.5 million).

Cash and cash equivalents was \$139.0 million at December 31, 2014 and \$175.6 million at December 31, 2013.

Comparative Cash Flows

The following table sets forth our cash flows for the periods indicated:

	For the Years Ended December 31,		
	2014	2013	2012
	(in thousands of U.S. dollars)		
Net cash provided by operating activities	\$ 193,091	\$ 217,014	\$ 230,113
Net cash used in investing activities	(168,964)	(310,655)	(306,421)
Net cash provided by financing activities	1,184	102,302	90,646
Effect of exchange rate changes on cash and cash equivalents	(61,929)	(17,864)	(5,788)
(Decrease) increase in cash and cash equivalents	\$ (36,618)	\$ (9,203)	\$ 8,550

Operating Activities

	For the Years Ended December 31,		
	2014	2013	2012
	(in thousands of U.S. dollars)		
Net (loss) income attributable to Arcos Dorados Holdings Inc.	\$ (109,333)	\$ 53,854	\$ 114,332
Non-cash charges and credits	260,036	186,980	131,958
Changes in assets and liabilities	42,388	(23,820)	(16,177)
Net cash provided by operating activities	\$ 193,091	\$ 217,014	\$ 230,113

For the year ended December 31, 2014, net cash provided by operating activities was \$193.1 million, compared to \$217.0 million in 2013. The \$23.9 million decrease is mainly attributable to lower net income adjusted for non-cash charges (\$90.1 million) partially offset by a positive change in assets and liabilities (\$66.2 million).

For the year ended December 31, 2013, net cash provided by operating activities was \$217.0 million, compared to \$230.1 million in 2012. The \$13.1 million decrease is mainly attributable to lower net income adjusted for non-cash charges (\$5.5 million) and to a negative change in assets and liabilities (\$7.6 million).

Investing Activities

New restaurant investments are primarily concentrated in markets with opportunities for long-term growth and returns on investment above a pre-defined threshold that is significantly above our cost of capital. Average development costs vary widely by market depending on the types of restaurants built and the real estate and construction costs within each market and are affected by foreign currency fluctuations. These costs, which include land, buildings and equipment, are managed through the use of optimally sized restaurants, construction and design efficiencies and the leveraging of best practices.

The following table presents our cash used in investing activities by type:

	For the Years Ended December 31,		
	2014	2013	2012
	(in thousands of U.S. dollars)		
Property and equipment expenditures	\$ (169,813)	\$ (313,462)	\$ (294,478)
Purchases of restaurant businesses paid at acquisition date	(825)	(324)	(6,004)
Proceeds from sales of property and equipment	3,237	7,751	6,643
Proceeds from sale of restaurant businesses	1,938	6,452	—
Loans to related parties	(2,500)	(2,000)	(7,000)
Others, net	(1,001)	(9,072)	(5,582)
Net cash used in investing activities	\$ (168,964)	\$ (310,655)	\$ (306,421)

The following table presents our property and equipment expenditures by type:

	For the Years Ended December 31,		
	2014	2013	2012
	(in thousands of U.S. dollars)		
New restaurants	\$ 96,798	\$ 157,901	\$ 177,329
Existing restaurants	53,887	63,421	79,717
Others(1)	19,128	92,140	37,432
Total property and equipment expenditures	\$ 169,813	\$ 313,462	\$ 294,478

(1) Primarily corporate equipment and other office related expenditures. For 2013, includes a real estate purchase in Venezuela.

In 2014, net cash used in investing activities was \$169.0 million, compared to \$310.7 million in 2013. This \$141.7 million decrease was primarily attributable to lower property and equipment expenditures (\$143.6 million) and lower other investing activities (\$8.1 million), partially offset by lower proceeds from the sale of restaurant businesses and property and equipment (totaling \$9.0 million), higher purchases of restaurant businesses (\$0.5 million) and higher loans granted to related parties (\$0.5 million).

Property and equipment expenditures decreased by \$143.6 million, from \$313.5 million in 2013 to \$169.8 million in 2014. The decrease in property and equipment expenditures is explained by a decrease in other property and equipment expenditures totaling \$73.0 million, primarily due to a real estate purchase in 2013 and a lower investment in new restaurants (\$61.1 million) as well as in existing restaurants (\$9.5 million), mainly due to the depreciation of local currencies against the U.S. dollar. In 2014, we opened 82 restaurants and closed 23 restaurants.

Proceeds from sales of restaurant businesses decreased by \$4.5 million. In 2013, there were several conversions of company-operated restaurants into franchised restaurants, mainly in Venezuela and Argentina.

Proceeds from sales of property and equipment decreased by \$4.5 million to \$3.2 million in 2014, as compared to 2013, primarily as a consequence of lower sales, mainly in Brazil, Mexico and Chile (\$1.0 million, \$1.3 million and \$1.8 million, respectively).

In addition, in 2014 and 2013 we used \$0.8 million and \$0.3 million, respectively, to convert franchised restaurants into Company-operated restaurants. We paid for purchases in Puerto Rico in 2014 (\$0.8 million) and a purchase in Chile in 2013 (\$0.3 million).

In 2013, net cash used in investing activities was \$310.7 million, compared to \$306.4 million in 2012. This \$4.2 million increase was primarily attributable to higher property and equipment expenditures (\$19.0 million), partially offset by higher proceeds from the sale of restaurant businesses and property and equipment (totaling \$7.6 million), lower purchases of restaurant businesses (\$5.7 million) and lower loans granted to related parties (\$5.0 million).

Property and equipment expenditures increased by \$19.0 million, from \$294.5 million in 2012 to \$313.5 million in 2013. The increase in property and equipment expenditures is explained by an increase in other property and equipment expenditures totaling \$54.7 million, primarily due to a real estate purchase in Venezuela. This increase

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was partially offset by a lower investment in new restaurants (\$19.4 million) as well as in existing restaurants (\$16.3 million), mainly due to the depreciation of local currencies against the U.S. dollar. In 2013, we opened 130 restaurants and closed 16 restaurants.

Proceeds from sales of restaurant businesses reached \$6.5 million in 2013, compared to no proceeds in 2012, mainly as a result of the conversion of company-operated restaurants into franchised restaurants in Venezuela and Argentina.

Proceeds from sales of property and equipment increased by \$1.1 million to \$7.8 million in 2013, as compared to 2012, primarily as a consequence of higher sales, mainly in Chile and Mexico (\$1.7 million and \$0.9 million, respectively), partially offset by lower sales in Argentina and Brazil (\$0.8 million and \$0.6 million, respectively).

Financing Activities

	For the Years Ended December 31,		
	2014	2013	2012
	(in thousands of U.S. dollars)		
Issuance of 2023 notes	—	378,409	—
Distribution of dividends to our shareholders	(50,036)	(37,527)	(50,036)
Net payment of derivative instruments	—	(9,975)	(4,322)
Purchase and call of 2019 notes	—	(237,006)	—
Issuance of 2016 notes	—	—	149,658
Issuance of other long-term debt	33,267	8,483	3,073
Net short-term borrowings	26,296	8,743	(157)
Other financing activities	(8,343)	(8,825)	(7,570)
Net cash provided by financing activities	1,184	102,302	90,646

Net Cash Provided by Financing Activities

Net cash provided by financing activities was \$1.2 million in 2014, compared to \$102.3 million provided in 2013. The \$101.1 million decrease in the amount of cash provided by financing activities was primarily attributable to the issuance of the 2023 notes for \$378.4 million in 2013 and higher dividend payments for \$12.5 million, partially offset by the purchase and call of 2019 notes in 2013 for \$237.0 million, higher issuance of short-term debt for \$17.6 million, higher issuance of long-term debt for \$24.8 million, lower payments of derivative instruments for \$10.0 million and lower other financing activities for \$0.5 million.

Net cash provided by financing activities was \$102.3 million in 2013, compared to \$90.6 million provided in 2012. The \$11.7 million increase in the amount of cash provided by financing activities was primarily attributable to the issuance of the 2023 notes for \$378.4 million, lower dividend payments for \$12.5 million, higher issuance of short-term debt for \$8.9 million and higher issuance of long-term debt for \$5.4 million, partially offset by the issuance of the 2016 notes for \$149.7 million in 2012, the purchase and call of 2019 notes in 2013 for \$237.0 million and higher payments of derivative instruments for \$5.7 million.

Revolving Credit Facility

On August 3, 2011, our subsidiary, Arcos Dorados B.V., entered into a committed revolving credit facility with Bank of America, N.A., as lender, for \$50 million. On August 2, 2013, Arcos Dorados B.V. renewed the revolving credit facility for \$75 million maturing on August 3, 2015. The obligations of Arcos Dorados B.V. under the revolving credit facility are jointly and severally guaranteed by certain of our subsidiaries on an unconditional basis. This revolving credit facility will permit us to borrow money from time to time to cover our working capital needs and for other lawful general corporate purposes.

Each loan made to Arcos Dorados B.V. under the revolving credit facility will bear interest at an annual rate equal to LIBOR plus 2.50%. Interest on each loan will be payable on the date of any prepayment, at maturity and on a quarterly basis, beginning with the date that is three calendar months following the date the loan is made.

The revolving credit facility includes customary covenants including, among others, restrictions on the ability of Arcos Dorados B.V., the guarantors and certain material subsidiaries to: (i) incur liens, (ii) enter into any merger, consolidation or amalgamation; (iii) sell, assign, lease or transfer all or substantially all of the borrower's or

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guarantor's business or property; (iv) enter into transactions with affiliates; (v) engage in substantially different lines of business; engage in transactions that violate certain anti-terrorism laws; and (vii) permit the consolidated net indebtedness to EBITDA ratio to be greater than 3.0 to 1 (previously 2.5 to 1) on the last day of any fiscal quarter of the borrower.

As a result of the Company's decision to change the exchange rates used for remeasurement of its bolivar-denominated assets and liabilities and operating results in Venezuela, we were not in compliance with the indebtedness to EBITDA ratio under the revolving credit facility as of June 30, 2014. However, on July 28, 2014, we reached an agreement with Bank of America, N.A. to change the consolidated net indebtedness to EBITDA ratio from 2.5 to 1 to 3.0 to 1. We are currently in compliance with the revised covenant.

The revolving credit facility provides for customary events of default, which, if any of them occurs, would permit or require the lender to terminate its obligation to provide loans under the revolving credit facility and/or to declare all sums outstanding under the loan documents immediately due and payable.

As of December 31, 2014, no amounts were due on the revolving credit facility.

2016 Notes

In July 2011, we issued R\$400 million aggregate principal amount of notes due 2016 bearing interest of 10.25% per year, payable in U.S. dollars, which we refer to as the 2016 notes. In addition, on April 24, 2012, we issued an additional R\$275 million aggregate principal amount of the 2016 notes at a price of 102.529%. The 2016 notes are denominated in *reais*, but payment of principal and interest will be made in U.S. dollars. The 2016 notes mature on July 13, 2016. Interest is paid semi-annually in arrears on January 13 and July 13 of each year.

The 2016 notes are fully and unconditionally guaranteed on a senior unsecured basis by certain of our subsidiaries. The 2016 notes and guarantees (i) are senior unsecured obligations and rank equal in right of payment with all of our and the guarantors' existing and future senior unsecured indebtedness; (ii) will be effectively junior to all of our and the guarantors' existing and future secured indebtedness to the extent of the value of our assets securing that indebtedness; and (iii) are structurally subordinated to all obligations of our subsidiaries that are not guarantors.

The indenture governing the 2016 notes limits our and our subsidiaries' ability to, among other things, (i) create liens; (ii) enter into sale and lease-back transactions; and (iii) consolidate, merge or transfer assets. These covenants are subject to important qualifications and exceptions. The indenture governing the 2016 notes also provides for events of default, which, if any of them occurs, would permit or require the principal, premium, if any, and interest on all of the then-outstanding 2016 notes to be due and payable immediately.

The 2016 notes are listed on the Luxembourg Stock Exchange and trade on the Euro MTF Market.

We may issue additional 2016 notes from time to time pursuant to the indenture governing the 2016 notes.

2019 Notes

In October 2009, our subsidiary, Arcos Dorados B.V., issued senior notes for an aggregate principal amount of \$450 million under an indenture dated October 1, 2009, which we refer to as the 2019 notes. Prior to their redemption in December 2013, the 2019 notes were scheduled to mature on October 1, 2019 and bore interest of 7.5% per year. Interest was paid semiannually on April 1 and October 1.

The 2019 notes were redeemable at the option of Arcos Dorados B.V. at any time at the applicable redemption prices set forth in the indenture. On June 13, 2011, Arcos Dorados B.V. exercised its option to redeem on July 18, 2011 a total of \$141.4 million aggregate principal amount of the 2019 notes at a redemption price of 107.5% of the principal amount plus accrued and unpaid interest from April 1, 2011 to the redemption date. Following the redemption, a total of \$308.6 million of the aggregate principal amount of the 2019 notes remained outstanding.

On September 10, 2013, we announced the commencement of a tender offer, exchange offer and consent solicitation to purchase for cash any and all of the properly tendered (and not validly withdrawn) outstanding 2019 notes of Arcos Dorados B.V. (the "Tender Offer") and to exchange for the 2023 notes (described below) any and all

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of Arcos Dorados B.V.'s properly tendered (and not validly withdrawn) 2019 notes (the "Exchange Offer," and together with the Tender Offer, the "Tender and Exchange Offer").

In conjunction with the Tender and Exchange Offer, Arcos Dorados B.V. solicited consents to certain proposed amendments to the indenture under which the 2019 notes were issued. The proposed amendments eliminated Arcos Dorados B.V.'s obligations to comply with substantially all of the restrictive covenants contained in the indenture governing the 2019 notes. Adoption of the proposed amendments required the consent of holders of 2019 notes representing at least a majority in aggregate principal amount of the outstanding 2019 notes held by persons other than Arcos Dorados B.V. and its affiliates. Each holder tendering 2019 notes that were not validly withdrawn was deemed to have consented to the proposed amendments.

As a result of the Tender and Exchange Offer, we canceled \$118.4 million of the 2019 notes pursuant to the Tender Offer and \$90.0 million of the 2019 notes pursuant to the Exchange Offer on September 27, 2013. We subsequently canceled \$0.5 million of the 2019 notes pursuant to the Exchange Offer on October 9, 2013.

On December 17, 2013, Arcos Dorados B.V. exercised its option to redeem all (\$99.8 million) of the outstanding principal amount of the 2019 notes at a redemption price of 109.129% of the principal amount plus accrued and unpaid interest to the redemption date. The aggregate amount paid to redeem the notes was \$108.9 million, plus accrued and unpaid interest to the redemption date. Following the redemption, there are no 2019 notes outstanding.

See Note 11 to our consolidated financial statements for details about the impact of the aforementioned transaction on our income statement.

2023 Notes

In September 2013, we issued senior notes for an aggregate principal amount of \$473.8 million under an indenture dated September 27, 2013, which we refer to as the 2023 notes. The total aggregate principal amount of the 2023 notes consists of \$375 million issued for cash and \$98.8 million issued in exchange for 2019 notes. The 2023 notes mature on September 27, 2023 and bear interest of 6.625% per year. Interest is paid semiannually on March 27 and September 27. The proceeds from the issuance of the 2023 notes were used to pay the principal and premium on the 2019 notes in connection with the Tender and Exchange Offer, to repay certain of the short-term indebtedness we used to have with Banco Itaú BBA S.A., to unwind a cross-currency interest rate swap with Bank of America, N.A. and for general corporate purposes.

The 2023 notes are redeemable at our option at any time at the applicable redemption price set forth in the indenture.

The 2023 notes are fully and unconditionally guaranteed on a senior unsecured basis by certain of our subsidiaries. The 2023 notes and guarantees (i) are senior unsecured obligations and rank equal in right of payment with all of our and the guarantors' existing and future senior unsecured indebtedness; (ii) will be effectively junior to all of our and the guarantors' existing and future secured indebtedness to the extent of the value of our assets securing that indebtedness; and (iii) are structurally subordinated to all obligations of our subsidiaries that are not guarantors.

The indenture governing the 2023 notes limits our and our subsidiaries' ability to, among other things, (i) create liens; (ii) enter into sale and lease-back transactions; and (iii) consolidate, merge or transfer assets. These covenants are subject to important qualifications and exceptions. The indenture governing the 2023 notes also provides for events of default, which, if any of them occurs, would permit or require the principal, premium, if any, and interest on all of the then-outstanding 2023 notes to be due and payable immediately.

The 2023 notes are listed on the Luxembourg Stock Exchange and trade on the Euro MTF Market.

We may issue additional 2023 notes from time to time pursuant to the indenture governing the 2023 notes.

C. Research and Development, Patents and Licenses, etc.

We have not had significant research and development activities for the past three years because we rely primarily on McDonald's research and development. McDonald's operates research and development facilities in

the United States, Europe and Asia, and independent suppliers also conduct research activities that benefit McDonald's and us. Nevertheless, we have developed certain menu items, such as bone-in-chicken with honey sauce in Colombia, *Favoritos de la Copa* in Brazil, Angus Habanero and churros in Mexico to better tailor our product offerings to local tastes and to provide our customers with additional food options.

D. Trend Information

Our business and results of operations have recently experienced the following trends, which we expect will continue in the near term:

- *Social upward mobility in Latin America and the Caribbean:* Historically, our sales have benefited, and we expect to continue to benefit, from our Territories' population size, younger age profile and improving socio-economic conditions when compared to more developed markets. This has led to a modernization of consumption patterns and increased affordability of our products across socio-economic segments, leading to greater demand for our products. While consumer behavior will continue to be cyclical and dependent on macroeconomic activity, we expect to continue to benefit from this trend in the long term.
- *Decline in free time:* More single-parent and dual-earner households have increased the demand for the convenience offered by eating out and takeout food.
- *Product offerings:* Our beverages, core meals, desserts, breakfast, reduced calorie and sodium products, and value menu item offerings have been popular among customers and—combined with our revenue management—have helped us remain relevant with our customers.
- *Increased competition in some markets:* The popularity of the QSR concept in Latin America has attracted new competitors (especially in Brazil). Even though we have been able to maintain market share in these markets, we have seen a reduction in pricing flexibility and have increased the focus of our marketing efforts on value offerings.
- *Macroeconomic deterioration and increasing uncertainty in Latin America and the Caribbean.* Our business and results of operations have been impacted by increasingly negative macroeconomic and consumer trends in some of our main markets. The lower rate of economic growth and reduced rates of consumption are expected to continue in the short term.
- *Inflationary environment:* Over the last few years, we have been able through our revenue management strategy to partially mitigate cost increase tied to inflation. However, inflation has been, and will continue to be, an important factor affecting our results of operations, specifically impacting our labor costs, food and paper costs, occupancy and other operating expenses and general administrative expenses.
- *Controlled general and administrative costs to support future growth:* Our business grew at a very rapid pace during our first years of operation and we experienced increasing general and administrative expenses in order to support and prepare for our future growth. However, during the past two years, general and administrative expenses decreased by 83 basis points as a percentage of total revenues and we expect this trend to continue in the near future.
- *Increased volatility of foreign exchange rates and impact of currency controls:* Our results of operations have been impacted by increased volatility in foreign exchange rates in many of the Territories, particularly the significant devaluation of local currencies against the U.S. dollar, as well as currency controls in Venezuela. We expect that foreign exchange rates will continue to be an important factor affecting our foreign currency exchange results and the "Accumulated other comprehensive loss" component of shareholders' equity and, consequently, our results of operations and financial condition. In addition, the currency controls in Venezuela have also negatively impacted our business and results of operations. See "Item 3. Key Information—A. Selected Financial Data—Exchange Rates and Exchange Controls." See Note 26 to our consolidated financial statements for details about the announcements made by the Venezuelan government subsequent to December 31, 2014.

E. Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

F. Tabular Disclosure of Contractual Obligations

The following table presents information relating to our contractual obligations as of December 31, 2014.

Contractual Obligations	Payment Due by Period						
	Total	2015	2016	2017	2018	2019	Thereafter
	(in thousands of U.S. dollars)						
Capital lease obligations(1)	\$ 7,761	\$ 1,543	\$ 1,155	\$ 610	\$ 579	\$ 576	\$ 3,298
Operating lease obligations	1,054,493	150,007	135,544	124,757	107,260	90,674	446,251
Contractual purchase obligations(2)	224,848	162,380	29,618	14,456	10,187	8,207	—
2016 notes(1)	306,057	26,034	280,023	—	—	—	—
2023 notes(1)	756,250	31,387	31,387	31,387	31,387	31,387	599,315
Other long-term borrowings(1)	56,168	8,531	5,450	5,705	6,539	6,158	23,785
Derivative instruments	1,441	10,958	2,343	1,955	1,630	1,366	(16,811)
Total	\$ 2,407,018	\$ 390,840	\$ 485,520	\$ 178,870	\$ 157,582	\$ 138,368	\$ 1,055,838

(1) Includes interest payments.

(2) Includes automatic annual renewals, which contains only enforceable and legally binding unconditional obligations corresponding to prevailing agreements without considering future undefined renewals when the agreement is cancellable by us. This type of purchase obligation represents \$81.4 million of contractual obligations for 2015 only.

The table set forth above excludes projected payments on our restaurant opening and reinvestment plans pursuant to the MFAs in respect of which we do not yet have any contractual commitments.

G. Safe Harbor

See “Forward-Looking Statements.”

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. Directors and Senior Management

Board of Directors

Our Board of Directors currently consists of nine members, four of whom are independent directors. We have one additional seat on the Board of Directors which is currently vacant, as further described below. In case of a tie vote by the Board of Directors, the Chairman will have the deciding vote. Our memorandum and articles of association authorize us to have eight members, and the number of authorized members may be increased or decreased by a resolution of shareholders or by a resolution of directors. On November 1, 2012 and August 2, 2013, respectively, our Board of Directors passed resolutions increasing the number of authorized members of our Board of Directors to nine and ten, respectively.

Pursuant to our articles of association, our Board of Directors is divided into three classes. There is no distinction in the voting or other powers and authorities of directors of different classes. The members of each class serve staggered, three-year terms. Upon the expiration of the term of a class of directors, directors in that class will be elected for three-year terms at the annual meeting of shareholders in the year in which their term expires. At our most recent annual general meeting of shareholders, held on April 27, 2015, our shareholders re-elected Mr. Staton and Mr. Elias Ayub to serve as Class I directors. Mr. Lemonnier did not stand for reelection, since he decided to resign as CFO of the Company.

The classes are currently composed as follows:

- Mr. Hernández-Artigas, Mrs. Franqui and Mr. Ramírez are Class II directors, whose term will expire at the annual meeting of shareholders to be held in 2016;
- Mr. Alonso, Mr. Chu, Mr. Vélez and Mr. Fernández are Class III directors, whose term will expire at the annual meeting of shareholders to be held in 2017; and

- Mr. Staton and Mr. Elias Ayub are Class I directors, whose term will expire at the annual meeting of shareholders to be held in 2018;

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Any additional directorships resulting from an increase in the number of directors and any directors elected to fill vacancies on the board will be distributed among the three classes so that, as nearly as possible, each class will consist of one third of our directors. This classification of our Board of Directors may have the effect of delaying or preventing changes in control of our company. Any director may be removed, with or without cause, by a resolution of shareholders or a resolution of directors. Our directors do not have a retirement age requirement under our memorandum and articles of association.

The following table presents the names of the members of our Board of Directors:

Name	Position	Age
Woods Staton	Chairman and CEO	65
Sergio Alonso	Chief Operating Officer	52
Annette Franqui	Director	53
Carlos Hernández-Artigas	Director	51
Michael Chu	Director	66
José Alberto Vélez	Director	65
Alfredo Elias Ayub	Director	65
Alejandro Ramírez Magaña	Director	42
José Fernández	Director	53

The following is a brief summary of the business experience of our directors. Unless otherwise indicated, the current business addresses for our directors is Roque Saenz Peña 432, Olivos, Buenos Aires, Argentina (B1636 FFB) and Juncal 1408, Oficina 404, CP 11000, Montevideo, Uruguay.

Woods Staton. Mr. Staton is our CEO and Chairman of the Board and is a member of the Compensation and Nomination Committee. Mr. Staton holds an MBA from IMD in Switzerland and a Bachelor's degree in economics from Emory University. He was McDonald's joint venture partner in Argentina for over 20 years and served as the President of SLAD beginning in 2004. Mr. Staton is Chairman of the Board of Ronald McDonald House Charities Latin America, dedicated to supporting families of children fighting pediatric cancer. Mr. Staton is a member of the International Advisory Board of Itaú Unibanco Holding S.A. Mr. Staton is also a member of the founding family and served as the CEO and Chairman of the board of directors of Panamerican Beverages, Inc., or Panamco, which was Coca-Cola's largest bottler in Latin America.

Sergio Alonso. Mr. Alonso is our Chief Operating Officer and was, prior to his appointment as such, McDonald's Divisional President in Brazil. He graduated with a degree in Accounting from Universidad de Buenos Aires in 1986. He began his career at McDonald's as Accounting Manager and subsequently moved to the operations area, eventually being promoted to Vice President of Operations in 6 years. From 1999 until 2003, Mr. Alonso was involved in the development of the Aroma Café brand in Argentina.

Annette Franqui. Mrs. Franqui has been a member of our board of directors since 2007 and is a member of the Compensation and Nomination Committee. She graduated with a Bachelor of Science degree in Economics from the Wharton School of the University of Pennsylvania in 1984 and an MBA from the Stanford Graduate School of Business in 1986. She is also a Chartered Financial Analyst. Mrs. Franqui began her career in 1986 with J.P. Morgan and joined Goldman Sachs in 1989. In 1994, she returned to J.P. Morgan where she became a Managing Director and the Head of the Latin America Research Department. Mrs. Franqui joined Panamco in 2001 as Vice President of Corporate Finance and became the Chief Financial Officer in 2002. She is one of the founding partners of Forrestal Capital and is currently a board member of Wireless WERX International, Axionlog Cold Solutions, Medina Medical and Latam LLC, among other companies.

Carlos Hernández-Artigas. Mr. Hernández-Artigas has been a member of our board of directors since 2007 and is a member of the Compensation and Nomination Committee. He graduated from Universidad Panamericana, Escuela de Derecho in 1987 and University of Texas at Austin, School of Law in 1988. He received an MBA from IPADE in Mexico City in 1996. Mr. Hernández-Artigas worked as a lawyer for several years in Mexico and as a foreign attorney in Dallas, Texas and New York. He served as the General Counsel, Chief Legal Officer and

Secretary of Panamco for ten years. He is one of the founding partners of Forrestral Capital and is currently a board member of several companies, including Wireless WERX International, Axionlog Cold Solutions and Latam LLC.

Michael Chu. Mr. Chu has been an independent member of our board of directors since April 2011 and is a member of our Audit Committee. He graduated with honors from Dartmouth College in 1968 and received an M.B.A. with highest distinction from the Harvard Business School in 1976. From 1989 to 1993, Mr. Chu served as an executive and limited partner in the New York office of the private equity fund Kohlberg Kravis Roberts & Co. From 1993 to 2000, Mr. Chu was with ACCION International, a nonprofit corporation dedicated to microfinance, where he served as President and CEO. Mr. Chu currently holds an appointment as Senior Lecturer at the Harvard Business School and is Managing Director and co-founder of the IGNIA Fund, an investment firm dedicated to investing in commercial enterprises serving low-income populations in Mexico. He was a founding partner of, and continues to serve as Senior Advisor to, Pegasus Group, a private equity firm in Buenos Aires.

José Alberto Vélez. Mr. Vélez has been an independent member of our board of directors since June 2011 and is a member of our Audit Committee. Mr. Vélez received a Master of Science in Engineering degree from the University of California, Los Angeles, and a degree in Administrative Engineering from Universidad Nacional de Colombia. Mr. Vélez previously served as the CEO of Suramericana de Seguros, the leading insurance company in Colombia, and also as the CEO of Inversura, a holding company that integrates the leading insurance and social security companies in Colombia. He was the Chief Executive Officer of Cementos Argos, S.A. between 2003 and 2012. From 2012 until today, he is the President of Grupo Argos, a holding group with investments in cement, energy, mining, ports and real estate. He is currently also a member of the Boards of Directors of Grupo Suramericana de Inversiones S.A., Bancolombia, Situm, Celsia, Cementos Argos and Calcetines Crystal. He also is a member of the Board of Trustees of the Universidad EAFIT, Proantioquia, Codesarrollo, Fundación Suramericana, Fundación Fraternidad Medellín and Chairman of CECODES, the Colombian chapter of the World Business Council for Sustainable Development. In addition, he sits on the Advisory Board of the Council of the Americas based in New York.

Alfredo Elias Ayub. Mr. Elias Ayub has been an independent member of our board of directors since August 2, 2012 and is a member of the Compensation and Nomination Committee. Mr. Elias Ayub holds an MBA from Harvard Business School, where he graduated as a Baker Scholar, and a Civil Engineering degree from Mexico City's Universidad Anahuac, where he is a member of the Advisory Council of the School of Engineering. From 1999 until April 2011, Mr. Elias Ayub was the Chief Executive Officer of the Comisión Federal de Electricidad, Mexico's largest state-owned utilities company. From 2012 to 2014, Mr. Elias Ayub served as member of the Dean's board of advisors for Harvard Business School.

Alejandro Ramírez Magaña. Mr. Ramírez has been an independent member of our board of directors since November 1, 2012 and is a member of our Audit Committee. Mr. Ramírez holds an MBA from Harvard Business School, a Master of Sciences in Development Economics from the University of Oxford and a Bachelor of Arts in Economics from Harvard University. Mr. Ramírez is the General Director of Cinépolis, the largest cineplex chain in Latin America and the fourth largest in the world. He recently co-chaired the 2012 Annual Meeting of the World Economic Forum and was also appointed by former Mexican President Calderón as Chair of the G20's Business Summit (B20), in Mexico in June 2012. He has worked for the World Bank \the United Nations Development Programme (UNDP) and was Mexico's Permanent Representative to the Organization for Economic Cooperation and Development. In 2005, he was also appointed as "Young Global Leader" by the Davos World Economic Forum in Switzerland.

José Fernández. Mr. Fernandez has been a member of our board of directors since October 1, 2013. Mr. Fernández previously acted as the Divisional President of operations for SLAD. Mr. Fernández is a Mechanical Engineer from Instituto Tecnológico Buenos Aires and began his career at McDonald's in 1986. He held the positions of Development Director, Development Vice President and Managing Director of McDonald's Argentina before becoming the Divisional President of operations of SLAD.

Executive Officers

Our executive officers are responsible for the management and representation of our company. We have a strong centralized management team led by Mr. Staton, our CEO and Chairman of the Board, with broad experience in development, revenue, supply chain management, operations, finance, marketing, legal affairs, human resources, communications and training. Most of our executive officers have worked in the food service industry for several years. Many of the members of the management team have a long history with McDonald's operations in Latin America and the Caribbean and with Mr. Staton, and have worked together as a team for many years. Our executive officers were appointed by our Board of Directors for an indefinite term.

The following table lists our current executive officers:

Name	Position	Initial Year of Appointment
Woods Staton	Chairman and CEO	2007
Sergio Alonso	Chief Operating Officer	2007
José Carlos Alcantara	Chief Financial Officer	2015
Juan David Bastidas	Chief Legal Counsel	2010
José Valledor Rojo	Divisional President—Brazil	2011
Alejandro Yapur	Divisional President—SLAD	2013
Marcelo Rabach	Divisional President—NOLAD	2013
Luis Raganato	Divisional President—Caribbean	2014
Sebastian Magnasco	Vice President of Development	2007
Raul Mandía	Vice President of Marketing	2007
Diego Benenzon	Vice President of Human Resources	2014
Sonia Ruseler	Vice President of Corporate Communications	2013
Horacio Sbrolla	Vice President of Supply Chain	2007
Marlene Fernandez	Vice President of Government Relations	2011

The following is a brief summary of the business experience of our executive officers who are not also directors. Unless otherwise indicated, the current business addresses for our executive officers is Roque Saenz Peña 432, Olivos, Buenos Aires, Argentina (B1636 FFB) and Juncal 1408, Oficina 404, CP 11000, Montevideo, Uruguay.

José Carlos Alcantara. Mr. Alcantara, 44, is our Chief Financial Officer. He attended Escola Superior de Propaganda e Marketing in Brazil, where he received a Bachelor’s Degree, and Northwestern University’s Kellogg School of Management, where he earned an MBA. Mr. Alcantara has worked as a consultant and as a senior auditor at Ernst & Young and Price Waterhouse Coopers, respectively. Mr. Alcantara has held senior finance positions within PepsiCo’s Quaker Oats and International (LAR Foods & Beverages) businesses both in Brazil and in the United States. Most recently, Mr. Alcantara served as the Managing Director Spanish Latin America at Experian, where he was previously CFO Latin America.

Juan David Bastidas. Mr. Bastidas, 47, is our Chief Legal Counsel. He attended Universidad Pontificia Bolivariana in Colombia, where he received a Law Degree. He graduated as a Business Law Specialist from the same university. He received his MBA from New York University. He has post-graduate studies in International Business from EAFIT in Colombia and Senior Management from Universidad de Los Andes in Colombia. Mr. Bastidas worked from 1994 to 1995 as an international operations lawyer for Banco Industrial Colombiano (Bancolombia). He served as General Counsel and Secretary of the board of directors of Interconexión Eléctrica S.A. E.S.P.–ISA from 1995 to 2010 before joining us in July 2010.

José Valledor Rojo. Mr. Valledor Rojo, 48, was promoted to the position of Divisional President in Brazil, effective August 1, 2011. Prior to his appointment as such, he was Regional Director for the Southern Cone. He joined us in 1990 as an assistant in the accounting department, and four years later he became Manager of that department. In 2005, he became Regional Operations Director, responsible for the markets of Uruguay, Paraguay and Argentina. Two years later, he became Argentina’s General Director while continuing to supervise the market operations in Uruguay, Chile and Paraguay. Mr. Valledor Rojo has a degree in Business Administration and a post-graduate degree from the Instituto de Altos Estudios (IAE) in Buenos Aires, Argentina.

Alejandro Yapur. Mr. Yapur, 46, was appointed Divisional President of SLAD in July 2013. He began his career in 1986 as a crew member at the first McDonald’s restaurant in Argentina and had the opportunity to serve as Manager in the Marketing, Operations and Corporate Communications areas of Arcos Dorados in Argentina. In 2005 he was promoted to Managing Director of Uruguay and in 2007 became responsible for the Company’s Chilean operations. In 2011, Mr. Yapur became Regional Managing Director for the Southern Cone Region (Argentina, Chile and Uruguay) until 2013 when he was promoted to his current position. He graduated from the Universidad de Estudios Empresariales in Buenos Aires and subsequently went on to earn a Master’s degree in Communications from Universidad Austral.

Marcelo Rabach. Mr. Rabach, 44, is our Divisional President for NOLAD, and was, prior to his appointment as such, Vice President of Operations Development since 2012 and Divisional President in Brazil since 2008. He graduated with a degree in Business Administration from Universidad Argentina de la Empresa in 2002. He began his career at McDonald's Argentina in 1990 and has over 17 years of line operations experience, starting as a crew employee and steadily advancing into larger operational roles. From 1999 until his appointment as McDonald's Chief Operating Officer in Venezuela in 2005, Mr. Rabach was responsible for the operations, real estate, construction, human resources, local store marketing, and training and franchising of a region within Argentina, holding the positions of Operations Manager and Operations Director. He was the Chief Operating Officer in Venezuela from 2005 until 2008.

Luis Raganato. Mr. Raganato, 50, is our Divisional President for the Caribbean. Prior to his appointment as such, he was the General Director of Arcos Dorados in Peru. Mr. Raganato began his career at Arcos Dorados in 1991 as a Trainee in the Nuevocentro Shopping location in the province of Córdoba, Argentina and has held various positions in Operations Management over the years. Mr. Raganato holds a Bachelor's degree in Business Administration from Instituto Aeronáutico de Argentina and a Master's degree in Marketing and Business Development from Escuela Superior de Estudios de Marketing de Madrid.

Sebastian Magnasco. Mr. Magnasco, 45, is our Vice President of Development and served, prior to his appointment as such, in the same capacity in SLAD. He graduated with a degree in Engineering from Instituto Tecnológico Buenos Aires, in 1990. He began his career at McDonald's in 1994 and held the positions of Real Estate & Equipment Director of Argentina and IT, Real Estate and Equipment Director of Argentina until his appointment as Vice President of Development of SLAD in 2005.

Raul Mandía. Mr. Mandía, 53, is our Vice President of Marketing and served, prior to his appointment as such, in the same capacity in SLAD. He graduated with an associate degree in Accounting from Northern Virginia Community College, Virginia in 1988. Mr. Mandía also holds a Bachelor's degree in accounting from Strayer College in Washington D.C. and a Master's degree in taxation from Southeastern University in Washington D.C. He has also completed post graduate coursework from The Garvin School of International Management in Arizona and The Wharton School in Pennsylvania. He began his career at McDonald's in 1991 as Finance Manager in Uruguay. In 2000, he became Director of Operations, Learning and Development in the Latin American group of McDonald's corporate headquarters, and in 2002 he returned to McDonald's Uruguay as Managing Director until he was appointed as Vice President of Marketing of SLAD in 2005.

Diego Benenson. Mr. Benenson, 48, is our Vice President for Human Resources. He joined the Company in April 2008 as a SLAD HR Talent and Development Director and has over ten years' experience in leadership positions at Citibank where he was Vice President of Human Resources before joining the Company. Prior to Citibank Mr. Benenson was a human resources consultant at Roland Berger International. He has also served as a senior consultant to various large companies and NGOs and has teaching experience. Mr. Benenson graduated with a degree in psychology from Universidad John F. Kennedy and holds a postgraduate degree from the Universidad de Buenos Aires.

Sonia Ruseler. Ms. Ruseler, 52, is our Vice President of Corporate Communications, who joined the Company in 2013. She graduated with a degree in Social and Political Sciences from Cambridge University. Ms. Ruseler began her career in journalism at the BBC in London, worked as a TV correspondent for ITN in London and Tokyo, was a national ITV news presenter in London, followed by eight years as news anchor for CNN International, based in Atlanta and Washington D.C. After journalism, she worked in Washington on crisis and issues management; from 2002 onwards for The McGinn Group, handling sensitive challenges for Fortune 500 clients in the US and Latin America, as well as representing the wine regions of Champagne, Oporto and Jerez as a lobbyist at Chlopak, Leonard and Schechter. In 2010 she earned an MBA from Bordeaux École de Management.

Horacio Sbrolla. Mr. Sbrolla, 52, is our Vice President of Supply Chain and served, prior to his appointment as such, in the same capacity in SLAD. He graduated with a degree in Industrial Engineering from Instituto Tecnológico Buenos Aires, in 1986. He began his career at McDonald's in 1988 as Equipment Manager of Argentina. In 2001, he became the Regional Leader for the implementation of the "ERP" solution within all Latin American markets and since 2002 was the Managing Director of Chile until his appointment as Vice President of Supply Chain of SLAD in 2005.

Marlene Fernandez. Ms. Fernandez, 53, was appointed our Vice President of Government Relations. Prior to joining us in 2009, she served as Executive Director of the Gallup Organization in Latin America and held various governmental positions, including member of Bolivia's Chamber of Deputies, Bolivian Ambassador to the United States and Permanent Representative to the Organization of American States in Washington, D.C., the European Union and Italy. Ms. Fernandez graduated with a degree in Communications and Public Relations from Universidad John F. Kennedy in Buenos Aires. She holds a Master of Science with a specialization in broadcast journalism from Boston University and has completed doctorate courses at Harvard University in Law and Diplomacy, Strategic Communications, Conflict Resolution and Negotiations in Conflict Areas.

B. Compensation

Long-term and Equity Incentive Plans

Long-term Incentive Plan

We implemented a long-term incentive plan in 2008 to reward certain employees for the success of our business. In accordance with this plan, we historically granted phantom equity units, called CADs, annually to certain employees, pursuant to which such employees are entitled to receive, upon vesting, a cash payment equal to the appreciation in the fair value of the award over the base value of the award. In 2011, our Board approved the use of the Company's market capitalization following our initial public offering as the metric used to determine the Company's fair market value under this incentive plan in place of the existing formula used to determine the current value of the awards. The CADs vest over a five-year period, subject to continued employment with us, as follows: 40% on the second anniversary of the date of grant and 20% on each of the following three anniversaries. The right is cumulative and, once it has become exercisable, it may be exercised during a quarterly window period in whole or in part until the date of termination, which occurs the two months after the fifth anniversary of the grant date. Any outstanding CADs at the date of termination will be automatically settled by us. In April 2014, we communicated to our employees the three-year extension of the right to exercise outstanding options under the long-term incentive plan without any change in the vesting period. Pursuant to the three-year extension, units for which its exercise right was originally scheduled to expire in May 2014 will expire in May 2017, and units for which its exercise right was originally scheduled to expire in May 2015 will expire in May 2018. There were 84 employees affected by this resolution.

As of December 31, 2014, 873,538 CADs were outstanding, as compared to 1,018,306 CADs as of December 31, 2013. During 2014, 119,464 CADs were exercised, and the total amount paid for these exercises was \$0.3 million. A total of 25,304 CADs were forfeited during 2014. At December 31, 2014, we maintain a current payable of \$0.8 million related to these exercises that is presented within "accrued payroll and other liabilities" in our balance sheet. See Note 16 to our consolidated financial statements for additional information.

Equity Incentive Plan

In March 2011, we adopted our Equity Incentive Plan, or 2011 Plan, to attract and retain the most highly qualified and capable professionals and to promote the success of our business. This plan replaces our 2008 long-term incentive plan discussed above, although the CADs that have already been granted will remain outstanding until their respective termination dates. Like our 2008 long-term incentive plan, the 2011 Plan is being used to reward certain employees for the success of our business through an annual award program. The 2011 Plan permits grants of awards relating to class A shares, including awards in the form of share (also referred to as stock) options, restricted shares, restricted share units, share appreciation rights, performance awards and other share-based awards as will be determined by our Board.

Pursuant to the 2011 Plan, on April 14, 2011, the first trading day of our class A shares on the NYSE, we made the annual grants for 2011 to certain of our executive officers and other employees. The grants included 231,455 restricted share units and 833,388 stock options that will vest as follows: 40% on the second anniversary of the date of grant and 20% on each of the following three anniversaries. In addition, on April 14, 2011, we granted special awards of restricted share units and stock options to certain of our executive officers and other employees in connection with our initial public offering. The special grant included 782,137 restricted share units and 1,046,459 stock options that will vest 1/3 on each of the second, third and fourth anniversaries of the grant date. With respect to all of the grants made on April 14, 2011, each stock option represents the right to acquire one class A share at a

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strike price of \$21.20 (the closing price on the date of grant), while each restricted share unit represents the right to receive one class A share, when vested.

On May 10, 2012, we made the annual grants for 2012 to certain of our executive officers and other employees. The grants include 211,169 restricted share units and 584,587 stock options that will vest as follows: 40% on the second anniversary of the grant date and 20% on each of the following three anniversaries. Each stock option granted represents the right to acquire one class A share at a strike price of \$14.35 (the closing price on the grant date), while each restricted share unit represents the right to receive one class A share when vested.

On May 10, 2013, we made the annual grants for 2013 to certain of our executive officers and other employees. The grants include 213,600 restricted share units and 431,726 stock options that will vest as follows: 40% on the second anniversary of the grant date and 20% on each of the following three anniversaries. Each stock option granted represents the right to acquire one class A share at a strike price of \$14.31 (the closing price on the grant date), while each restricted share unit represents the right to receive one class A share when vested.

On May 10, 2014 we made the annual grants for 2014 to certain of our executive officers and other employees. The grants include 317,351 restricted share units and 247,475 stock options that will vest as follows: 40% on the second anniversary of the grant date and 20% on each of the following three anniversaries. Each stock option granted represents the right to acquire one class A share at a strike price of \$8.58 (the closing price on the grant date), while each restricted share unit represents the right to receive one class A share when vested.

The maximum number of shares that may be issued under the 2011 Plan is 5,238,235 class A shares, equal to 2.5% of our total outstanding class A and class B shares immediately following our initial public offering on April 14, 2011. We issued 348,617 class A shares during 2014 in connection with the partial vesting of outstanding restricted share units.

See Note 16 to our consolidated financial statements for additional information.

We intend to make the 2015 annual grant under the 2011 Plan during the second quarter of 2015.

Compensation of Directors and Officers

General

The approximate aggregate annual total cash compensation for our 14 officers was \$11.2 million in 2014. In 2014, we approved annual compensation for our non-executive directors of \$140,000 each, payable 50% in cash and 50% in stock options. The cash payments corresponding to services performed in 2014 were paid in 2014 and the stock options will be granted during the second quarter of 2015, at the same time that we make the 2015 annual grant under the 2011 Plan described above. Terms of the stock options will be determined in accordance with market practice and will be reviewed by our compensation and nomination committee. We have not entered into any service contracts with our directors to provide for benefits upon termination of employment.

C. Board Practices

Our Committees

Audit Committee

Our audit committee consists of three directors: Mr. Chu, Mr. Vélez and Mr. Ramírez Magaña. Mr. Chu, Mr. Vélez and Mr. Ramírez Magaña are independent within the meaning of the SEC and NYSE corporate governance rules. Our Board of Directors has determined that Mr. Chu and Mr. Vélez are “audit committee financial experts” as defined by the SEC.

The charter of the audit committee states that the purpose of the audit committee is to assist the Board of Directors in its oversight of:

- the integrity of our financial statements;
- the annual independent audit of our financial statements, the engagement of the independent auditor and the evaluation of the qualifications, independence and performance of our independent auditor;
- the performance of our internal audit function; and
- our compliance with legal and regulatory requirements.

Compensation and Nomination Committee

Our compensation and nomination committee consists of Mr. Staton, Mr. Hernández-Artigas, Mr. Elias Ayub and Ms. Franqui. Pursuant to its charter, the compensation and nomination committee is responsible for, among other things:

- approving corporate goals and objectives relevant to compensation, evaluating the performance of executives in light of such goals and objectives and recommending compensation based on such evaluation, recommending any long-term incentive component of compensation and approving the compensation of our executive officers;
- reviewing and reporting to the board of directors on our management succession plan and on compensation for directors;
- evaluating our compensation and benefits policies;
- evaluating the structure of our board of directors;
- nominating candidates to executive positions and to the board of directors; and
- reporting to the board periodically.

D. Employees

Our employees are a crucial component of our customers' restaurant service experience. As such, we consistently train our employees to deliver fast and friendly service through a series of training programs. We support our McDonald's-based training programs with an extensive set of quality controls throughout production, processing and distribution and also in our restaurants, where we monitor restaurant managers' performance and use ongoing external customer satisfaction opportunity reports that analyze key operating indicators.

Our employees can be divided into three different categories: crew, restaurant managers and professional staff. Due to the different tasks of each of these categories of employees, turnover rates differ significantly. Crew turnover is considerably higher than turnover for managers and professional staff.

As of December 31, 2014, we had a total of approximately 95,000 employees throughout the Territories. Of this number, 84% were crew, 15% were restaurant managers and the remainder were professional staff. Approximately 46% of our employees were located in Brazil.

We have various types of employment arrangements with our employees in Brazil. Some of our employees receive monthly wages whereas others are paid by the hour, and some of our employees have fixed work schedules. Most of our employees in Brazil, in particular students and minors, work schedules of less than 180 hours per month. Brazilian law requires that employers provide a minimum monthly wage, which, in the case of employees who are paid by the hour, is pro-rated in terms of wages per hour.

In the beginning of 2012, we decided to transition to fixed work schedules and hourly wages for our employees in Brazil. Our employees will work between 180 and 220 hours per month, with proportional wages based on the quantity of hours fixed in their employment agreements. In 2013, pursuant to the Pernambuco Labor Court ruling, we began the transition to a fixed hourly schedule according to the timeframe agreed to in the ruling. See "Item 8. Financial Information—A. Consolidated Statements and Other Financial Information—Legal Proceedings—Brazilian Labor Litigation."

In August 2012, the Public Labor Ministry of the State of Pernambuco (*Ministério Público do Trabalho do Estado de Pernambuco*) filed a civil complaint against us in the Labor Court of Pernambuco (*Justiça do Trabalho de Pernambuco*) regarding alleged non-compliance with certain labor laws. See "Item 8. Financial Information—A. Consolidated Statements and Other Financial Information—Legal Proceedings—Brazilian Labor Litigation."

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The following table illustrates the distribution of our employees by division and employee category as of December 31, 2014. Due to the reorganization of our segments effective January 1, 2013, the segment information below is not directly comparable to the segment information presented in our annual reports on Form 20-F for the years prior to 2013. See “Presentation of Financial and Other Information—Operating Data.”

Division	Crew	Restaurant Managers	Professional Staff	Total
Brazil	36,591	6,967	498	44,056
Caribbean division	11,372	1,909	324	13,605
NOLAD	8,843	1,806	271	10,920
SLAD	22,837	3,180	311	26,328
Corporate and other	0	0	465	465
Total	79,643	13,862	1,869	95,374

Restaurant managers are responsible for the daily management of our restaurants. As such, we have a comprehensive training program for them that is focused on customer management practices, food preparation and other operational procedures. Standards are taught and continuously reinforced through the use of such training programs. We also use performance measurements on a continual basis, both internally and externally in connection with all our restaurants. Our internal on-site visit restaurant operations improvement process evaluates operational standards, which are compared globally to assure continuous improvement. We also contract third parties, which we refer to as third-party shoppers, to visit our restaurants anonymously and report on our performance. Our external third-party shopper measurements and customer satisfaction opportunity reports help maintain our competitiveness. In addition, Hamburger University provides restaurant managers, mid-managers and owner/operators with training on best practices in different aspects of our business. In 2014, approximately 15,000 people attended different courses or events at Hamburger University in areas such as restaurant and customer management, sales and accounting.

The role performed by our crew is of critical importance in our interactions with our customers. Employee relations are thus key to maintaining the level of motivation and enthusiasm on the part of our crew that help differentiate our restaurants from those of our competitors. We have been recognized by many independent organizations for being a “great place to work.” In 2014, the Great Place to Work Institute ranked us fourth among the top 25 best multinational employers in Latin America, and we led the “*Súper Empresas*” (Super Companies) ranking by the *Expansión/CNN magazine*.

Although we have unions in some of our most important markets, including Brazil, Argentina and Mexico, the unions do not have an active role in the restaurants. In these markets, the restaurant industry is unionized by law.

E. Share Ownership

The following table presents the beneficial ownership of our shares owned by our directors and officers as of the date of this annual report. Other than those persons listed below, none of our directors or officers beneficially own any of our shares.

Shareholder	Class A Shares	Percentage of Outstanding Class A Shares	Class B Shares	Percentage of Outstanding Class B Shares	Total Economic Interest	Total Voting Interest(1)
Los Laureles Ltd.(2)(3)	—	—	80,000,000	100.0%	38.0%	75.4%
Woods Staton(3)	4,032,424	3.1%	—	—	1.9%	0.8%
Sergio Alonso	*	*	—	—	*	*
Annette Franqui	*	*	—	—	*	*
Carlos Hernández-Artigas	*	*	—	—	*	*
Juan David Bastidas	*	*	—	—	*	*
José Valledor Rojo	*	*	—	—	*	*
José Fernandez	*	*	—	—	*	*
Marcelo Rabach	*	*	—	—	*	*
Sebastian Magnasco	*	*	—	—	*	*
Raul Mandía	*	*	—	—	*	*
Pablo Rodriguez de la Torre	*	*	—	—	*	*
Diego Benenzon	*	*	—	—	*	*
Horacio Sbrolla	*	*	—	—	*	*
Marlene Fernandez	*	*	—	—	*	*

* Each of these directors and officers beneficially owns less than 1% of the total number of outstanding class A shares.

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- (1) Class A shares are entitled to one vote per share and class B shares are entitled to five votes per share.
- (2) Los Laureles Ltd. is beneficially owned by Mr. Staton, our Chairman and CEO. See “Item 7. Major Shareholders and Related Party Transactions—A. Major Shareholders—Los Laureles Ltd.”
- (3) In addition to the class B shares he beneficially owns through Los Laureles Ltd., Mr. Staton beneficially owns class A shares through direct and indirect ownership. On a combined basis, Mr. Staton is the beneficial owner of an aggregate of 39.9% of our total economic interests and 76.2% of our total voting interests.

As of the date of this annual report, our 14 officers had been granted (i) a total of 606,596 restricted share units, 719,768 options at an exercise price of \$21.20 per share, 257,238 stock options at an exercise price of \$14.35 per share and 114,330 stock options at an exercise price of \$14.31 per share pursuant to the 2011 Plan. For more information, see “—B. Compensation—Long-term and Equity Incentive Plans” above. Our non-executive directors had been granted a total of 53,652 stock options at an exercise price of \$14.35 per share, 100,332 stock options at an exercise price of \$14.31 and 247,478 stock options at an exercise price of \$8.58 per share per share pursuant to the 2011 Plan.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. Major Shareholders

As of the date of this annual report, under our memorandum and articles of association, we are authorized to issue a maximum of 420,000,000 class A shares, no par value per share, and 80,000,000 class B shares, no par value per share. Each of our class A shares entitles its holder to one vote. Each of our class B shares entitles its holder to five votes. Los Laureles Ltd., our controlling shareholder, owns 38.0% of our issued and outstanding share capital, and 75.4% of our voting power by virtue of its ownership of 100% of our class B shares. The following table presents the beneficial ownership of our shares as of the date of this annual report:

Shareholder	Class A Shares	% of Outstanding Class A Shares	Class B Shares	% of Outstanding Class B Shares	Total Economic Interest	Total Voting Interest(1)
Los Laureles Ltd(2)(3)	—	—	80,000,000	100.0%	38.0%	75.4%
Woods Staton(3)	4,032,424	3.1%	—	—	1.9%	0.8%
Capital World Investors(4)	15,907,352	12.2%	—	—	7.6%	3.0%
Capital International Investors(5)	12,132,801	9.3%	—	—	5.8%	2.3%
Baillie Gifford & Co(6)	8,750,494	6.7%	—	—	4.2%	1.6%
Coronation Asset Management (Pty) Ltd.(7)	15,624,627	12.0%	—	—	7.4%	2.9%
William H. Gates III(8)	11,641,400	8.9%	—	—	5.5%	2.2%
New World Fund, Inc.(9)	8,241,177	6.3%	—	—	3.9%	1.6%
Macquarie Group Limited(10)	6,881,424	5.3%	—	—	3.3%	1.3%
Black Creek Investment Management Inc. (11)	9,559,834	7.3%	—	—	4.5%	1.8%
Public	37,664,390	28.9%	—	—	17.9%	7.1%
Total	130,435,923	100.0%	80,000,000	100.0%	100.0%	100.0%

- (1) Class A shares are entitled to one vote per share and class B shares are entitled to five votes per share.
- (2) The address of Los Laureles Ltd. is 325 Waterfront Drive, Omar Hodge Building, 2nd Floor, Wickhams Cay 1, Road Town, Tortola, British Virgin Islands. Los Laureles Ltd. is beneficially owned by Mr. Staton, our Chairman and CEO. Los Laureles Ltd. established a voting trust with respect to the voting interests in us held by Los Laureles Ltd. Los Laureles Ltd. is the beneficiary of the voting trust. See “—Los Laureles Ltd.”

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- (3) In addition to the class B shares he beneficially owns through Los Laureles Ltd., Mr. Staton beneficially owns class A shares through direct and indirect ownership. On a combined basis, Mr. Staton is the beneficial owner of an aggregate of 39.9% of the total economic interests of Arcos Dorados and 76.2% of its total voting interests.
- (4) Capital World Investors, a division of Capital Research and Management Company (CRMC), filed with the SEC a Schedule 13G/A dated February 13, 2015. Based solely on the disclosure set forth in such Schedule 13G/A, Capital World Investors has sole voting power with respect to 15,907,352 class A shares and sole dispositive power with respect to 15,907,352 class A shares, but has disclaimed beneficial ownership of these class A shares. Capital World Investors is deemed to be the beneficial owner of these class A shares as a result of CRMC acting as investment adviser to various investment companies registered under Section 8 of the Investment Company Act of 1940. The address of Capital World Investors is 333 South Hope Street, Los Angeles, CA 90071.
- (5) Capital International Investors, Inc. filed with the SEC a Schedule 13G/A dated February 13, 2015. Based solely on the disclosure set forth in such Schedule 13G/A, Capital Group International, Inc. has sole voting power with respect to 17,461,032 class A shares and sole dispositive power with respect to 18,085,232 class A shares, but Capital Group International, Inc. has disclaimed beneficial ownership of these class A shares. Capital Group International, Inc. is the parent holding company of a group of investment management companies that hold investment power and, in some cases, voting power over the class A shares reported in such Schedule 13G/A. The address of Capital International Investors is 333 South Hope Street, Los Angeles, CA 90071.
- (6) Baillie Gifford & Co, a Scottish partnership, filed with the SEC a Schedule 13G/A dated January 20, 2015. Based solely on the disclosure set forth in such Schedule 13G/A, Baillie Gifford & Co has sole voting power with respect to 6,867,158 class A shares and sole dispositive power with respect to 8,750,494 class A shares. Securities reported on such Schedule 13G/A as being beneficially owned by Baillie Gifford & Co are held by Baillie Gifford & Co and/or one or more of its investment adviser subsidiaries, which may include Baillie Gifford Overseas Limited, on behalf of investment advisory clients, which may include investment companies registered under the Investment Company Act, employee benefit plans, pension funds or other institutional clients. The address of Baillie Gifford & Co is Calton Square, 1 Greenside Row, Edinburgh EH1 3AN, Scotland, UK.
- (7) Coronation Asset Management (Pty) Ltd. filed with the SEC a Schedule 13G/A dated February 17, 2015. Based solely on the disclosure set forth in such Schedule 13G/A, Coronation Asset Management (Pty) Ltd. has sole voting power with respect to 15,624,627 class A shares and sole dispositive power with respect to 15,624,627 class A shares. The address of Coronation Asset Management (Pty) Ltd. is 7th Fl. Montclare Centre, CNR Main and Campground Rd., Claremont, Cape Town T3 7708, South Africa.
- (8) William H. Gates III (“Mr. Gates”) indirectly owns Class A shares through Cascade Investment, LLC (“Cascade”) and the Bill & Melinda Gates Foundation Trust (the “Trust”). Cascade, the Trust, Mr. Gates and Melinda French Gates (“Mrs. Gates”) filed with the SEC a Schedule 13G dated February 13, 2015. Based solely on the disclosure set forth in such Schedule 13G, (i) Cascade has sole voting power with respect to 8,580,900 class A shares and sole dispositive power with respect to 8,580,900 class A shares; (ii) the Trust has shared voting power with respect to 3,060,500 class A shares and shared dispositive power with respect to 3,060,500 class A shares; (iii) Mr. Gates has shared voting power with respect to 11,641,400 class A shares and shared dispositive power with respect to 11,641,400 class A shares; and (iv) Mrs. Gates has shared voting power with respect to 3,060,500 class A shares and shared dispositive power with respect to 3,060,500 class A shares. The address of Cascade Investment, LLC is 2365 Carillon Point, Kirkland, Washington 98033. The address of the Trust and Mrs. Gates is 500 Fifth Avenue North, Seattle, Washington 98119. The address of Mr. Gates is One Microsoft Way, Redmond, Washington 98052.
- (9) New World Fund, Inc. filed with the SEC a Schedule 13G dated February 13, 2015. Based solely on the disclosure set forth in such Schedule 13G, Black Creek Investment Management Inc. has sole voting power with respect to 8,241,177 class A shares and sole dispositive power with respect to no class A shares. The address of Black Creek Investment Management Inc. is 212 .King Street West, Toronto, Ontario, M5H 1K5, Canada.
- (10) The Macquarie Group Limited filed with the SEC a Schedule 13G dated February 13, 2015. Based solely on the disclosure set forth in such Schedule 13G, (i) The Macquarie Group Limited has sole voting power with respect to 0 class A shares and sole dispositive power with respect to 0 class A shares, (ii) The Macquarie Group Limited has sole voting power with respect to 0 class A shares and sole dispositive power with respect to 0 class A shares, (iii) Delaware Management Holdings, Inc. has sole voting power with respect to 6,881,424 class A shares and sole dispositive power with respect to 6,881,424 class A shares and (iv) Delaware Management Business Trust has sole voting power with respect to 6,881,424 class A shares and sole dispositive power with respect to 6,881,424 class A shares. No. 1 Martin Place Sydney, New South Wales, Australia. The principal business address of Delaware Management Holdings Inc. and Delaware Management Business Trust is 2005 Market Street, Philadelphia, PA 19103.
- (11) Black Creek Investment Management Inc. filed with the SEC a Schedule 13G dated March 11, 2015. Based solely on the disclosure set forth in such Schedule 13G, Black Creek Investment Management Inc. has sole voting power with respect to 9,559,834 class A shares and sole dispositive power with respect to 9,559,834 class A shares. The address of Black Creek Investment Management Inc. is 212 .King Street West, Toronto, Ontario, M5H 1K5, Canada.

Los Laureles Ltd.

Los Laureles Ltd. is our controlling shareholder and is beneficially owned by Mr. Staton, our Chairman and CEO. Los Laureles Ltd. currently owns 38.0% of the economic interests of Arcos Dorados and 75.4% of its voting interests. Los Laureles Ltd. has established a voting trust with respect to the voting interests in us held by Los Laureles Ltd. Los Laureles Ltd. is the beneficiary of the voting trust. The voting trust exercises the vote of the class B shares through a voting committee which consists of only Mr. Staton. The decision of the voting committee must be approved by Los Laureles (PTC) Limited, a British Virgin Islands company that is a wholly-owned subsidiary of Los Laureles Limited. Mr. Staton is the sole director of Los Laureles (PTC) Limited. Without the consent of McDonald's, Mr. Staton may add any one or more of his descendants, certain other relatives, any board member of Arcos Dorados and the chief executive officer, chief operating officer or chief financial officer of Arcos Dorados to the committee.

Following Mr. Staton's death or during Mr. Staton's incapacity, the voting committee will consist of (1) certain officers or directors of Arcos Dorados, (2) certain descendants of Mr. Staton or their representatives, and (3) other persons appointed by Los Laureles (PTC) Limited, subject to McDonald's consent if such person is not one of Mr. Staton's descendants and is not the chief executive officer, chief operating officer or chief financial officer of Arcos Dorados. For the first five years from the date of the execution of the voting trust, the officers and directors of Arcos Dorados on the voting committee will have the tie-breaking vote (if any). Thereafter, Mr. Staton's descendants will have the tie-breaking vote.

Significant Changes in Ownership by Major Shareholders

We have experienced significant changes in the percentage ownership held by major shareholders as a result of our initial public offering and follow-on offering. Prior to our initial public offering in April 2011, our principal shareholders were Los Laureles Ltd. (40.0% economic, 76.9% voting), Gavea Investment AD, L.P. (26.1% economic, 10.0% voting) and investment funds controlled by Capital International, Inc. (20.4% economic, 7.9% voting) and DLJ South American Partners L.L.C. (through its affiliates) (13.2% economic, 5.1% voting).

On April 19, 2011, we completed our initial public offering and listed our class A shares on the New York Stock Exchange. In the initial public offering, we sold 9,529,412 class A shares and Gavea Investment AD, L.P. and investment funds controlled by Capital International, Inc. and DLJ South American Partners L.L.C. (through its affiliates) sold 74,977,376 class A shares, including 11,022,624 class A shares sold to the underwriters pursuant to the underwriters' over-allotment option. On October 25, 2011, we completed a follow-on offering in which Gavea Investment AD, L.P. and investment funds controlled by Capital International, Inc. and DLJ South American Partners L.L.C. (through its affiliates) sold the remainder of their shareholdings.

As of April 27, 2015, there were five class A shareholders of record. We believe the number of beneficial owners is substantially greater than the number of record holders because a large portion of class A shares is held in "street name" by brokers.

B. Related Party Transactions

Axionlog Split-off

In March 2011, we effected a split-off of Axionlog (formerly known as Axis) to our principal shareholders. The split-off was effected through the redemption of 41,882,966 shares (25,129,780 class A shares and 16,753,186 class B shares). As consideration for the redemption, the Company transferred to its principal shareholders its equity interests in the operating subsidiaries of the Axionlog business totaling a net book value of \$15.4 million and an equity contribution that was made to the Axionlog holding company amounting to \$29.8 million. Following the redemption, Los Laureles Ltd. acquired the Axionlog shares held by Gavea Investment AD, L.P. and investment funds controlled by Capital International, Inc. and DLJ South American Partners L.L.C. (through its affiliates). The split-off of Axionlog did not have a material effect on our results of operations or financial condition.

In 2011, we entered into a master commercial agreement with Axionlog on arm's-length terms pursuant to which Axionlog provides us with distribution services in Argentina, Chile, Colombia, Mexico, Uruguay and Venezuela. On November 9, 2011, we entered into a revolving loan agreement with Axionlog B.V. (formerly known as Axis Distribution B.V.), a holding company of the Axionlog business, pursuant to which we agreed to lend Axionlog the total sum of \$12.0 million at an interest rate of LIBOR plus 6%, in line with interest rates prevailing in the market. This revolving loan facility will mature on November 7, 2016. As of December 31, 2014 and 2013, Axionlog B.V. had borrowed \$11.5 million and \$9.0 million, respectively, from us in connection with this revolving loan facility. As of March 31, 2015, \$11.5 million was outstanding under this loan.

See Note 24 to our consolidated financial statements for details of the outstanding balances and transactions with related parties as of December 31, 2014 and 2013 and for the fiscal years ended December 31, 2014, 2013 and 2012.

C. Interests of Experts and Counsel

Not applicable.

ITEM 8. FINANCIAL INFORMATION

A. Consolidated Statements and Other Financial Information

Financial statements

See “Item 18. Financial Statements,” which contains our financial statements prepared in accordance with U.S. GAAP.

Legal Proceedings

Puerto Rican Franchisees

In January 2007, several Puerto Rican franchisees filed a lawsuit against McDonald’s Corporation and certain subsidiaries which the Company purchased during the acquisition of the LatAm business (the “Puerto Rican franchisees lawsuit”). The lawsuit originally sought declaratory judgment and damages in the amount of \$11 million plus plaintiffs’ attorney’s fees. In January 2008, the plaintiffs filed an amended complaint that increased the amount of damages sought to \$66.7 million plus plaintiffs’ attorney’s fees. The complaint, as amended, requests that the court declare that the plaintiffs’ respective franchise agreements and contractual relationships with McDonald’s Corporation, which agreements and relationships were assigned or otherwise transferred to the Company as part of the Acquisition of the LatAm business, are governed by the Dealers’ Act of Puerto Rico, or “Law 75”, a Puerto Rican law that limits the grounds under which a principal may refuse to renew or terminate a distribution contract. The complaint also seeks preliminary and permanent injunctions to restrict the Company from declining to renew the plaintiffs’ agreements except for just cause, and to prohibit the Company from opening restaurants or kiosks within a three-mile radius of a franchisee’s restaurant. In September 2008, the Company filed a counter-suit requesting the termination of the franchise agreements with these franchisees due to several material breaches. On December 23, 2010, the Commissioner assigned by the Court of First Instance to this case issued a resolution holding that Law 75 applies to the parties’ commercial relationship. On July 20, 2011, the Court of First Instance adopted the Commissioner’s determination with respect to the application of Law 75. This determination is an interlocutory determination that defines the legislation applicable to the franchisee rights and obligations. Law 75 will be the applicable law during the trial process. After the trial conclusion, the Company can still reiterate in appeal the position that Law 75 does not apply to the franchised agreements. The franchisees will still need to demonstrate and prove that the franchisor has breached their respective contracts. Therefore, no provision has been recorded regarding this lawsuit because the Company believes that a final negative outcome has a low probability of occurrence.

Both parties have concluded discovery and the pretrial hearing was held on August 30, 2012. The trial commenced on September 10, 2012 and was heard by the court-assigned commissioner. At the end of 2014, plaintiffs finished their presentation of evidence and we have not yet started our presentation of evidence. We anticipate that the Commissioner will issue a recommendation of resolution to the Court of First Instance during the second semester of 2015.

During 2014, another franchisee filed a complaint (the “related Puerto Rican franchisee lawsuit”) against us and McDonald’s USA, LLC (a wholly owned subsidiary of McDonald’s Corporation), asserting a very similar claim to the one filed in the Puerto Rican franchisees lawsuit. The claim seeks declaratory judgment and damages in the amount of \$30 million plus plaintiff’s attorney’s fees. Although this case is in its early stages, we believe that a final negative resolution has a low probability of occurrence, since its close resemblance to the Puerto Rican franchisees lawsuit.

Furthermore, on March 26, 2010, we filed a collection claim against Puerto Rico Owner Operator’s Association (“PROA”), an association integrated by our franchisees that meets periodically to coordinate the development of promotional and marketing campaigns, for the reimbursement of the monetary contribution made during August, 2007. On June 15, 2010, PROA, also known as the cooperative, filed a third party complaint and counterclaim (the “PROA claim”) against us and other third party defendants, in the amount of \$31 million. At that time, the association was formed solely by franchisees that are plaintiffs in the Puerto Rican franchisees lawsuit, described above. PROA’s complaint requests breach of contract for withdrawing from the association (PROA’s position is that we cannot resign to the

cooperative) and collection of past contributions, among others. On June 9, 2014, after several motions for summary judgment duly filed and opposed by the parties, the Court entered a “Partial Summary Judgment and Resolution” in favor of PROA, before initiating the discovery phase, finding that we must participate and contribute funds to the association. However, the Court did not specify any amount for which we should be held liable, due to its preliminary and interlocutory nature, and the lack of discovery conducted regarding the amounts claimed by the plaintiffs. We are opposing this claim vigorously because we believe that there is no legal basis for it considering: (i) the obligation to contribute is not directed towards a cooperative, (ii) the franchise agreement does not contain a provision that makes it mandatory to participate in the cooperative, and (iii) PROA’s by-laws state that participation in the cooperative is voluntary, among other arguments.

Pursuant to Section 9.3 of the Stock Purchase Agreement, McDonald’s Corporation indemnifies the Company for certain Brazilian claims as well as for specific and limited claims arising from the Puerto Rican franchisees lawsuit. Pursuant to the MFA, the Company indemnifies McDonald’s for the related Puerto Rican franchisee lawsuit and the PROA claim.

Brazilian Labor Litigation

In August 2012, the Public Labor Ministry of the State of Pernambuco (*Ministério Público do Trabalho do Estado de Pernambuco*) in Brazil filed a civil complaint against us in the Labor Court of Pernambuco (*Justiça do Trabalho de Pernambuco*) in order to (i) compel us to change the variable work schedule applicable to our 14 restaurants in Pernambuco, which is a state in northeastern Brazil, to a fixed work schedule, (ii) seek fines of R\$3,000 per employee per month for alleged noncompliance with labor laws related to, for example, overtime payment, breaks between workdays, night shift premiums, duration of breaks and weekly rest time, (iii) seek a penalty of R\$20,000 related to the non-exhibition of documentation relating to audit labor inspections and (iv) seek collective damages of R\$30,000,000 related to the variable work schedule practices in Pernambuco in recent years. The first hearing was scheduled for March 21, 2013.

On February 22, 2013, the Public Labor Ministry of the State of Pernambuco filed an additional petition seeking the extension of the original complaint throughout Brazil and increasing the amount of collective damages requested from R\$30,000,000 to R\$50,000,000. The Public Labor Ministry of the State of Pernambuco also added a demand that all employees should be allowed to bring their own meals for consumption during breaks in our restaurants.

On March 19, 2013, the Labor Court of Pernambuco ruled that we are required to implement a fixed work schedule for all of our employees in Brazil, with the exception of the regions (which represent approximately 80% of our employees in Brazil) where we have already signed a commitment or have obtained favorable legal decisions. The Labor Court of Pernambuco also held that our employees should be allowed to bring their own meals and approved the fine of R\$3,000 for alleged noncompliance with labor laws, as described above, and the penalty of R\$20,000 related to the non-exhibition of documentation relating to audit labor inspections.

On March 21, 2013, at a hearing before the Labor Court of Pernambuco, we agreed with the Public Labor Ministry of the State of Pernambuco to the following terms:

- our commitment to implement a fixed work schedule in the states of Sergipe, Espírito Santo, Bahia, Santa Catarina and Rio Grande do Sul;
- our commitment to comply with overtime payment, breaks between workdays, night shift premiums, duration of breaks, and weekly rest time requirements, among others requirements;
- a reduction of the fine for proved alleged noncompliance with the abovementioned items from R\$3,000 to R\$2,000 per employee per month;
- a reduction of the penalty for the non-exhibition of documentation relating to audit labor inspections from R\$20,000 to R\$2,000;
- the temporary stay for 60 days of the requirement to allow employees to bring their own meals;
- non-recognition of collective damages, provided that we will pay an amount of R\$1.5 million in cash to the states of Pernambuco, Rio de Janeiro and Paraná (R\$0.5 million each) on June 21, 2013 and we will incur an aggregate amount of R\$6.0 million over the course of four years (R\$1.5 million in January of each of 2014, 2015, 2016 and 2017) in advertising as part of a national communications campaign for educational or health purposes to be determined by the Public Labor Ministry of the State of Pernambuco by June 2013.

The claim to guarantee the payment of the minimum wage independently of working hours is currently on hold but will continue to be subject to legal discussion. No provision has been recorded regarding this claim because we believe that a final negative resolution has a low probability based on the fact that this labor practice complies with prevailing laws and regulations. The Labor Prosecutor has begun audits in order to confirm compliance with the terms of the settlement. Pursuant to the terms of the settlement, on June 21, 2013 we paid an aggregate amount of R\$1.5 million in cash to the states of Pernambuco, Rio de Janeiro and Paraná (R\$0.5 million each). On February 24, 2014, we and the Labor Prosecutor agreed on the schedule and terms relating to the payment of up to an aggregate amount of R\$1.5 million throughout 2014 to fund communications campaigns for the Public Labor Ministry of the State of Pernambuco. The payments will be made at the time of each campaign. As of the date of this annual report we are still in the process of complying with the additional terms of the settlement. On March 3, 2015 we and the Labor Prosecutor came to an agreement over the designation of the R\$1.5 million we have available to give to government campaigns in 2015.

Sinthoresp - Brasília

On February 23, 2015, a coalition of labor unions filed a lawsuit against us. The coalition alleges that we have defaulted on our obligations to our employees with a variety of inadequate working conditions such as an unhealthy working environment, consolidation of employee tasks, failure to pay the legal minimum wage or wages established through collective bargaining agreements, time-card fraud, failure to regularly collect contributions to the Mandatory Severance Pay Fund (FGTS), failure to grant legally-mandated meal and rest periods, failure to pay corresponding overtime, provision of sandwiches as the shift meal, failure to pay contracted amounts for recession of contracts, failure to supply the documents necessary to withdraw FGTS payments, and failure to provide the social security and termination of employment documents required under Brazilian law.

The plaintiffs argue that the alleged practices are a form of “social dumping,” a cause of action under the commercial law characterized by practices seeking to obtain a significant reduction in production costs resulting in unfair competition. The plaintiffs have requested an order requiring: (i) immediate rectification of the alleged practices; (ii) an injunction against opening any new restaurants until compliance with the labor practices is demonstrated; (iii) damages for pain and suffering equal to an amount between 1% and 30% of gross income; (iv) that the Economic Defense Administrative Council – CADE be placed on notice of these conditions; and (v) service of process to the Public Labor Prosecutor to require it to follow up on the lawsuit.

The lawsuit is currently before the 22nd DF Labor Court in Brasilia. On March 6, 2015, the Labor Court denied the coalition’s requests (i) to enjoin the allegedly unfair labor practices and (ii) that we not be permitted to open any new restaurants in Brazil. The first hearing of the case will be held in June 2015.

Retained Lawsuits and Contingent Liabilities

We have certain contingent liabilities with respect to existing or potential claims, lawsuits and other proceedings, including those involving labor, tax and other matters. As of December 31, 2014 we maintained a provision for contingencies amounting to \$20.1 million (\$22.3 million as of December 31, 2013), which is disclosed net of judicial deposits amounting to \$7.9 million (\$7.5 million as of December 31, 2013) that we were required to make in connection with the proceedings. As of December 31, 2014, the net amount of \$12.2 million was disclosed as follows: \$0.8 million as a current liability and \$11.4 million as a non-current liability. See Note 17 to our consolidated financial statements for more details.

Pursuant to the Acquisition, McDonald’s Corporation indemnifies us for certain Brazilian claims as well as for specific and limited claims arising from the Puerto Rican franchisee lawsuit. As of December 31, 2014, the non-current portion of the provision for contingencies included \$4.4 million (\$3.7 million as of December 31, 2013) related to Brazilian claims that are covered by the indemnification agreement. As a result, we have recorded a non-current asset in respect of McDonald’s Corporation’s indemnity in our consolidated balance sheet.

Several of these proceedings have already been resolved successfully, either by a judicial decision or a cash settlement. The cash settlements were made pursuant to a recent reopening of a 2009 amnesty granted by the Brazilian federal government, in which McDonalds opted to participate. The amnesty was originally granted in 2009 as a way to reduce litigation with federal authorities and increase tax collection during the financial crisis. The

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amnesty allowed Brazilian taxpayers to settle federal tax debts under favorable conditions, including reduced penalties and interest and the ability to pay principal in up to 180 installments. In 2014, pursuant to an additional amnesty, such outstanding Brazilian federal tax debts were paid in full using mainly, applicable tax loss carryforwards. The remaining retained proceedings are pending a final decision.

As of December 31, 2014, there are certain matters related to the interpretation of tax and labor law for which there is a possibility that a loss may have been incurred in accordance with ASC 450-20-50-4 within a range of \$24.0 million and \$34.0 million.

Other Proceedings

In addition to the matters described above, we are from time to time subject to certain claims and party to certain legal proceedings incidental to the normal course of our business. In view of the inherent difficulty of predicting the outcome of legal matters, we cannot state with confidence what the eventual outcome of these pending matters will be, what the timing of the ultimate resolution of these matters will be or what the eventual loss, fines or penalties related to each pending matter may be. We believe that we have made adequate reserves related to the costs anticipated to be incurred in connection with these various claims and legal proceedings and believe that liabilities related to such claims and proceedings should not have, in the aggregate, a material adverse effect on our business, financial condition, or results of operations. However, in light of the uncertainties involved in these claims and proceedings, there is no assurance that the ultimate resolution of these matters will not significantly exceed the reserves currently accrued by us; as a result, the outcome of a particular matter may be material to our operating results for a particular period, depending upon, among other factors, the size of the loss or liability imposed and the level of our income for that period.

Dividends and Dividend Policy

Our Board of Directors considers the legal requirements with regard to our net income and retained earnings and our cash flow generation, targeted leverage ratios and debt covenant requirements in determining the amount of dividends to be paid, if any. Dividends may only be paid in accordance with the provisions of our memorandum and articles of association and Section 57 of the BVI Business Companies Act, 2004 (as amended) and after having fulfilled our capital expenditures program and after satisfying our indebtedness and liquidity thresholds, in that order. Pursuant to our memorandum and articles of association, all dividends unclaimed for three years after having been declared may be forfeited by a resolution of directors for the benefit of the Company.

On March 7, 2014, we announced that our Board of Directors had approved a total dividend cash payment of \$50.0 million for 2014 to be paid in four equal installments. The payments were made on April 1, July 1 and October 1, 2014 and January 2, 2015, in each case in the aggregate amount of \$12.5 million on outstanding class A and class B shares to shareholders of record as of the close of business on March 26, June 26, September 26 and December 26, 2014, respectively. In addition, during April and May of 2014, we paid dividends on Restricted Share Units under the 2011 Plan amounting to \$381,776.

As of the date of this annual report on Form 20-F, no dividends have been declared for fiscal year 2015.

Other than the 2014 dividends, the only other dividends we have declared since the Acquisition are the four \$12.5 million dividends in 2013, the four \$12.5 million dividends in 2012, four \$12.5 million dividends in 2011 and a \$40 million dividend with respect to our results of operations for fiscal year 2009. All of these dividends have been paid in full.

The amounts and dates of future dividend payments, if any, will be subject to, among other things, the discretion of our Board of Directors. Accordingly, there can be no assurance that any future distributions will be made, or, if made, as to the amount of such distributions.

B. Significant Changes

None.

ITEM 9. THE OFFER AND LISTING

A. Offering and Listing Details

The following table shows the annual, quarterly and monthly ranges of the high and low per share closing sales price for our class A shares as reported by the New York Stock Exchange.

	<u>Low</u>	<u>High</u>
Year Ended December 31:		
2011 (since April 14, 2011)	\$ 19.55	\$ 28.52
2012	\$ 10.73	\$ 22.94
2013	\$ 10.60	\$ 15.46
2014	\$ 5.27	\$ 12.12
Year Ended December 31, 2013:		
First Quarter	\$ 12.19	\$ 14.25
Second Quarter	\$ 11.59	\$ 15.46
Third Quarter	\$ 10.60	\$ 13.33
Fourth Quarter	\$ 11.19	\$ 12.48
Year Ended December 31, 2014:		
First Quarter	\$ 8.30	\$ 12.12
Second Quarter	\$ 8.50	\$ 11.25
Third Quarter	\$ 5.86	\$ 11.13
Fourth Quarter	\$ 5.27	\$ 6.92
Year Ended December 31, 2015:		
First Quarter	\$ 4.17	\$ 5.85
Month Ended:		
October 31, 2014	\$ 5.49	\$ 6.31
November 30, 2014	\$ 6.05	\$ 6.92
December 31, 2014	\$ 5.27	\$ 6.41
January 31, 2015	\$ 5.06	\$ 5.7
February 28, 2015	\$ 5.17	\$ 5.85
March 31, 2015	\$ 4.17	\$ 5.46
April 30, 2015 (through April 27)	\$ 5.29	\$ 6.16

B. Plan of Distribution

Not applicable.

C. Markets

Our class A shares have been listed on the New York Stock Exchange, or NYSE, since April 14, 2011 under the symbol “ARCO.” For information regarding the price history of our class A shares, see “—A. Offering and Listing Details.”

D. Selling Shareholders

Not applicable.

E. Dilution

Not applicable.

F. Expenses of the Issue

Not applicable.

ITEM 10. ADDITIONAL INFORMATION

A. Share Capital

Not applicable.

B. Memorandum and Articles of Association

General

We are a British Virgin Islands company incorporated with limited liability and our affairs are governed by the provisions of our memorandum and articles of association, as amended and restated from time to time, and by the provisions of applicable British Virgin Islands law, including the BVI Business Companies Act, 2004, or the BVI Act.

Our company number in the British Virgin Islands is 1619553. As provided in sub-regulation 4.1 of our memorandum of association, subject to British Virgin Islands law, we have full capacity to carry on or undertake any business or activity, do any act or enter into any transaction and, for such purposes, full rights, powers and privileges. Our registered office is at Maples Corporate Services (BVI) Limited, Kingston Chambers, P.O. Box 173, Road Town, Tortola, British Virgin Islands.

The transfer agent and registrar for our class A and class B shares is Continental Stock Transfer & Trust Company, which maintains the share registrar for each class in New York, New York.

As of the date of this annual report, under our memorandum and articles of association, we are authorized to issue up to 420,000,000 class A shares and 80,000,000 class B shares. As of the date of this annual report, 130,435,923 class A shares and 80,000,000 class B shares were issued, fully paid and outstanding.

The maximum number of shares that we are authorized to issue may be changed by resolution of shareholders amending our memorandum and articles of association. Shares may be issued from time to time only by resolution of shareholders.

Our class A shares are listed on the New York Stock Exchange under the symbol "ARCO."

The following is a summary of the material provisions of our memorandum and articles of association.

Class A Shares

Holders of our class A shares may freely hold and vote their shares.

The following summarizes the rights of holders of our class A shares:

- each holder of class A shares is entitled to one vote per share on all matters to be voted on by shareholders generally, including the election of directors;
- holders of class A shares vote together with holders of class B shares;
- there are no cumulative voting rights;
- the holders of our class A shares are entitled to dividends and other distributions, *pari passu* with our class B shares, as may be declared from time to time by our board of directors out of funds legally available for that purpose, if any, and pursuant to our memorandum and articles of association, all dividends unclaimed for three years after having been declared may be forfeited by a resolution of directors for the benefit of the Company;
- upon our liquidation, dissolution or winding up, the holders of class A shares will be entitled to share ratably, *pari passu* with our class B shares, in the distribution of all of our assets remaining available for distribution after satisfaction of all our liabilities; and

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- the holders of class A shares have preemptive rights in connection with the issuance of any securities by us, except for certain issuances of securities by us, including (i) pursuant to any employee compensation plans; (ii) as consideration for (a) any merger, consolidation or purchase of assets or (b) recapitalization or reorganization; (iii) in connection with a pro rata division of shares or dividend in specie or distribution; or (iv) in a bona fide public offering that has been registered with the SEC, but they are not entitled to the benefits of any redemption or sinking fund provisions.

Class B Shares

All of our class B shares are owned by Los Laureles Ltd. Holders of our class B shares may freely hold and vote their shares.

The following summarizes the rights of holders of our class B shares:

- each holder of class B shares is entitled to five votes per share on all matters to be voted on by shareholders generally, including the election of directors;
- holders of class B shares vote together with holders of class A shares;
- class B shares may not be listed on any U.S. or foreign national or regional securities exchange or market;
- there are no cumulative voting rights;
- the holders of our class B shares are entitled to dividends and other distributions, *pari passu* with our class A shares, as may be declared from time to time by our board of directors out of funds legally available for that purpose, if any, and pursuant to our memorandum and articles of association, all dividends unclaimed for three years after having been declared may be forfeited by a resolution of directors for the benefit of the Company;
- upon our liquidation, dissolution or winding up, the holders of class B shares will be entitled to share ratably, *pari passu* with our class A shares, in the distribution of all of our assets remaining available for distribution after satisfaction of all our liabilities;
- the holders of class B shares have preemptive rights in connection with the issuance of any securities by us, except for certain issuances of securities by us, including (i) pursuant to any employee compensation plans; (ii) as consideration for (a) any merger, consolidation or purchase of assets or (b) recapitalization or reorganization; (iii) in connection with a pro rata division of shares or dividend in specie or distribution; or (iv) in a bona fide public offering that has been registered with the SEC, but they are not entitled to the benefits of any redemption or sinking fund provisions;
- each class B share is convertible into one class A share at the option of the holder at any time, subject to the prior written approval of McDonald's; and
- each class B share will convert automatically into one class A share at such time as the holders of class B shares cease to hold, directly or indirectly, at least 20% of the aggregate number of outstanding class A and class B shares.

Limitation on Liability and Indemnification Matters

Under British Virgin Islands law, each of our directors and officers, in performing his or her functions, is required to act honestly and in good faith with a view to our best interests and exercise the care, diligence and skill that a reasonably prudent director would exercise in comparable circumstances. Our memorandum and articles of association provide that, to the fullest extent permitted by British Virgin Islands law or any other applicable laws, our directors will not be personally liable to us or our shareholders for any acts or omissions in the performance of their duties. This limitation of liability does not affect the availability of equitable remedies such as injunctive relief or rescission. These provisions will not limit the liability of directors under United States federal securities laws.

Our memorandum and articles of association provide that we shall indemnify any of our directors or anyone serving at our request as a director of another entity against all expenses, including legal fees, and against all

judgments, fines and amounts paid in settlement and reasonably incurred in connection with legal, administrative or investigative proceedings or suits. We may pay any expenses, including legal fees, incurred by any such person in defending any legal, administrative or investigative proceedings in advance of the final disposition of the proceedings. If a person to be indemnified has been successful in defense of any proceedings referred to above, the director is entitled to be indemnified against all expenses, including legal fees, and against all judgments, fines and amounts paid in settlement and reasonably incurred by the director or officer in connection with the proceedings.

We may purchase and maintain insurance in relation to any of our directors, officers, employees, agents or liquidators against any liability asserted against them and incurred by them in that capacity, whether or not we have or would have had the power to indemnify them against the liability as provided in our memorandum and articles of association.

Insofar as indemnification for liabilities arising under the Securities Act of 1933, as amended, or the Securities Act, may be permitted to our directors, officers or controlling persons pursuant to the foregoing provisions, we have been informed that in the opinion of the SEC, such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable as a matter of United States law.

Shareholders' Meetings and Consents

The following summarizes certain relevant provisions of British Virgin Islands laws and our articles of association in relation to our shareholders' meetings:

- the directors of the Company may convene meetings of shareholders at such times and in such manner and places within or outside the British Virgin Islands as the directors consider necessary or desirable; provided that at least one meeting of shareholders be held each year;
- upon the written request of shareholders entitled to exercise 30 percent or more of the voting rights in respect of the matter for which the meeting is requested, the directors are required to convene a meeting of the shareholders. Any such request must state the proposed purpose of the meeting;
- the directors convening a meeting must give not less than ten days' notice of a meeting of shareholders to: (i) those shareholders whose names on the date the notice is given appear as shareholders in the register of members of our company and are entitled to vote at the meeting, and (ii) the other directors;
- a meeting of shareholders held in contravention of the requirement to give notice is valid if shareholders holding at least 90 percent of the total voting rights on all the matters to be considered at the meeting have waived notice of the meeting and, for this purpose, the presence of a shareholder at the meeting shall constitute waiver in relation to all the shares that such shareholder holds;
- a shareholder may be represented at a meeting of shareholders by a proxy who may speak and vote on behalf of the shareholder;
- a meeting of shareholders is duly constituted if, at the commencement of the meeting, there are present in person or by proxy not less than 50 percent of the votes of the shares or class or series of shares entitled to vote on resolutions of shareholders to be considered at the meeting;
- if within two hours from the time appointed for the meeting a quorum is not present, the meeting, if convened upon the requisition of shareholders, shall be dissolved; in any other case it shall be adjourned to the next business day in the jurisdiction in which the meeting was to have been held at the same time and place or to such other date, time and place as the directors may determine, and if at the adjourned meeting there are present within one hour from the time appointed for the meeting in person or by proxy not less than one third of the votes of the shares or each class or series of shares entitled to vote on the matters to be considered by the meeting, those present shall constitute a quorum, but otherwise the meeting shall be dissolved. Notice of the adjourned meeting need not be given if the date, time and place of such meeting are announced at the meeting at which the adjournment is taken;
- a resolution of shareholders is valid (i) if approved at a duly convened and constituted meeting of shareholders by the affirmative vote of a majority of the votes of the shares entitled to vote thereon which

were present at the meeting and were voted, or (ii) if it is a resolution consented to in writing by a majority of the votes of shares entitled to vote thereon; and

- an action that may be taken by the shareholders at a meeting may also be taken by a resolution of shareholders consented to in writing by a majority of the votes of shares entitled to vote thereon, without the need for any notice, but if any resolution of shareholders is adopted otherwise than by unanimous written consent of all shareholders, a copy of such resolution shall forthwith be sent to all shareholders not consenting to such resolution.

We held our most recent annual shareholder meeting on April 27, 2015 in Montevideo, Uruguay.

Compensation of Directors

The compensation of our directors is determined by our Board of Directors, and there is no requirement that a specified number or percentage of “independent” directors must approve any such determination.

Differences in Corporate Law

We were incorporated under, and are governed by, the laws of the British Virgin Islands. The corporate statutes of the State of Delaware and the British Virgin Islands in many respects are similar, and the flexibility available under British Virgin Islands law has enabled us to adopt a memorandum of association and articles of association that will provide shareholders with rights that, except as described in this annual report, do not vary in any material respect from those they would enjoy if we were incorporated under the Delaware General Corporation Law, or Delaware corporate law. Set forth below is a summary of some of the differences between provisions of the BVI Act applicable to us and the laws application to companies incorporated in Delaware and their shareholders.

Director’s Fiduciary Duties

Under Delaware corporate law, a director of a Delaware corporation has a fiduciary duty to the corporation and its shareholders. This duty has two components: the duty of care and the duty of loyalty. The duty of care requires that a director act in good faith, with the care that an ordinarily prudent person would exercise under similar circumstances. Under this duty, a director must inform himself of, and disclose to shareholders, all material information reasonably available regarding a significant transaction. The duty of loyalty requires that a director act in a manner he reasonably believes to be in the best interests of the corporation. He must not use his corporate position for personal gain or advantage. This duty prohibits self-dealing by a director and mandates that the best interest of the corporation and its shareholders take precedence over any interest possessed by a director, officer or controlling stockholder and not shared by the shareholders generally. In general, actions of a director are presumed to have been made on an informed basis, in good faith and in the honest belief that the action taken was in the best interests of the corporation. However, this presumption may be rebutted by evidence of a breach of one of the fiduciary duties. Should such evidence be presented concerning a transaction by a director, a director must prove the procedural fairness of the transaction, and that the transaction was of fair value to the corporation.

British Virgin Islands law provides that every director of a British Virgin Islands company, in exercising his powers or performing his duties, shall act honestly and in good faith and in what the director believes to be in the best interests of the company. Additionally, the director shall exercise the care, diligence, and skill that a reasonable director would exercise in the same circumstances, taking into account the nature of the company, the nature of the decision and the position of the director and his responsibilities. In addition, British Virgin Islands law provides that a director shall exercise his powers as a director for a proper purpose and shall not act, or agree to the company acting, in a manner that contravenes British Virgin Islands law or the memorandum association or articles of association of the company.

Amendment of Governing Documents

Under Delaware corporate law, with very limited exceptions, a vote of the shareholders is required to amend the certificate of incorporation. In addition, Delaware corporate law provides that shareholders have the right to amend the bylaws, and the certificate of incorporation also may confer on the directors the right to amend the bylaws. Our memorandum of association may only be amended by a resolution of shareholders, provided that any amendment of the provision related to the prohibition against listing our class B shares must be approved by not less than 50% of

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the votes of the class A shares entitled to vote that were present at the relevant meeting and voted. Our articles of association may also only be amended by a resolution of shareholders.

Written Consent of Directors

Under Delaware corporate law, directors may act by written consent only on the basis of a unanimous vote. Similarly, under our articles of association, a resolution of our directors in writing shall be valid only if consented to by all directors or by all members of a committee of directors, as the case may be.

Written Consent of Shareholders

Under Delaware corporate law, unless otherwise provided in the certificate of incorporation, any action to be taken at any annual or special meeting of shareholders of a corporation may be taken by written consent of the holders of outstanding stock having not less than the minimum number of votes that would be necessary to take that action at a meeting at which all shareholders entitled to vote were present and voted. As permitted by British Virgin Islands law, shareholders' consents need only a majority of shareholders signing to take effect. Our memorandum and articles of association provide that shareholders may approve corporate matters by way of a resolution consented to at a meeting of shareholders or in writing by a majority of shareholders entitled to vote thereon.

Shareholder Proposals

Under Delaware corporate law, a shareholder has the right to put any proposal before the annual meeting of shareholders, provided it complies with the notice provisions in the governing documents. A special meeting may be called by the board of directors or any other person authorized to do so in the governing documents, but shareholders may be precluded from calling special meetings. British Virgin Islands law and our memorandum and articles of association provide that our directors shall call a meeting of the shareholders if requested in writing to do so by shareholders entitled to exercise at least 30% of the voting rights in respect of the matter for which the meeting is requested. Any such request must state the proposed purpose of the meeting.

Sale of Assets

Under Delaware corporate law, a vote of the shareholders is required to approve the sale of assets only when all or substantially all assets are being sold. In the British Virgin Islands, shareholder approval is required when more than 50% of the Company's total assets by value are being disposed of or sold if not made in the usual or regular course of the business carried out by the company. Under our memorandum and articles of association, the directors may by resolution of directors determine that any sale, transfer, lease, exchange or other disposition is in the usual or regular course of the business carried on by us and such determination is, in the absence of fraud, conclusive.

Dissolution; Winding Up

Under Delaware corporate law, unless the board of directors approves the proposal to dissolve, dissolution must be approved in writing by shareholders holding 100% of the total voting power of the corporation. Only if the dissolution is initiated by the board of directors may it be approved by a simple majority of the corporation's outstanding shares. Delaware corporate law allows a Delaware corporation to include in its certificate of incorporation a supermajority voting requirement in connection with dissolutions initiated by the board. As permitted by British Virgin Islands law and our memorandum and articles of association, we may be voluntarily liquidated under Part XII of the BVI Act by resolution of directors and resolution of shareholders if we have no liabilities or we are able to pay our debts as they fall due.

Redemption of Shares

Under Delaware corporate law, any stock may be made subject to redemption by the corporation at its option, at the option of the holders of that stock or upon the happening of a specified event, provided shares with full voting power remain outstanding. The stock may be made redeemable for cash, property or rights, as specified in the certificate of incorporation or in the resolution of the board of directors providing for the issue of the stock. As permitted by British Virgin Islands law and our memorandum and articles of association, shares may be repurchased, redeemed or otherwise acquired by us. However, the consent of the shareholder whose shares are to be repurchased, redeemed or otherwise acquired must be obtained, except as described under "—Compulsory Acquisition" below. Moreover, our directors must determine that immediately following the redemption or repurchase we will be able to pay our debts as they become due and that the value of our assets will exceed our liabilities.

Compulsory Acquisition

Under Delaware General Corporation Law § 253, in a process known as a “short form” merger, a corporation that owns at least 90% of the outstanding shares of each class of stock of another corporation may either merge the other corporation into itself and assume all of its obligations or merge itself into the other corporation by executing, acknowledging and filing with the Delaware Secretary of State a certificate of such ownership and merger setting forth a copy of the resolution of its board of directors authorizing such merger. If the parent corporation is a Delaware corporation that is not the surviving corporation, the merger also must be approved by a majority of the outstanding stock of the parent corporation. If the parent corporation does not own all of the stock of the subsidiary corporation immediately prior to the merger, the minority shareholders of the subsidiary corporation party to the merger may have appraisal rights as set forth in § 262 of the Delaware General Corporation Law.

Under the BVI Act, subject to any limitations in a Company’s memorandum or articles, members holding 90% of the votes of the outstanding shares entitled to vote, and members holding 90% of the votes of the outstanding shares of each class of shares entitled to vote, may give a written instruction to the company directing the company to redeem the shares held by the remaining members. Upon receipt of such written instruction, the company shall redeem the shares specified in the written instruction, irrespective of whether or not the shares are by their terms redeemable. The company shall give written notice to each member whose shares are to be redeemed stating the redemption price and the manner in which the redemption is to be effected. A member whose shares are to be so redeemed is entitled to dissent from such redemption, and to be paid the fair value of his shares, as described under “—Shareholders’ Rights under British Virgin Islands Law Generally” below.

Variation of Rights of Shares

Under Delaware corporate law, a corporation may vary the rights of a class of shares with the approval of a majority of the outstanding shares of that class, unless the certificate of incorporation provides otherwise. As permitted by British Virgin Islands law and our memorandum of association, we may vary the rights attached to any class of shares only with the consent in writing of holders of not less than 50% of the issued shares of that class and of holders of not less than 50% of the issued shares of any other class which may be adversely affected by such variation.

Removal of Directors

Under Delaware corporate law, a director of a corporation with a classified board may be removed only for cause with the approval of a majority of the outstanding shares entitled to vote, unless the certificate of incorporation provides otherwise. Our memorandum and articles of association provide that directors may be removed at any time, with or without cause, by a resolution of shareholders or a resolution of directors.

In addition, directors are subject to rotational retirement every three years. The initial terms of office of the Class I, Class II and Class III directors have been staggered over a period of three years to ensure that all directors of the company do not face reelection in the same year.

Mergers

Under Delaware corporate law, one or more constituent corporations may merge into and become part of another constituent corporation in a process known as a merger. A Delaware corporation may merge with a foreign corporation as long as the law of the foreign jurisdiction permits such a merger. To effect a merger under Delaware General Corporation Law § 251, an agreement of merger must be properly adopted and the agreement of merger or a certificate of merger must be filed with the Delaware Secretary of State. In order to be properly adopted, the agreement of merger must be adopted by the board of directors of each constituent corporation by a resolution or unanimous written consent. In addition, the agreement of merger generally must be approved at a meeting of stockholders of each constituent corporation by a majority of the outstanding stock of the corporation entitled to vote, unless the certificate of incorporation provides for a supermajority vote. In general, the surviving corporation assumes all of the assets and liabilities of the disappearing corporation or corporations as a result of the merger.

Under the BVI Act, two or more BVI companies may merge or consolidate in accordance with the statutory provisions. A merger means the merging of two or more constituent companies into one of the constituent companies, and a consolidation means the uniting of two or more constituent companies into a new company. In order to merge or consolidate, the directors of each constituent BVI company must approve a written plan of merger or consolidation which must be authorized by a resolution of shareholders. One or more BVI companies may also merge or consolidate with one or more companies incorporated under the laws of jurisdictions outside the BVI, if the merger or consolidation is permitted by the laws of the jurisdictions in which the companies incorporated outside the BVI are incorporated. In respect of such a merger or consolidation a BVI company is required to comply with the provisions of the BVI Act, and a company incorporated outside the BVI is required to comply with the laws of its jurisdiction of incorporation.

Shareholders of BVI companies not otherwise entitled to vote on the merger or consolidation may still acquire the right to vote if the plan of merger or consolidation contains any provision which, if proposed as an amendment to the memorandum of association or articles of association, would entitle them to vote as a class or series on the proposed amendment. In any event, all shareholders must be given a copy of the plan of merger or consolidation irrespective of whether they are entitled to vote at the meeting or consent to the written resolution to approve the plan of merger or consolidation.

Inspection of Books and Records

Under Delaware corporate law, any shareholder of a corporation may for any proper purpose inspect or make copies of the corporation's stock ledger, list of shareholders and other books and records. Under British Virgin Islands law, members of the general public, on payment of a nominal fee, can obtain copies of the public records of a company available at the office of the British Virgin Islands Registrar of Corporate Affairs which will include the Company's certificate of incorporation, its memorandum and articles of association (with any amendments) and records of license fees paid to date, and will also disclose any articles of dissolution, articles of merger and a register of charges if the company has elected to file such a register.

A member of a company is entitled, on giving written notice to the company, to inspect:

- (a) the memorandum and articles;
- (b) the register of members;
- (c) the register of directors; and
- (d) the minutes of meetings and resolutions of members and of those classes of members of which he is a member; and to make copies of or take extracts from the documents and records referred to in (a) to (d) above. Subject to the memorandum and articles, the directors may, if they are satisfied that it would be contrary to the Company's interests to allow a member to inspect any document, or part of a document, specified in (b), (c) or (d) above, refuse to permit the member to inspect the document or limit the inspection of the document, including limiting the making of copies or the taking of extracts from the records.

Where a company fails or refuses to permit a member to inspect a document or permits a member to inspect a document subject to limitations, that member may apply to the court for an order that he should be permitted to inspect the document or to inspect the document without limitation.

A company is required to keep at the office of its registered agent the memorandum and articles of the company; the register of members maintained or a copy of the register of members; the register of directors or a copy of the register of directors; and copies of all notices and other documents filed by the company in the previous ten years.

Where a company keeps a copy of the register of members or the register of directors at the office of its registered agent, it is required to notify any changes to the originals of such registers to the registered agent, in writing, within 15 days of any change; and to provide the registered agent with a written record of the physical address of the place or places at which the original register of members or the original register of directors is kept. Where the place at which the original register of members or the original register of directors is changed, the

company is required to provide the registered agent with the physical address of the new location of the records within fourteen days of the change of location.

A company is also required to keep at the office of its registered agent or at such other place or places, within or outside the British Virgin Islands, as the directors determine the minutes of meetings and resolutions of members and of classes of members; and the minutes of meetings and resolutions of directors and committees of directors. If such records are kept at a place other than at the office of the Company's registered agent, the company is required to provide the registered agent with a written record of the physical address of the place or places at which the records are kept and to notify the registered agent, within 14 days, of the physical address of any new location where such records may be kept.

Conflict of Interest

Under Delaware corporate law, a contract between a corporation and a director or officer, or between a corporation and any other organization in which a director or officer has a financial interest, is not void as long as the material facts as to the director's or officer's relationship or interest are disclosed or known and either a majority of the disinterested directors authorizes the contract in good faith or the shareholders vote in good faith to approve the contract. Nor will any such contract be void if it is fair to the corporation when it is authorized, approved or ratified by the board of directors, a committee or the shareholders.

The BVI Act provides that a director shall, forthwith after becoming aware that he is interested in a transaction entered into or to be entered into by the company, disclose that interest to the board of directors of the company. The failure of a director to disclose that interest does not affect the validity of a transaction entered into by the director or the company, so long as the director's interest was disclosed to the board prior to the Company's entry into the transaction or was not required to be disclosed because the transaction is between the company and the director himself and is otherwise in the ordinary course of business and on usual terms and conditions. As permitted by British Virgin Islands law and our memorandum and articles of association, a director interested in a particular transaction may vote on it, attend meetings at which it is considered and sign documents on our behalf which relate to the transaction, provided that the disinterested directors consent.

Transactions with Interested Shareholders

Delaware corporate law contains a business combination statute applicable to Delaware public corporations whereby, unless the corporation has specifically elected not to be governed by that statute by amendment to its certificate of incorporation, it is prohibited from engaging in certain business combinations with an "interested shareholder" for three years following the date that the person becomes an interested shareholder. An interested shareholder generally is a person or group who or that owns or owned 15% or more of the target's outstanding voting stock within the past three years. This has the effect of limiting the ability of a potential acquirer to make a two-tiered bid for the target in which all shareholders would not be treated equally. The statute does not apply if, among other things, prior to the date on which the shareholder becomes an interested shareholder, the board of directors approves either the business combination or the transaction that resulted in the person becoming an interested shareholder. This encourages any potential acquirer of a Delaware public corporation to negotiate the terms of any acquisition transaction with the target's board of directors.

British Virgin Islands law has no comparable provision. As a result, we cannot avail ourselves of the types of protections afforded by the Delaware business combination statute. However, although British Virgin Islands law does not regulate transactions between a company and its significant shareholders, it does provide that these transactions must be entered into bona fide in the best interests of the company and not with the effect of constituting a fraud on the minority shareholders.

Independent Directors

There are no provisions under Delaware corporate law or under the BVI Act that require a majority of our directors to be independent.

Cumulative Voting

Under Delaware corporate law, cumulative voting for elections of directors is not permitted unless the Company's certificate of incorporation specifically provides for it. Cumulative voting potentially facilitates the

representation of minority shareholders on a board of directors since it permits the minority shareholder to cast all the votes to which the shareholder is entitled on a single director, which increases the shareholder's voting power with respect to electing such director. There are no prohibitions to cumulative voting under the laws of the British Virgin Islands, but our memorandum of association and articles of association do not provide for cumulative voting.

Shareholders' Rights under British Virgin Islands Law Generally

The BVI Act provides for remedies which may be available to shareholders. Where a company incorporated under the BVI Act or any of its directors engages in, or proposes to engage in, conduct that contravenes the BVI Act or the Company's memorandum and articles of association, the BVI courts can issue a restraining or compliance order. Shareholders cannot also bring derivative, personal and representative actions under certain circumstances. The traditional English basis for members' remedies has also been incorporated into the BVI Act: where a shareholder of a company considers that the affairs of the company have been, are being or are likely to be conducted in a manner likely to be oppressive, unfairly discriminating or unfairly prejudicial to him, he may apply to the court for an order based on such conduct.

Any shareholder of a company may apply to court for the appointment of a liquidator of the company and the court may appoint a liquidator of the company if it is of the opinion that it is just and equitable to do so.

The BVI Act provides that any shareholder of a company is entitled to payment of the fair value of his shares upon dissenting from any of the following: (a) a merger, if the company is a constituent company, unless the company is the surviving company and the member continues to hold the same or similar shares; (b) a consolidation, if the company is a constituent company; (c) any sale, transfer, lease, exchange or other disposition of more than 50% in value of the assets or business of the company if not made in the usual or regular course of the business carried on by the company but not including (i) a disposition pursuant to an order of the court having jurisdiction in the matter, (ii) a disposition for money on terms requiring all or substantially all net proceeds to be distributed to the shareholders in accordance with their respective interest within one year after the date of disposition, or (iii) a transfer pursuant to the power of the directors to transfer assets for the protection thereof; (d) a redemption of 10% or fewer of the issued shares of the company required by the holders of 90% or more of the shares of the company pursuant to the terms of the BVI Act; and (e) an arrangement, if permitted by the court.

Generally any other claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the British Virgin Islands or their individual rights as shareholders as established by the Company's memorandum and articles of association.

C. Material Contracts

The MFAs

We received exclusive master franchising rights from McDonald's for the Territories on August 3, 2007 when Mr. Staton, our Chairman, CEO and controlling shareholder and our founding private equity shareholders purchased McDonald's LatAm business for \$698.1 million (including \$18.7 million of acquisition costs) and entered into the MFAs. Prior to the Acquisition, Mr. Staton had been the joint venture partner of McDonald's Corporation in Argentina for over 20 years and had served as President of McDonald's South Latin America division since 2004.

McDonald's has a longstanding presence in Latin America and the Caribbean dating to the opening of its first restaurant in Puerto Rico in 1967. Since then, McDonald's expanded its footprint across the region as consumer markets and opportunities arose, opening its first restaurants in Brazil in 1979, in Mexico and Venezuela in 1985 and in Argentina in 1986.

We hold our McDonald's franchise rights pursuant to the MFA for all of the Territories except Brazil, executed on August 3, 2007, as amended and restated on November 10, 2008 and as further amended on August 31, 2010 and June 3, 2011, entered into by us, our wholly owned subsidiary Arcos Dorados Coöperatieve U.A., Arcos Dorados B.V. (or these two entities together with us collectively, the Owner Entities), LatAm, LLC, or the Master Franchisee, certain subsidiaries of the Master Franchisee, Los Laureles, Ltd. and McDonald's. On August 3, 2007, our subsidiary Arcos Dorados Comercio de Alimentos Ltda., or the Brazilian Master Franchisee, and McDonald's entered into the separate, but substantially identical, Brazilian MFA, which was amended and restated on November 10, 2008.

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The MFAs set forth McDonald's and our rights and obligations in respect of the ownership and operation of the McDonald's-branded restaurants located in the Territories. The MFAs do not include the following Latin American and Caribbean countries and territories, among others: Anguilla, Antigua and Barbuda, the Bahamas, Barbados, Belize, Bolivia, the British Virgin Islands, the Cayman Islands, Cuba, Dominica, Dominican Republic, El Salvador, Grenada, Guatemala, Guiana, Haiti, Honduras, Jamaica, Montserrat, Nicaragua, Paraguay, Suriname, St. Barthélemy, St. Kitts and Nevis, St. Lucia, St. Maarten, St. Vincent and the Grenadines, Turks & Caicos Islands and the U.S. Virgin Islands, with the exception of St. Croix and St. Thomas.

The material provisions of the MFAs are set forth below.

Term

The initial term of the franchise granted pursuant to the MFAs is 20 years for all of the Territories other than French Guiana, Guadeloupe and Martinique. After the expiration of the initial term, McDonald's may grant us an option to extend the term of the MFAs with respect to all Territories for an additional period of 10 years. The initial term of the franchise for French Guiana, Guadeloupe and Martinique is 10 years. We have the right to extend the term of the MFA with respect to French Guiana, Guadeloupe and Martinique for an additional term of 10 years.

Our Right to Own and Operate McDonald's-Branded Restaurants

Under the MFAs, in the Territories, we have the exclusive right to (i) own and operate, directly or indirectly, McDonald's restaurants, (ii) license and grant franchises with respect to McDonald's-branded restaurants, (iii) adopt and use, and to grant the right and license to franchisees to adopt and use, the McDonald's operations system in our restaurants, (iv) advertise to the public that we are a franchisee of McDonald's, and (v) to use, and to sublicense to our franchisees the right to use the McDonald's intellectual property solely in connection with the development, ownership, operation, promotion and management of our restaurants, and to engage in related advertising, promotion and marketing programs and activities.

Under the MFAs, McDonald's cannot grant the rights described in clauses (i), (ii) and (iii) of the preceding paragraph to any other person while the MFAs are in effect. Notwithstanding the foregoing, McDonald's has reserved, with respect to the McDonald's restaurants located in the Territories, all rights not specifically granted to us, including the right, directly or indirectly, to (i) use and sublicense the McDonald's intellectual property for all other purposes and means of distribution, (ii) sell, promote or license the sale of products or services under the intellectual property and (iii) use the intellectual property in connection with all other activities not prohibited by the MFAs.

In addition, under the MFAs, McDonald's provides us with know-how and new developments, techniques and improvements in the areas of restaurant management, food preparation and service, and operations manuals that contain the standards and procedures necessary for the successful operation of McDonald's-branded restaurants.

Franchise Fees

Under the MFAs, we are responsible for the payment to McDonald's of initial franchise fees, continuing franchise fees and transfer fees.

The initial franchise fee is payable upon the opening of a new restaurant and the extension of the term of any existing franchise agreement. For Company-operated restaurants, the initial fee is based on the term remaining under the MFAs for the country in which the restaurant is located. For franchised restaurants, we receive an initial fee from the franchisee based on the term of the franchise agreement (generally 20 years), and pay 50% of this fee to McDonald's.

The continuing franchise fee is paid, with respect to each calendar month, to McDonald's in an amount generally equal to 7% of the U.S. dollar equivalent of the gross sales, as defined therein, of each of the McDonald's restaurants in the Territories for that calendar month, minus, as applicable, a brand building adjustment. During the first 10 years of the MFAs, the brand building adjustment is 2% of the gross sales, for a net continuing franchise fee payment of 5% of the gross sales. During years 11 through 15 of the MFAs, the brand building adjustment will be 1% of the gross sales, for a net continuing franchise fee payment of 6%; and the brand building adjustment will be 0% thereafter, for a net continuing franchise fee payment of 7% of the gross sales. We are responsible for collecting the continuing franchise fee from our franchisees and must pay that amount to McDonald's. In the event that a

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franchisee does not pay the full amount of the fee or any of our subsidiaries are unable to transfer funds to us due to currency restrictions or otherwise, we are responsible for any resulting shortfall. See “Item 3. Key Information—D. Risk Factors—Certain Factors Relating to Our Business—Our financial condition and results of operations depend, to a certain extent, on the financial condition of our franchisees and their ability to fulfill their obligations under their franchise agreements” and “Item 3. Key Information—D. Risk Factors—Certain Factors Relating to Latin America and the Caribbean—We are subject to significant foreign currency exchange controls and depreciation in certain countries in which we operate.”

In the event of a voluntary or involuntary transfer of any of the McDonald’s restaurants located in the Territories to a person other than a subsidiary of ours or an affiliate of one of our franchisees, we must charge a transfer fee of not less than \$10,000, and must pay to McDonald’s an amount equal to 50% of the fee charged.

All payments to McDonald’s must be made in U.S. dollars, but are based on local currency exchange rates at the time of payment.

Material Breach

A material breach under the MFAs would occur if we, or our subsidiaries that are a party to the MFAs, materially breached any of the representations or warranties or obligations (not cured within 30 days after receipt of notice thereof from McDonald’s) relating to or otherwise in connection with any aspect of the master franchise business, the franchised restaurants or any other matter in or affecting any one or more Territories. The following events, among others, constitute a material breach under the MFAs: our noncompliance with anti-terrorism or anti-corruption policies and procedures required by applicable law; our bankruptcy, insolvency, voluntary filing or filing by any other person of a petition in commercial insolvency; our conviction or that of our subsidiaries, or of our or our subsidiaries’ agents or employees for a crime or offense that is punishable by incarceration for more than one year or a felony, or a crime or offense or the indictment on charges thereof that, in the determination of McDonald’s, is likely to adversely affect the reputation of such person, any franchised restaurant or McDonald’s; the entry of any judgment against us or our subsidiaries in excess of \$1,000,000 that is not duly paid or otherwise discharged within 30 days (unless such judgment is being contested on appeal in good faith); our failure to maintain certain quarterly financial ratios and not cure any non-compliance within 30 days; our failure to achieve (a) at least 80% of the targeted openings during any one calendar year of any restaurant opening plan; or (b) at least 90% of the targeted openings during the three-calendar year term of any restaurant opening plan; and our failure to comply with at least 80% of the funding requirements of any reinvestment plan with respect to any Territory for a period of one year.

Business of the Company and the Other Owner Entities

In addition to the payment of franchise fees described above, we and the other Owner Entities are subject to a variety of obligations and restrictions under the MFAs.

Under the MFAs, we cannot, directly or indirectly, enter into any other QSR business or any business other than the operation of McDonald’s-branded restaurants in the Territories. Neither we nor any of the other Owner Entities can engage in a business other than holding, directly or indirectly, our equity interests. In addition, neither we nor any of the other Owner Entities can engage in any activity or participate in any business that competes with McDonald’s business.

Under the MFAs, Los Laureles Ltd., a British Virgin Islands company beneficially owned by Mr. Staton, our Chairman, CEO and controlling shareholder, is required to own not less than 40% of our economic interests and 51% of our voting interests. The MFAs do provide an exception for any dilution following an initial public offering, so long as such dilution does not cause Los Laureles Ltd. to be diluted below 30% of our economic interests. Also, under the MFAs, we are required to own, directly or indirectly, 100% of the equity interests of our subsidiaries and cannot enter into any partnership, joint venture or similar arrangement without McDonald’s consent. In addition, at least 50% of all McDonald’s-branded restaurants in the Territories must be Company-operated restaurants.

Real Estate

Under the MFAs, we must own or lease the real estate property where all of our Company-operated restaurants are located. We cannot transfer or encumber any of the real estate properties that we own without McDonald’s consent. Due to the geographic and commercial importance of certain restaurants, we may not sell certain “iconic”

properties without the prior written consent of McDonald's. For certain of these selected properties, we have already perfected a first priority lien in favor of McDonald's.

Under the MFAs, no more than 50% of the total number of restaurants in each Territory, and no more than 10% of the total number of restaurants in all the Territories, can be located on real estate property that is owned, held or leased by our franchisees.

In addition, the MFA lists 25 restaurants that we are prohibited from selling or otherwise transferring without McDonald's consent.

Transfer of Equity Interests or Significant Assets

Under the MFAs, neither we nor any of the other Owner Entities can transfer or pledge the equity interests of any of our subsidiaries, or any significant portion of our assets, without McDonald's consent.

Operational Control

Under the MFAs, McDonald's is entitled to approve the appointment of our chief executive officer and our chief operating officer.

In the event that McDonald's modifies its standards applicable to technology and related equipment, we must purchase any new or modified technology, software, hardware or equipment necessary to comply with the modified standards.

Restaurant Opening Plan and Reinvestment Plan

Under the MFAs, we are required to agree with McDonald's on a restaurant opening plan and a reinvestment plan for each three-year period during the term of the MFAs. The restaurant opening plan specifies the number and type of new restaurants to be opened in the Territories during the applicable three-year period, while the reinvestment plan specifies the amount we must spend reimaging or upgrading restaurants during the applicable three-year period. Prior to the expiration of the then-applicable three-year period we must agree with McDonald's on a subsequent restaurant opening plan and reinvestment plan. We may also propose, subject to McDonald's prior written consent, amendments to any restaurant opening plan or reinvestment plan to adapt to changes in economic or political conditions.

As part of the reinvestment plan with respect to the three-year period that commenced on January 1, 2014, we must reinvest an aggregate of at least \$180 million in the Territories. In addition, we have committed to open 250 new restaurants during the current three-year restaurant opening plan. We estimate that the cost to comply with our restaurant opening commitments under the MFAs from 2014 through 2016 will be between \$175 million and \$350 million, depending on, among other factors, the type and location of restaurants we open. However, we have submitted a proposal to McDonald's to amend the 2014-2016 opening and reinvestment plans, in order to adjust these plans to the current economic realities of the region. See "Item 4. Information on the Company—A. History and Development of the Company—Capital Expenditures and Divestitures." In the event we are unable to reach an agreement on subsequent plans prior to the expiration of the then-existing plan, the MFAs provide for an automatic increase of 20% in the required amount of reinvestments as compared to the then-existing plan and a number of new restaurants no less than 210 multiplied by a factor that increases each period during the subsequent three-year restaurant opening plan.

Advertising and Promotion Plan

Under the MFAs, we must develop and implement a marketing plan with respect to each Territory that must be approved in advance by McDonald's. The MFAs require us to spend at least 5% of our gross sales on advertisement and promotion activities. Our advertisement and promotion activities are guided by our overall marketing plan, which identifies the key strategic platforms that we aim to leverage in order to drive sales.

Insurance

Under the MFAs, we are required to acquire and maintain a variety of insurance policies with certain minimum coverage limits, including commercial general liability, workers compensation, "all risk" property and business interruption insurance, among others.

Call Option Right and Security Interest in Equity Interests of the Company

Under the MFAs, McDonald's has the right, or Call Option, to acquire our non-public shares or our interests in one or more Territories upon: (i) the expiration of the initial term of the MFAs on August 2, 2027 if the initial term is not extended, (ii) the occurrence of a material breach of the MFAs or (iii) during the period of 12 months following the earlier of (x) the 18th month anniversary of the death or permanent incapacity of Mr. Staton or (y) the receipt by McDonald's of notice from Mr. Staton's heirs that they have elected to have the period of 12 months commence as of the date specified in the notice. McDonald's generally has the right either to exercise the Call Option with respect to all of the Territories, or, in its sole discretion, with respect to the Territory or Territories identified by McDonald's as being affected by such material breach or to which such material breach may be attributable except upon the occurrence of an initial material breach relating to any Territory or Territories in which there are less than 100 restaurants in operation. In such case, McDonald's only has the right to acquire the equity interests of any of our subsidiaries in the relevant Territory or Territories. As of December 31, 2014, we had more than 100 restaurants in operation in each of Argentina, Brazil, Mexico, Puerto Rico and Venezuela. No other Territory had more than 85 restaurants in operation.

If McDonald's exercises the Call Option upon the occurrence of the events described in clause (i) or (iii) of the preceding paragraph, it must pay a purchase price equal to 100% of the fair market value of our non-public shares. If the Call Option is exercised upon the occurrence of a material breach, however, the purchase price is reduced to 80% of the fair market value of all of our non-public shares or of all of the equity interests of the subsidiaries operating restaurants in the Territory related to such material breach, as applicable. The purchase price paid by McDonald's upon exercise of the Call Option is, in all events, reduced by the amount of debt and contingencies and increased by the amount of cash attributable to the entity whose equity interests are being acquired pursuant to the Call Option. In the event McDonald's were to exercise its right to acquire all of our non-public shares, McDonald's would become our controlling shareholder.

If McDonald's exercises the Call Option with respect to any of our subsidiaries (but not all of them) and the amount of debt and contingencies (minus cash) attributable to the equity interests of those subsidiaries is greater than the fair market value of those equity interests, we must, at our election, either (i) assume the debts and contingencies (minus cash) and deliver the equity interests to McDonald's free of any obligations with respect thereto or (ii) pay to McDonald's the absolute value of that amount. The fair market value of any of the equity interests is to be determined by internationally recognized investment banks without taking into consideration the debt, contingencies or cash attributable to the equity interests.

In order to secure McDonald's right to exercise the Call Option, McDonald's was granted a perfected security interest in the equity interests of the Master Franchisee, the Brazilian Master Franchisee and our subsidiaries other than our subsidiaries organized in Costa Rica, Mexico, French Guiana, Guadeloupe and Martinique. The equity interests of our subsidiaries organized in Costa Rica and Mexico were transferred to a trust for the benefit of McDonald's. McDonald's does not have a security interest in the equity interests of our subsidiaries organized in French Guiana, Guadeloupe and Martinique.

The equity interests were transferred to Citibank, N.A., acting as escrow agent. Subject to the terms of the Escrow Agreement and the Intercreditor Agreement, upon McDonald's exercise of the Call Option and its payment of the respective purchase price, the escrow agent must transfer the equity interests, free of any liens or encumbrances, to McDonald's.

Limitations on Indebtedness

Under the MFAs, we cannot incur any indebtedness secured by the collateral pledged by us and certain of our subsidiaries in connection with the letters of credit or amend or waive any of the terms related to the collateral, without McDonald's consent. The pledged collateral includes the equity interests of certain of our subsidiaries, certain of our rights under certain of the Acquisition documents, franchise document payment rights, and our intercompany debt and notes.

Under the MFAs, we must maintain a fixed charge coverage ratio (as defined therein) at least equal to (a) 1.25 from August 31, 2010 through the fiscal quarter ended September 30, 2011 and (b) 1.50, commencing with the fiscal quarter ended December 31, 2011 and thereafter; and a leverage ratio (as defined therein) not in excess of (a) 5.0, from August 31, 2010 through the fiscal quarter ended June 30, 2011, (b) 4.75 for the fiscal quarter ended

September 30, 2011, and (c) 4.25, commencing with the fiscal quarter ended December 31, 2011 and thereafter. Mainly as a result of the adoption of SICAD and SICAD II as the exchange rates used for remeasurement of our bolivar-denominated assets and liabilities and operating results in Venezuela, we were not in compliance with certain financial ratios in the MFA during 2014. For that reason, on July 31, 2014, McDonald's agreed to grant us a limited six-month waiver (from and as of June 30, 2014 through and including December 31, 2014), during which time, we were not required to comply with these financial ratios. We are currently negotiating an extension of this waiver. Notwithstanding the foregoing, we do not expect any material adverse effect to our business, results of operations, financial condition or cash flows as a result of this situation. We continue to monitor our compliance with these quarterly ratios.

Letters of Credit

As security for the performance of our obligations under the MFAs, we have obtained (i) an irrevocable standby letter of credit in favor of McDonald's in an amount of \$65.0 million, issued by Credit Suisse acting as issuing bank through its Cayman Islands Branch, and (ii) an irrevocable standby letter of credit in favor of McDonald's in an amount of \$15.0 million, issued by Itaú Unibanco S.A. ("Itaú"), acting as issuing bank through its New York Branch. The Credit Suisse and Itaú letters of credit expire on November 10, 2018 and May 10, 2018, respectively, but we will be required by the MFAs to renew these letters of credit or obtain new standby letters of credit in the same amount.

The Credit Suisse letter of credit and reimbursement agreement contains a limited number of customary affirmative and negative covenants. These include limitations on (i) any transfer of the MFAs, (ii) amendment or waiver of the MFAs without the consent of the issuing bank, (iii) our leverage ratio, (iv) taking any action to elect to assume the debt of any of our subsidiaries upon McDonald's exercise of a partial Call Option, (v) our ability to guaranty obligations of our subsidiaries, and (vi) amendments to the credit agreement.

Credit Suisse, as issuing bank, has a security interest in certain of our rights under certain Acquisition documents, franchise document payment rights and our intercompany debt notes. In addition, our subsidiaries (other than those organized in Ecuador, French Guiana, Guadeloupe, Martinique and Peru, and certain subsidiaries organized in Argentina, Colombia and Mexico) guaranteed to Credit Suisse the full and prompt payment of our obligations under the Credit Suisse letter of credit and reimbursement agreement.

The letter of credit that we obtained from Itaú on May 9, 2011 effectively replaced the cash collateral that we had previously pledged in favor of McDonald's in an amount of \$15.0 million. The Itaú continuing standby letter of credit agreement contains a limited number of customary affirmative and negative covenants. These include limitations on (i) any transfer of the MFAs, (ii) amendment or waiver of the MFAs without the consent of the issuing bank, (iii) our leverage ratio, (iv) taking any action to elect to assume the debt of any of our subsidiaries upon McDonald's exercise of a Call Option, and (v) permitting ourselves or any of our subsidiaries to become insolvent.

We delivered a promissory note to Itaú in an amount of \$15.0 million evidencing our obligations to Itaú under the continuing standby letter of credit agreement and a guarantee letter from our Brazilian subsidiary guarantying the full and punctual payment when due of our obligations and liabilities to Itaú in respect of the Itaú letter of credit and the continuing standby letter of credit agreement, including without limitation our reimbursement obligations for any payments made by Itaú under the letter of credit.

Termination

The MFAs automatically terminate without the need for any party to it to take any further action if any type of insolvency or similar proceeding in respect of us or any of the other Owner Entities commences.

In the event of the occurrence of certain material breaches, such as if we fail to comply with the reinvestment or restaurant opening plans, McDonald's has the right to terminate the MFAs.

Upon the termination of the MFAs, McDonald's has the right to acquire all, but not less than all, of our equity interests at fair market value, which is to be calculated by internationally recognized investment banks selected by us and McDonald's. The fair market value of our equity interests shall be calculated in U.S. dollars based on the amount that would be received for our equity interests in an arm's-length transaction between a willing buyer and a willing seller, taking into account the benefits provided by the MFAs.

The 2016 Notes, the 2019 Notes and the 2023 Notes

For a description of the 2016 notes, the 2019 notes and the 2023 notes, see “Item 5. Operating and Financial Review and Prospects—B. Liquidity and Capital Resources.”

The Revolving Credit Facility

For a description of the revolving credit facility entered into by Arcos Dorados B.V. with Bank of America, N.A., see “Item 5. Operating and Financial Review and Prospects—B. Liquidity and Capital Resources—Net Cash Provided by Financing Activities—Revolving Credit Facility.”

The 2012 Swap Transaction

On August 13, 2012, we entered into an equity total return swap transaction, or the swap transaction, among us, our subsidiary Arcos Dorados B.V. and Goldman Sachs International, or GSI. The purpose of the swap transaction is to reduce the impact that class A share price volatility has on our income statement due to recognition of compensation expense from the long-term incentive plan that we implemented in 2008. See “Item 6. Directors, Senior Management and Employees—B. Compensation—Long-term and Equity Incentive Plans—Long-term Incentive Plan.”

Under the terms of the swap transaction, we received from GSI any notional gains and dividends and/or pay to GSI any notional losses, as the case may be, from time to time on 2,272,551 class A shares, or the number of notional shares, as described below. The reference price for the swap transaction (which is equal to the Rule 10b-18 volume-weighted average price at which an affiliate of GSI initially acquired a number of class A shares equal to the number of notional shares to hedge GSI’s equity price risk under the swap transaction, or the hedge shares) was \$13.7689 per class A share and was subject to adjustment in the event of certain corporate transactions and events. We will also make quarterly payments to GSI at a floating interest rate in an amount based on the equity notional amount of the swap transaction, which was equal to the number of notional shares, multiplied by the reference price (initially approximately \$31.3 million). The swap transaction matured in September 2014 and was subsequently renewed, but we may still reduce the number of notional shares underlying the swap transaction, and therefore the equity notional amount of the swap transaction, from time to time prior to maturity of the swap transaction, at our option, subject to certain limitations.

The swap transaction includes certain termination events, including permitting our consolidated net indebtedness to EBITDA ratio to be greater than 3.0 to 1 (previously 2.5 to 1) on the last day of any fiscal quarter .

On March 26, 2013, we filed a shelf registration statement on Form F-3 and a prospectus supplement thereto with the SEC relating to the offering from time to time by GSI of up to 2,272,551 class A shares through its affiliate Goldman, Sachs & Co., or Goldman Sachs. GSI will calculate our gain or loss under the swap transaction by comparing the average net price per share at which its affiliate sells hedge shares in such offering, or the final price, to the then-current reference price. At settlement following any share reduction and at maturity of the swap transaction:

- if the relevant final price is greater than the then-current reference price, we will realize a gain in respect of the relevant number of notional shares subject to such settlement (and GSI will make a cash payment to us in an amount equal to such gain); and
- if the relevant final price is less than the then-current reference price, we will realize a loss in respect of the relevant number of notional shares subject to such settlement (and we will make a cash payment to GSI in an amount equal to such loss).

In addition, we will receive at maturity of the swap transaction the aggregate amount of any quarterly cash dividends we pay per class A share, multiplied by the number of notional shares underlying the swap transaction as of the ex-dividend date for each such dividend.

As of December 31, 2014, Goldman Sachs has sold 1,250,000 class A shares under the F-3 shelf registration statement and prospectus supplement thereto. In connection with the sales of these class A shares, we have paid Goldman Sachs an aggregate amount of \$1,651,297 as settlement of the share reductions and an aggregate amount of fees amounting to \$80,272.

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On September 23, 2014, the swap transaction was renewed. In addition, we are required to make a collateral deposit equal to the excess of the mark-to-market above a threshold of \$3.0 million, with \$500,000 as the incremental basis. As a result of the Company's decision to change the exchange rates used for remeasurement of its bolivar-denominated assets and liabilities and operating results in Venezuela, we were not in compliance with the net indebtedness to EBITDA ratio under the swap transaction as of June 30, 2014. However, on September 23, 2014, we reached an agreement with GSI to change the consolidated net indebtedness to EBITDA ratio from 2.5 to 1 to 3.0 to 1. We are currently in compliance with the revised covenant.

On April 20, 2015, we further amended the swap transaction by reducing the threshold above which we are required to make a collateral deposit from \$3.0 million to \$0 and revising the provision related to GSI's ability to terminate the swap transaction in the event that our stock price falls below certain thresholds.

Since the swap transaction is scheduled to mature no later than September 2015, we expect that Goldman Sachs will sell the remaining 1,022,551 shares this year. See Note 12 to our consolidated financial statements for more details.

D. Exchange Controls

There are currently no exchange control regulations in the BVI applicable to us or our shareholders. For information about any exchange controls or restrictions in Argentina, Brazil, Mexico and Venezuela, see "Item 3. Key Information—A. Selected Financial Data—Exchange Rates and Exchange Controls."

E. Taxation

British Virgin Islands Tax Considerations

The following summary contains a general description of certain British Virgin Islands tax consequences of the acquisition, ownership and disposition of class A shares, but it does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to hold class A shares. The general summary is based upon the tax laws of the British Virgin Islands and regulations thereunder as of the date hereof, which are subject to change.

We are not liable to pay any form of corporate taxation in the BVI and all dividends, interests, rents, royalties, compensations and other amounts paid by us to persons who are not persons resident in the BVI or providing services in the BVI are exempt from all forms of taxation in the BVI and any capital gains realized with respect to any shares, debt obligations, or other securities of ours by persons who are not persons resident in the BVI are exempt from all forms of taxation in the BVI.

No estate, inheritance, succession or gift tax, rate, duty, levy or other charge is payable by persons who are not persons resident in the BVI with respect to any shares, debt obligation or other securities of ours.

Subject to the payment of stamp duty on the acquisition or certain leasing of property in the BVI by us (and in respect of certain transactions in respect of the shares, debt obligations or other securities of BVI incorporated companies owning land in the BVI), all instruments relating to transfers of property to or by us and all instruments relating to transactions in respect of the shares, debt obligations or other securities of ours and all instruments relating to other transactions relating to our business are exempt from payment of stamp duty in the BVI.

There are currently no withholding taxes or exchange control regulations in the BVI applicable to us or our shareholders who are not providing services in the BVI.

EC Council Directive 2003/48/EC on the taxation of savings income (the "Directive") is designed to facilitate the exchange of information on individuals' savings income between the tax authorities of the members states of the European Union (each an "EU Member State"). The Directive and associated legislation provides that institutions, termed "paying agents", must report to their local tax authority details of payments of interest or other similar income paid by them to an individual resident of or certain limited types of entities established in an EU Member State (each such individual or entity, an "Applicable Resident"). The local tax authority in turn must disclose to the tax authority in the EU Member State where the Applicable Resident is resident details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an Applicable Resident of that other EU Member State (the foregoing reporting and disclosure obligations being referred to as the

“Automatic Exchange of Information Regime”). However, for a transitional period (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries), Austria and Luxembourg may instead apply (unless during such period they elect otherwise) a withholding system in relation to such payments (the foregoing withholding system being referred to as the “Transitional Withholding Tax Regime”).

A number of non-EU countries and certain dependent or associated territories of certain EU Member States (including the BVI; together with the EU Member States the “Applicable Jurisdictions”), have adopted measures similar to either the Automatic Exchange of Information Regime or the Transitional Withholding Tax Regime in relation to payments made by a paying agent within its jurisdiction to, or collected by such a paying agent for, an Applicable Resident. In addition, the EU Member States have entered into reciprocal provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a paying agent in an EU Member State to, or collected by such a paying agent for, an individual resident or certain limited types of entities established in one of those territories. In 2008, the European Commission proposed certain amendments to the Directive, which may, if implemented, amend or broaden the scope of the requirements described above.

The Directive was implemented in the BVI by way of a series of bilateral agreements with certain Applicable Jurisdictions together with amendments to the Mutual Legal Assistance (Tax Matters) Act, 2003. When the Directive was originally introduced, the BVI opted to give Applicable Residents the choice between the Automatic Exchange of Information Regime or a Transitional Withholding Tax Regime. However, pursuant to the Mutual Legal Assistance (Tax Matters) (Automatic Exchange Information) Order, 2011, with effect from 1 January 2012 paying agents established in the BVI are no longer subject to, or able to rely on, the Transitional Withholding Tax Regime as a way of complying with the Directive. Therefore, with effect from that date, paying agents in the BVI must comply with the Automatic Exchange of Information Regime.

There is no income tax treaty currently in effect between the United States and the BVI. However, a Tax Information Exchange Agreement (“TIEA”) is in place. The parties to the TIEA have agreed to provide assistance through the exchange of information relating to the administration and enforcement of the domestic laws of the parties concerning the taxes and the tax matters covered by the TIEA, including information that may be relevant to the determination, assessment, verification, enforcement, or collection of tax claims with respect to persons subject to such taxes, or to the investigation or prosecution of criminal tax evasion in relation to such persons.

Material U.S. Federal Income Tax Considerations for U.S. Holders

The following summary describes the material U.S. federal income tax consequences of the ownership and disposition of class A shares, but it does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a particular person’s decision to own such securities. This summary applies only to U.S. Holders (as defined below) that own class A shares as capital assets for U.S. federal income tax purposes. In addition, it does not describe all of the tax consequences that may be relevant in light of a U.S. Holder’s particular circumstances, including alternative minimum tax consequences, the potential application of the provisions of the Internal Revenue Code of 1986, as amended, (the “Code”) known as the Medicare contribution tax, and tax consequences applicable to certain U.S. Holders subject to special rules, such as:

- certain financial institutions;
- dealers or traders in securities who use a mark-to-market method of tax accounting;
- persons holding class A shares as part of a hedge, “straddle,” wash sale, conversion transaction or integrated transaction or persons entering into a constructive sale with respect to the class A shares;
- persons whose “functional currency” for U.S. federal income tax purposes is not the U.S. dollar;
- tax exempt entities, including “individual retirement accounts” and “Roth IRAs”;
- entities classified as partnerships for U.S. federal income tax purposes;
- persons that own or are deemed to own ten percent or more of our voting shares;

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- persons who acquired our class A shares pursuant to the exercise of an employee stock option or otherwise as compensation; or
- persons holding class A shares in connection with a trade or business conducted outside the United States.

If an entity that is classified as a partnership for U.S. federal income tax purposes holds class A shares, the U.S. federal income tax treatment of a partner will generally depend on the status of the partner and the activities of the partnership. Partnerships holding class A shares and partners in such partnerships should consult their tax advisers as to the particular U.S. federal income tax consequences of holding and disposing of the class A shares.

This discussion is based upon the Code, administrative pronouncements, judicial decisions and final, temporary and proposed Treasury Regulations, all as of the date hereof, changes to any of which may affect the tax consequences described herein—possibly with retroactive effect.

A “U.S. Holder” is a holder who, for U.S. federal income tax purposes, is a beneficial owner of class A shares that is:

- (1) a citizen or individual resident of the United States;
- (2) a corporation, or other entity taxable as a corporation, created or organized in or under the laws of the United States, any state therein or the District of Columbia; or
- (3) an estate or trust the income of which is subject to U.S. federal income taxation regardless of its source.

U.S. Holders should consult their tax advisers concerning the U.S. federal, state, local and foreign tax consequences of owning and disposing of class A shares in their particular circumstances.

This discussion assumes that we are not, and will not become, a passive foreign investment company, as described below.

Taxation of Distributions

Distributions paid on class A shares, other than certain pro rata distributions of class A shares, will be treated as dividends to the extent paid out of our current or accumulated earnings and profits (as determined under U.S. federal income tax principles). Because we do not maintain calculations of our earnings and profits under U.S. federal income tax principles, we expect that distributions generally will be reported to U.S. Holders as dividends. Subject to applicable limitations, dividends paid to certain non-corporate U.S. Holders may be eligible for taxation as “qualified dividend income” and therefore may be taxable at rates applicable to long-term capital gains. Non-corporate U.S. Holders should consult their tax advisers regarding the availability of the reduced tax rates on dividends in their particular circumstances. The amount of the dividend will be treated as foreign-source dividend income to U.S. Holders and will not be eligible for the dividends-received deduction generally available to U.S. corporations under the Code. Dividends will be included in a U.S. Holder’s income on the date of the U.S. Holder’s receipt of the dividend.

Sale or Other Taxable Disposition of Class A Shares

For U.S. federal income tax purposes, gain or loss realized on the sale or other taxable disposition of class A shares will be capital gain or loss, and will be long-term capital gain or loss if the U.S. Holder owned the class A shares for more than one year. The amount of the gain or loss will equal the difference between the U.S. Holder’s tax basis in the class A shares disposed of and the amount realized on the disposition, in each case as determined in U.S. dollars. This gain or loss will generally be U.S.-source gain or loss for foreign tax credit purposes.

Passive Foreign Investment Company Rules

We believe that we were not a “passive foreign investment company” (a “PFIC”) for U.S. federal income tax purposes for our 2014 taxable year. However, because the application of the regulations is not entirely clear and because PFIC status depends on the composition of a Company’s income and assets and the market value of its assets from time to time, there can be no assurance that we will not be a PFIC for any taxable year.

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If we were a PFIC for any taxable year during which a U.S. Holder owned class A shares, gain recognized by such U.S. Holder on a sale or other disposition (including certain pledges) of the class A shares would be allocated ratably over the U.S. Holder's holding period for the class A shares. The amounts allocated to the taxable year of the sale or other disposition and to any year before we became a PFIC would be taxed as ordinary income. The amount allocated to each other taxable year would be subject to tax at the highest rate in effect for individuals or corporations, as appropriate, for that taxable year, and an interest charge would be imposed on the resulting tax liability for each taxable year. Further, to the extent that any distribution received by a U.S. Holder on its class A shares exceeds 125% of the average of the annual distributions on the class A shares received during the preceding three years or such U.S. Holder's holding period, whichever is shorter, that distribution would be subject to taxation in the same manner as gain on the disposition of a share of a PFIC, described immediately above. If we were a PFIC, certain elections may be available that would result in alternative treatments (such as mark-to-market treatment) of the class A shares that differ from the treatment set forth in this paragraph.

In addition, if we were to be treated as a PFIC in a taxable year in which we pay a dividend with respect to any U.S. Holder or in a prior taxable year, the long-term capital gains rates discussed above with respect to dividends paid to certain non-corporate U.S. Holders would not apply.

If we are a PFIC for any taxable year during which a U.S. Holder owned our class A shares, the U.S. Holder will generally be required to file IRS Form 8621 (or any successor form) with their annual U.S. federal income tax returns, subject to certain exceptions.

Information Reporting and Backup Withholding

Payments of dividends and sales proceeds that are made within the United States or through certain U.S.-related financial intermediaries generally are subject to information reporting, and may be subject to backup withholding, unless (i) the U.S. Holder is an exempt recipient or (ii) in the case of backup withholding, the U.S. Holder provides a correct taxpayer identification number and certifies that it is not subject to backup withholding.

The amount of any backup withholding from a payment to a U.S. Holder will be allowed as a credit against the holder's U.S. federal income tax liability and may entitle it to a refund, provided that the required information is timely furnished to the IRS.

Certain U.S. Holders who are individuals may be required to report information relating to their ownership of stock of a non-U.S. person, subject to certain exceptions (including an exception for stock held in certain accounts maintained by a U.S. financial institution). Certain U.S. Holders that are entities may be subject to similar rules in the future. U.S. Holders should consult their tax advisers regarding the effect, if any, of these reporting requirements on their ownership and disposition of class A shares.

F. Dividends and Paying Agents

Not applicable.

G. Statement by Experts

Not applicable.

H. Documents on Display

We are subject to the informational requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act. Accordingly, we are required to file reports and other information with the SEC, including annual reports on Form 20-F and reports on Form 6-K. You may inspect and copy reports and other information filed with the SEC at the Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an Internet website that contains reports and other information about issuers, like us, that file electronically with the SEC. The address of that website is www.sec.gov.

As a foreign private issuer, we are exempt under the Exchange Act from, among other things, the rules prescribing the furnishing and content of proxy statements, and our executive officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of

the Exchange Act. In addition, we will not be required under the Exchange Act to file periodic reports and financial statements with the SEC as frequently or as promptly as U.S. companies whose securities are registered under the Exchange Act.

We will send the transfer agent a copy of all notices of shareholders' meetings and other reports, communications and information that are made generally available to shareholders. The transfer agent has agreed to mail to all shareholders a notice containing the information (or a summary of the information) contained in any notice of a meeting of our shareholders received by the transfer agent and will make available to all shareholders such notices and all such other reports and communications received by the transfer agent.

I. Subsidiary Information

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Risk Management

In the ordinary course of our business activities, we are exposed to various market risks that are beyond our control, including fluctuations in foreign exchange rates and the price of our primary supplies, and which may have an adverse effect on the value of our financial assets and liabilities, future cash flows and profit. As a result of these market risks, we could suffer a loss due to adverse changes in foreign exchange rates and the price of commodities in the international markets. In addition, we are subject to equity price risk relating to our share-based compensation plans. Our policy with respect to these market risks is to assess the potential of experiencing losses and the consolidated impact thereof, and to mitigate these market risks. We are not currently exposed to significant interest rate risk because most of our long-term debt is at fixed interest rates. We do not enter into market risk sensitive instruments for trading or speculative purposes.

Foreign Currency Exchange Rate Risk

Foreign Currency Exchange Rate Risk in 2014

We are exposed to foreign currency exchange rate risk primarily in connection with the fluctuation in the value of the local currencies of the countries in which we operate, primarily the Brazilian *real*, Argentine *peso* and the Venezuelan *bolivar*, against the U.S. dollar. We generate revenues and cash from our operations in local currencies while a significant portion of our long-term debt is denominated in U.S. dollars. An adverse change in foreign currency exchange rates would therefore affect the generation of cash flow from operations in U.S. dollars, which could negatively impact our ability to pay amounts owed in U.S. dollars. Moreover, our continuing franchise fee payments to McDonald's pursuant to the MFAs must be translated into and paid in U.S. dollars using the exchange rate of the last business day of the month, payable on the seventh day subsequent to each month-end. As such, in the intervening period we are subject to significant foreign exchange risk.

While substantially all our income is denominated in the local currencies of the countries in which we operate, our supply chain management involves the importation of various products, and some of our imports are denominated in U.S. dollars. Therefore, we are exposed to foreign currency exchange risk related to imports. We have entered into various forward contracts to hedge a portion of the foreign exchange risk associated with the forecasted imports of certain countries. See Note 12 to our consolidated financial statements for more details. In addition, we attempt to minimize this risk also by entering into annual and semi-annual pricing arrangements with our main suppliers.

We are also exposed to foreign exchange risk related to U.S. dollar-denominated intercompany balances held by certain of our operating subsidiaries with our holding companies, and to foreign currency-denominated intercompany balances held by our holding companies with certain operating subsidiaries. Although these intercompany balances are eliminated through consolidation, an adverse change in exchange rates could have a significant impact on our results through the recognition of foreign currency exchange losses in our consolidated income statement.

To help mitigate some of these foreign currency exchange rate risks, we have entered into a cross-currency interest rate swap agreement, to hedge all the variability in a portion of the collection of principal and interest from

the intercompany loan receivable denominated in Brazilian *reais* of our holding company, Arcos Dorados B.V. See Note 12 to our consolidated financial statements for more details. As of December 31, 2014 37.2% of the principal amount of our long-term debt is denominated in *reais* and 61.2% is denominated in U.S. dollars.

A decrease of 10% in the value of the Brazilian *real* against the U.S. dollar would result in a net foreign exchange loss totaling \$21.6 million over (i) the outstanding balance of the 2016 notes (R\$709.9 million including accrued interest), (ii) the cross-currency interest rate swap used to partially hedge the intercompany loan receivable of Arcos Dorados B.V. denominated in Brazilian *reais* (R\$111.5 million including accrued interest), (iii) the Brazilian *reais* -denominated intercompany net receivable held by our subsidiary, Arcos Dorados B.V. (R\$699.3 million including accrued interest), and (iv) the outstanding balance of the U.S. dollar-denominated intercompany net debt held by our Brazilian subsidiaries of \$282.9 million as of December 31, 2014.

An increase of 10% in the value of the European euro against the U.S. dollar would result in a foreign exchange loss of \$1.5 million mainly related to the outstanding U.S. dollar-denominated intercompany receivable held by our subsidiary in Martinique of \$13.3 million as of December 31, 2014.

An increase of 10% in the value of the Uruguayan *peso* against the U.S. dollar would result in a foreign exchange loss of \$3.1 million over the outstanding U.S. dollar-denominated intercompany receivable held by our subsidiaries in Uruguay of \$28.5 million as of December 31, 2014.

Fluctuations in the value of the other local currencies against the U.S. dollar would not result in material foreign exchange gains or losses as of December 31, 2014 since there are no other significant intercompany balances exposed to foreign exchange risk.

We are also exposed to foreign currency exchange risk related to the currency translation of our Venezuelan operations. A depreciation of the Venezuelan *bolívar* against the U.S. dollar would result in a foreign currency exchange loss as a result of remeasuring monetary balances denominated in *bolívares*. See Notes 21 and 26 to our consolidated financial statements for details about exchange controls affecting our operations in Venezuela and new regulations announced subsequent to December 31, 2014.

Summary of Foreign Currency Exchange Rate Risk in 2013

A decrease of 10% in the value of the Brazilian *real* against the U.S. dollar would have resulted in a net foreign exchange loss totaling \$2.6 million over (i) the outstanding balance of the 2016 notes (R\$711.5 million including accrued interest), (ii) the cross-currency interest rate swap used to partially hedge the intercompany loan receivable of Arcos Dorados B.V. denominated in Brazilian *reais* (R\$110.1 million including accrued interest), (iii) the Brazilian *reais* -denominated intercompany net receivable held by our subsidiary, Arcos Dorados B.V. (R\$647.8 million including accrued interest), and (iv) the outstanding balance of the U.S. dollar-denominated intercompany net debt held by our Brazilian subsidiaries of \$102.0 million as of December 31, 2013.

An increase of 10% in the value of the Argentine *peso* against the U.S. dollar would have resulted in a foreign exchange loss of \$1.4 million over (i) the Argentine *peso* denominated intercompany payable held by our holding companies amounting to ARS\$229.1 million and (ii) the outstanding balance of the U.S. dollar-denominated intercompany net debt of our Argentine subsidiary amounting to \$22.7 million as of December 31, 2013.

An increase of 10% in the value of the European euro against the U.S. dollar would have resulted in a foreign exchange loss of \$0.9 million mainly related to the outstanding U.S. dollar-denominated intercompany receivable held by our subsidiary in Martinique of \$9.3 million as of December 31, 2013.

An increase of 10% in the value of the Uruguayan *peso* against the U.S. dollar would have resulted in a foreign exchange loss of \$2.7 million over the outstanding U.S. dollar-denominated intercompany receivable held by our subsidiaries in Uruguay of \$24.1 million as of December 31, 2013.

A decrease of 10% in the value of the Costa Rican *colon* against the U.S. dollar would have resulted in a foreign exchange loss of \$0.9 million over the outstanding U.S. dollar-denominated intercompany debt held by our subsidiary in Costa Rica of \$10.3 million (including accrued interest) as of December 31, 2013.

Fluctuations in the value of the other local currencies against the U.S. dollar would not result in material foreign exchange gains or losses as of December 31, 2013 since there are no other significant intercompany balances exposed to foreign exchange risk.

Commodity Price Risk

We purchase our primary supplies, including beef, chicken, buns, produce, cheese, dairy mixes and toppings pursuant to oral agreements with our approved suppliers at prices that are derived from international market prices, local conversion costs and local tariffs and taxes. We therefore carry market risk exposure to changes in commodity prices that have a direct impact on our costs. We do not enter into futures or options contracts to protect ourselves against changes in commodity prices, although we may do so in the future. We attempt to minimize this risk by entering into annual and semi-annual pricing arrangements with our main suppliers. This allows us to provide cost predictability while avoiding the costs related to the use of derivative instruments, which we may not be able to pass on to our customers due to the competitive nature of the QSR industry.

Equity Price Risk

On August 13, 2012, we entered into the swap transaction in order to mitigate the impact that the volatility of our class A share price has on our income statement due to recognition of compensation expense from our CADs. See “Item 6. Directors, Senior Management and Employees—B. Compensation—Long-term and Equity Incentive Plans—Long-term Incentive Plan.” Under the terms of the swap transaction, we will receive from GSI any notional gains and dividends and/or pay to GSI any notional losses, as the case may be, from time to time on 2,272,551 class A shares, or the number of notional shares. During 2013 we reduced the notional number of class A shares underlying the total equity return swap transaction by 1,250,000 shares to 1,022,551 shares.

The swap transaction will mature no later than September 2015, but we may reduce the number of notional shares underlying the swap transaction, and therefore the equity notional amount of the swap transaction, from time to time prior to maturity of the swap transaction, at our option, subject to certain limitations. See “Item 10. Additional Information—C. Material Contracts—The 2012 Swap Transaction.” We have significantly reduced our exposure to equity price risk from our CADs as a result of entering into this contract.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

A. Debt Securities

Not applicable.

B. Warrants and Rights

Not applicable.

C. Other Securities

Not applicable.

D. American Depositary Shares

Not applicable.

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

A. Defaults

No matters to report.

B. Arrears and Delinquencies

No matters to report.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

A. Material Modifications to Instruments

None.

B. Material Modifications to Rights

None.

C. Withdrawal or Substitution of Assets

None.

D. Change in Trustees or Paying Agents

None.

E. Use of Proceeds

Not applicable.

ITEM 15. CONTROLS AND PROCEDURES

A. Disclosure Controls and Procedures

As of December 31, 2014, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we performed an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act). There are inherent limitations to the effectiveness of any system of disclosure controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives.

Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2014 in ensuring that information we are required to disclose in the reports that we file or submit under the Exchange Act is (1) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (2) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

B. Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining an adequate internal control over financial reporting as defined in Rule 13a-15 (f) under the Exchange Act.

Our internal control over financial reporting is a process designed by, or under the supervision of, our principal executive and principal financial officers, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our financial statements for external reporting

purposes, in accordance with generally accepted accounting principles. These include those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of our assets;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements, in accordance with generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorization of our management and directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, effective control over financial reporting cannot, and does not, provide absolute assurance of achieving our control objectives. Also, projections of, and any evaluation of effectiveness of the internal controls in future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

We have adapted our internal control over financial reporting based on the guidelines set by the Internal Control—Integrated Framework of the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework), or COSO.

Under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2014, based on the guidelines set forth by the COSO.

Based on this assessment, management believes that, as of December 31, 2014, its internal control over financial reporting was effective based on those criteria.

Pistrelli, Henry Martin y Asociados S.R.L., member firm of Ernst & Young Global, independent registered public accounting firm, has audited and reported on the effectiveness of our internal controls over financial reporting as of December 31, 2014.

C. Attestation Report of the Registered Public Accounting Firm

Pistrelli, Henry Martin y Asociados S.R.L., member firm of Ernst & Young Global, independent registered public accounting firm, has audited and reported on the effectiveness of our internal controls over financial reporting as of December 31, 2014, as stated in their report which appears below.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of

ARCOS DORADOS HOLDINGS INC.:

We have audited Arcos Dorados Holdings Inc. and subsidiaries' internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). Arcos Dorados Holdings Inc. and subsidiaries' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the

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assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Arcos Dorados Holdings Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Arcos Dorados Holdings Inc. and subsidiaries as of December 31, 2014 and 2013, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2014, and our report dated March 17, 2015 expressed an unqualified opinion thereon.

Buenos Aires, Argentina
March 17, 2015

/s/ Pistrelli, Henry Martin y Asociados S.R.L.
PISTRELLI, HENRY MARTIN Y ASOCIADOS S.R.L.
Member of Ernst & Young Global

D. Changes in Internal Control over Financial Reporting

There has been no change in our internal control over financial reporting identified in connection with the evaluation required by Rules 13a-15 or 15d-15 that occurred during the period covered by this annual report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 16. [RESERVED]

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Our audit committee consists of three directors, Mr. Chu, Mr. Vélez and Mr. Ramírez-Magaña, who are independent within the meaning of the SEC and NYSE corporate governance rules applicable to foreign private issuers. Our board of directors has determined that Mr. Chu, Mr. Vélez and Mr. Ramírez-Magaña are also "audit committee financial experts" as defined by the SEC.

ITEM 16B. CODE OF ETHICS

Our Board of Directors has approved and adopted our Standards of Business Conduct, which are a code of ethics that applies to all employees of Arcos Dorados, including executive officers, and to our board members. The current version of the Standards of Business Conduct is posted and maintained on the Arcos Dorados website at www.arcosdorados.com. The information contained on our website is not a part of this annual report.

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table describes the amounts billed to us by Pistrelli, Henry Martin y Asociados S.R.L., member firm of Ernst & Young Global, independent registered public accounting firm, for audit and other services performed in fiscal years 2014 and 2013.

	<u>2014</u>	<u>2013</u>
	(in thousands of U.S. dollars)	
Audit fees	\$ 2,448	\$ 3,236
Audit-related fees	31	63
Tax fees	470	852
All other fees	63	82

Audit Fees

Audit fees are fees billed for professional services rendered by the principal accountant for the audit of the registrant's annual financial statements or services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements for those fiscal years. It includes the audit of our annual consolidated financial statements, the reviews of our quarterly consolidated financial statements submitted on Form 6-K and other services that generally only the independent accountant reasonably can provide, such as comfort letters, statutory audits, attestation services, consents and assistance with and review of documents filed with the Securities and Exchange Commission.

Audit-Related Fees

Audit-related fees are fees billed for assurance and related services that are reasonably related to the performance of the audit or review of our consolidated financial statements for fiscal years 2014 and 2013 and not reported under the previous category. These services would include, among others: employee benefit plan audits, due diligence related to mergers and acquisitions, accounting consultations and audits in connection with acquisitions, internal control reviews, attest services that are not required by statute or regulation and consultation concerning financial accounting and reporting standards.

Tax Fees

Tax fees are fees billed for professional services for tax compliance, tax advice and tax planning.

All Other Fees

All other fees are fees not reported under other categories. This category mainly includes advisory services on process improvement related to diagnostics and recommendations.

Pre-Approval Policies and Procedures

Our audit committee charter requires the audit committee to pre-approve the audit services and non-audit services to be provided by our independent auditor before the auditor is engaged to render such services. The audit committee may delegate its authority to pre-approve services to the Chair of the audit committee, provided that such designees present any such approvals to the full audit committee at the next audit committee meeting.

All of the audit fees, audit-related fees, tax fees and all other fees described in this Item 16C have been pre-approved by the audit committee in accordance with these pre-approval policies and procedures.

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

Not applicable.

ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

None.

ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT

None.

ITEM 16G. CORPORATE GOVERNANCE

Our class A shares are listed on the New York Stock Exchange, or NYSE. We are therefore required to comply with certain of the NYSE's corporate governance listing standards, or the NYSE Standards. As a foreign private issuer, we may follow our home country's corporate governance practices in lieu of most of the NYSE Standards. Our corporate governance practices differ in certain significant respects from those that U.S. companies must adopt in order to maintain NYSE listing and, in accordance with Section 303A.11 of the NYSE Listed Company Manual, a brief, general summary of those differences is provided as follows.

Director independence

The NYSE Standards require a majority of the membership of NYSE-listed company boards to be composed of independent directors. Neither British Virgin Islands law, the law of our country of incorporation, nor our memorandum and articles of association require a majority of our board to consist of independent directors. Our Board of Directors currently consists of ten members, four of whom are independent directors.

Non-management directors' executive sessions

The NYSE Standards require non-management directors of NYSE-listed companies to meet at regularly scheduled executive sessions without management. Our memorandum and articles of association do not require our non-management directors to hold such meetings.

Committee member composition

The NYSE Standards require NYSE-listed companies to have a nominating/corporate governance committee and a compensation committee that are composed entirely of independent directors. British Virgin Islands law, the law of our country of incorporation, does not impose similar requirements. We do not have a nominating/corporate governance committee. One of the compensation and nomination committee members is independent.

Independence of the compensation and nomination committee and its advisers

On January 11, 2013, the SEC approved new NYSE listing standards that will require that the board of directors of a listed company consider two factors (in addition to the existing general independence tests) in the evaluation of the independence of compensation committee members: (i) the source of compensation of the director, including any consulting, advisory or other compensatory fees paid by the listed company, and (ii) whether the director has an affiliate relationship with the listed company, a subsidiary of the listed company or an affiliate of a subsidiary of the listed company. In addition, before selecting or receiving advice from a compensation consultant or other adviser, the compensation committee of a listed company will be required to take into consideration six specific factors, as well as all other factors relevant to an adviser's independence. Compliance with the compensation committee member independence standards will be required by the earlier of a listed Company's first annual meeting after January 15, 2014 or October 31, 2014. Other standards, including those that relate to the compensation committee adviser requirements and certain additional compensation committee charter requirements, became effective on July 1, 2013.

Foreign private issuers such as us will be exempt from these new requirements if home country practice is followed. British Virgin Islands law does not impose similar requirements, so we will not be required to implement the new NYSE listing standards relating to compensation committees. One of the members of our compensation and nomination committee is independent, though the charter of our compensation and nomination committee does not require the compensation and nomination committee to consider the independence of any advisers that assist them in fulfilling their duties.

Miscellaneous

In addition to the above differences, we are not required to: make our audit and compensation and nomination committees prepare a written charter that addresses either purposes and responsibilities or performance evaluations

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in a manner that would satisfy the NYSE’s requirements; acquire shareholder approval of equity compensation plans in certain cases; or adopt and make publicly available corporate governance guidelines.

We were incorporated under, and are governed by, the laws of the British Virgin Islands. For a summary of some of the differences between provisions of the BVI Act applicable to us and the laws application to companies incorporated in Delaware and their shareholders, see “Item 10. Additional Information—B. Memorandum and Articles of Association—Differences in Corporate Law.”

ITEM 16H. MINE SAFETY DISCLOSURE

Not applicable.

PART III

ITEM 17. FINANCIAL STATEMENTS

We have responded to Item 18 in lieu of this item.

ITEM 18. FINANCIAL STATEMENTS

Financial Statements are filed as part of this annual report. See page F-1.

ITEM 19. EXHIBITS

Exhibit No.	Description
1.1	Memorandum and Articles of Association, incorporated herein by reference to Exhibit 3.1 to the Company's Registration Statement on Form F-1 (File No. 333-173063) filed with the SEC on March 25, 2011.
2.1	Indenture dated July 13, 2011 among Arcos Dorados Holdings Inc., as issuer, the subsidiary guarantors named therein, Citibank N.A., as trustee, calculation agent, registrar, paying agent and transfer agent, and Dexia Banque Internationale à Luxembourg, Société Anonyme, as Luxembourg paying agent, incorporated herein by reference to Exhibit 4.2 to the Company's Registration Statement on Form F-1 (File No. 333-177210) filed with the SEC on October 7, 2011.
2.2	Indenture dated September 27, 2013 among Arcos Dorados Holdings Inc., as issuer, the Subsidiary Guarantors named therein, Citibank N.A., as trustee, registrar, paying agent and transfer agent, and Banque Internationale à Luxembourg Société Anonyme, as Luxembourg paying agent, incorporated herein by reference to Exhibit 2.2 to the Company's Annual Report on Form 20-F for the year ended December 31, 2013.
3.1	Los Laureles Voting Trust, incorporated herein by reference to Exhibit 9.1 to the Company's Registration Statement on Form F-1 (File No. 333-173063) filed with the SEC on March 25, 2011.
4.1	Amended and Restated Master Franchise Agreement for McDonald's Restaurants in All of the Territories, except Brazil, incorporated herein by reference to Exhibit 10.1 to the Company's Registration Statement on Form F-1 (File No. 333-173063) filed with the SEC on March 25, 2011.
4.2	Amendment No. 1 to the Amended and Restated Master Franchise Agreement for McDonald's Restaurants in All of the Territories, except Brazil, incorporated herein by reference to Exhibit 10.2 to the Company's Registration Statement on Form F-1 (File No. 333-173063) filed with the SEC on March 25, 2011.
4.3	Second Amended and Restated Master Franchise Agreement for McDonald's Restaurants in Brazil, incorporated herein by reference to Exhibit 10.3 to the Company's Registration Statement on Form F-1 (File No. 333-173063) filed with the SEC on March 25, 2011.
4.4*	Letter of Agreement dated as of July 31, 2014 among McDonald's Latin America and LatAm, LLC.
4.5	Amended and Restated Escrow Agreement dated October 12, 2010 among McDonald's Latin America, LLC, LatAm, LLC, each of the Escrowed MF Subsidiaries, Arcos Dorados Restaurantes de Chile Ltda., Arcos Dorados B.V., Deutsche Bank Trust Company Americas, as collateral agent, and Citibank, N.A., as escrow agent, incorporated herein by reference to Exhibit 10.4 to the Company's Registration Statement on Form F-1 (File No. 333-173063) filed with the SEC on March 25, 2011.
4.6	Letter of Credit Reimbursement Agreement dated August 3, 2007 between Arcos Dorados B.V. and Credit Suisse, acting through its Cayman Islands Branch, incorporated herein by reference to Exhibit 10.5 to the Company's Registration Statement on Form F-1 (File No. 333-173063) filed with the SEC on March 25, 2011.
4.7	Amendment to Letter of Credit Reimbursement Agreement dated November 3, 2008 between Arcos Dorados B.V. and Credit Suisse, acting through its Cayman Islands Branch, incorporated herein by reference to Exhibit 10.6 to the Company's Registration Statement on Form F-1 (File No. 333-173063) filed with the SEC on March 25, 2011.

Exhibit No.	Description
4.8	Second Amendment to Letter of Credit Reimbursement Agreement dated December 10, 2008 between Arcos Dorados B.V. and Credit Suisse, acting through its Cayman Islands Branch, incorporated herein by reference to Exhibit 10.7 to the Company's Registration Statement on Form F-1 (File No. 333-173063) filed with the SEC on March 25, 2011.
4.9	Third Amendment to Letter of Credit Reimbursement Agreement dated July 8, 2009 between Arcos Dorados B.V. and Credit Suisse, acting through its Cayman Islands Branch, incorporated herein by reference to Exhibit 10.8 to the Company's Registration Statement on Form F-1 (File No. 333-173063) filed with the SEC on March 25, 2011.
4.10	Fourth Amendment to Letter of Credit Reimbursement Agreement dated April 23, 2010 between Arcos Dorados B.V. and Credit Suisse AG, Cayman Islands Branch, incorporated herein by reference to Exhibit 10.9 to the Company's Registration Statement on Form F-1 (File No. 333-173063) filed with the SEC on March 25, 2011.
4.11	ISDA Schedule to the 2002 Master Agreement dated as of December 14, 2009 between Morgan Stanley & Co. International plc and Arcos Dorados B.V., incorporated herein by reference to Exhibit 10.16 to the Company's Registration Statement on Form F-1 (File No. 333-173063) filed with the SEC on March 25, 2011.
4.12	ISDA Schedule to the 2002 Master Agreement dated as of December 14, 2009 between JPMorgan Chase Bank, N.A. and Arcos Dorados B.V., incorporated herein by reference to Exhibit 10.19 to the Company's Registration Statement on Form F-1 (File No. 333-173063) filed with the SEC on March 25, 2011.
4.13	Credit Support Annex to the Schedule to the Master Agreement dated as of December 14, 2009 between JPMorgan Chase Bank, N.A. and Arcos Dorados B.V., incorporated herein by reference to Exhibit 10.20 to the Company's Registration Statement on Form F-1 (File No. 333-173063) filed with the SEC on March 25, 2011.
4.14	Equity Incentive Plan, incorporated herein by reference to Exhibit 10.23 to the Company's Registration Statement on Form F-1 (File No. 333-173063) filed with the SEC on March 25, 2011.
4.15	Amendment No. 2 to the Amended and Restated Master Franchise Agreement for McDonald's Restaurants in All of the Territories, except Brazil, incorporated herein by reference to Exhibit 10.17 to the Company's Registration Statement on Form F-1 (File No. 333-177210) filed with the SEC on October 7, 2011.
4.16	Confirmation dated August 13, 2012 among Goldman Sachs International, Arcos Dorados B.V. and Arcos Dorados Holdings Inc., incorporated herein by reference to Exhibit 10.1 to the Company's Registration Statement on Form F-3 (File No. 333-187531) filed with the SEC on March 26, 2013.
4.17	Amendment to Share Swap Transaction Confirmation dated October 22, 2012 among Goldman Sachs International, Arcos Dorados B.V. and Arcos Dorados Holdings Inc., incorporated herein by reference to Exhibit 10.2 to the Company's Registration Statement on Form F-3 (File No. 333-187531) filed with the SEC on March 26, 2013.
4.18	Amendment No. 2 to Share Swap Transaction Confirmation dated November 28, 2012 among Goldman Sachs International, Arcos Dorados B.V. and Arcos Dorados Holdings Inc., incorporated herein by reference to Exhibit 10.3 to the Company's Registration Statement on Form F-3 (File No. 333-187531) filed with the SEC on March 26, 2013.
4.19	Amendment No. 3 to Share Swap Transaction Confirmation dated April 4, 2013 among Goldman Sachs International, Arcos Dorados B.V. and Arcos Dorados Holdings Inc., incorporated herein by reference to Exhibit 4.18 to the Company's Annual Report on Form 20-F for the year ended December 31, 2012.
4.20	Amendment No. 4 to Share Swap Transaction Confirmation dated August 15, 2013 among Goldman Sachs International, Arcos Dorados B.V. and Arcos Dorados Holdings Inc., incorporated herein by reference to Exhibit 10.4 to the Company's Form 6-K (File No. 001-35129) filed with the SEC on August 19, 2013.
4.21*	Amendment No. 5 to Share Swap Transaction Confirmation dated September 12, 2014 among Goldman Sachs International, Arcos Dorados B.V. and Arcos Dorados Holdings Inc., filed with this Annual Report on Form 20-F for the year ended December 31, 2014.
4.22*	Amendment No. 6 to Share Swap Transaction Confirmation dated September 23, 2014 among Goldman Sachs International, Arcos Dorados B.V. and Arcos Dorados Holdings Inc., filed with this Annual Report on Form 20-F for the year ended December 31, 2014.

Exhibit No.	Description
4.23*	Amendment No. 7 to Share Swap Transaction Confirmation dated April 20, 2015 among Goldman Sachs International, Arcos Dorados B.V. and Arcos Dorados Holdings Inc., filed with this Annual Report on Form 20-F for the year ended December 31, 2014.
4.24	ISDA Master Agreement dated as of April 20, 2012 between Bank of America, N.A. and Arcos Dorados Holdings Inc., incorporated herein by reference to Exhibit 4.19 to the Company's Annual Report on Form 20-F for the year ended December 31, 2012.
4.25	ISDA Schedule to the 2012 Master Agreement dated as of April 20, 2012 between Bank of America, N.A. and Arcos Dorados Holdings Inc., incorporated herein by reference to Exhibit 4.20 to the Company's Annual Report on Form 20-F for the year ended December 31, 2012.
4.26	Guarantee dated as of April 20, 2012 of Arcos Dorados Comercio de Alimentos Ltda. in favor of Bank of America, N.A. in connection with the ISDA Master Agreement and Schedule thereto, each dated as of April 20, 2012, and any confirmations thereunder, incorporated herein by reference to Exhibit 4.21 to the Company's Annual Report on Form 20-F for the year ended December 31, 2012.
4.27	Confirmation dated June 8, 2012 between Arcos Dorados Holdings Inc. and Bank of America, N.A., incorporated herein by reference to Exhibit 4.22 to the Company's Annual Report on Form 20-F for the year ended December 31, 2012.
4.28	Credit Agreement dated as of August 3, 2011 among Arcos Dorados B.V., as borrower, certain subsidiaries of the borrower, as guarantors, and Bank of America, N.A., as lender, incorporated herein by reference to Exhibit 4.23 to the Company's Annual Report on Form 20-F for the year ended December 31, 2012.
4.29	First Amendment to Credit Agreement dated as of August 3, 2012 among Arcos Dorados B.V., as borrower, certain subsidiaries of the borrower, as guarantors, and Bank of America, N.A., as lender, incorporated herein by reference to Exhibit 4.24 to the Company's Annual Report on Form 20-F for the year ended December 31, 2012.
4.30	Second Amendment to Credit Agreement dated as of August 2, 2013 among Arcos Dorados B.V., as borrower, certain subsidiaries of the borrower, as guarantors, and Bank of America, N.A., as lender, incorporated herein by reference to Exhibit 4.26 to the Company's Annual Report on Form 20-F for the year ended December 31, 2013.
4.31*	Third Amendment to Credit Agreement dated as of July 28, 2014 among Arcos Dorados B.V., as borrower, certain subsidiaries of the borrower, as guarantors, and Bank of America, N.A., as lender, filed with this Annual Report on Form 20-F for the year ended December 31, 2014.
8.1*	List of subsidiaries.
12.1*	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.
12.2*	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.
13.1*	Certification of the Chief Executive Officer pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934 and Section 1350 of Chapter 63 of Title 18 of the United States Code.
13.2*	Certification of the Chief Financial Officer pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934 and Section 1350 of Chapter 63 of Title 18 of the United States Code.
15.1*	Consent of Pistrelli, Henry Martin y Asociados S.R.L., member firm of Ernst & Young Global, independent registered public accounting firm.
101.INS**	XBRL Instance Document
101.SCH**	XBRL Taxonomy Extension Schema Document
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF**	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB**	XBRL Taxonomy Extension Label Linkbase Document
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed with this Annual Report on Form 20-F.

** In accordance with Rule 402 of Regulation S-T, the information in these exhibits shall not be deemed to be "filed" for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, and shall not be incorporated by reference into any registration statement or other document filed under the Securities Act or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

Arcos Dorados Holdings Inc.

By: /s/ José Carlos Alcantara

Name: José Carlos Alcantara

Title: Chief Financial Officer

Date: April 29, 2015

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
ARCOS DORADOS HOLDINGS INC.:

We have audited the accompanying consolidated balance sheets of Arcos Dorados Holdings Inc. and subsidiaries (the “Company”) as of December 31, 2014 and 2013, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2014. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Arcos Dorados Holdings Inc. and subsidiaries as of December 31, 2014 and 2013, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated March 17, 2015 expressed an unqualified opinion thereon.

Buenos Aires, Argentina
March 17, 2015

/s/ Pistrelli, Henry Martin y Asociados S.R.L.
PISTRELLI, HENRY MARTIN Y ASOCIADOS S.R.L.
Member of Ernst & Young Global

Arcos Dorados Holdings Inc.

Consolidated Statements of Income

For the fiscal years ended December 31, 2014, 2013 and 2012

Amounts in thousands of US dollars, except for share data and as otherwise indicated

REVENUES	2014	2013	2012
Sales by Company-operated restaurants	\$ 3,504,302	\$ 3,859,883	\$ 3,634,371
Revenues from franchised restaurants	146,763	173,427	163,023
Total revenues	3,651,065	4,033,310	3,797,394
OPERATING COSTS AND EXPENSES			
Company-operated restaurant expenses:			
Food and paper	(1,243,907)	(1,350,515)	(1,269,146)
Payroll and employee benefits	(734,093)	(814,112)	(753,120)
Occupancy and other operating expenses	(997,065)	(1,055,188)	(984,004)
Royalty fees	(173,663)	(188,885)	(180,547)
Franchised restaurants – occupancy expenses	(63,939)	(63,273)	(56,057)
General and administrative expenses	(272,065)	(317,745)	(314,619)
Other operating expenses, net	(95,476)	(15,070)	(3,261)
Total operating costs and expenses	(3,580,208)	(3,804,788)	(3,560,754)
Operating income	70,857	228,522	236,640
Net interest expense	(72,750)	(88,156)	(54,247)
Loss from derivative instruments	(685)	(4,141)	(891)
Foreign currency exchange results	(74,117)	(38,783)	(18,420)
Other non-operating income (expenses), net	146	(848)	(2,119)
(Loss) income before income taxes	(76,549)	96,594	160,963
Income tax expense	(32,479)	(42,722)	(46,375)
Net (loss) income	(109,028)	53,872	114,588
Less: Net income attributable to non-controlling interests	(305)	(18)	(256)
Net (loss) income attributable to Arcos Dorados Holdings Inc.	\$ (109,333)	\$ 53,854	\$ 114,332
(Loss) earnings per share information:			
Basic net (loss) income per common share attributable to Arcos Dorados Holdings Inc.	\$ (0.52)	\$ 0.26	\$ 0.55
Diluted net (loss) income per common share attributable to Arcos Dorados Holdings Inc.	(0.52)	0.26	0.55

See Notes to the Consolidated Financial Statements.

Arcos Dorados Holdings Inc.
Consolidated Statements of Comprehensive Income
For the fiscal years ended December 31, 2014, 2013 and 2012
Amounts in thousands of US dollars

	2014	2013	2012
Net (loss) income	\$ (109,028)	\$ 53,872	\$ 114,588
Other comprehensive income (loss), net of tax:			
Foreign currency translation	(85,858)	(60,821)	(8,104)
Defined benefit pension plan:			
Net loss recognized in AOCI	(544)	—	(1,213)
Reclassification of net loss to net income	199	382	—
Defined benefit pension plan (net of \$178, \$197 and \$624 of income taxes for the fiscal years ended December 31, 2014, 2013 and 2012, respectively)	(345)	382	(1,213)
Cash flow hedges:			
Net gains (loss) recognized in AOCI	5,158	537	(4,195)
Reclassification of net (gain) loss to net income	(2,792)	(164)	3,101
Cash flow hedges (net of \$nil of income taxes)	2,366	373	(1,094)
Total other comprehensive loss	(83,837)	(60,066)	(10,411)
Comprehensive (loss) income	(192,865)	(6,194)	104,177
(Less) Plus: Comprehensive loss (income) attributable to non-controlling interests	(200)	134	(277)
Comprehensive (loss) income attributable to Arcos Dorados Holdings Inc.	\$ (193,065)	\$ (6,060)	\$ 103,900

See Notes to the Consolidated Financial Statements.

Arcos Dorados Holdings Inc.
Consolidated Statements of Balance Sheets
For the fiscal years ended December 31, 2014 and 2013
Amounts in thousands of US dollars

ASSETS	2014	2013
Current assets		
Cash and cash equivalents	\$ 139,030	\$ 175,648
Accounts and notes receivable, net	83,003	110,696
Other receivables	65,147	136,577
Inventories	53,403	105,421
Prepaid expenses and other current assets	84,593	109,144
Deferred income taxes	17,188	27,974
McDonald's Corporation's indemnification for contingencies	—	991
Collateral deposits	4,832	—
Total current assets	447,196	666,451
Non-current assets		
Miscellaneous	78,883	91,924
Collateral deposits	5,325	5,325
Property and equipment, net	1,116,281	1,244,311
Net intangible assets and goodwill	57,864	70,375
Deferred income taxes	75,319	97,687
Derivative instruments	9,517	490
McDonald's Corporation's indemnification for contingencies	4,395	3,696
Total non-current assets	1,347,584	1,513,808
Total assets	\$ 1,794,780	\$ 2,180,259
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable	\$ 220,337	\$ 311,060
Royalties payable to McDonald's Corporation	16,953	30,663
Income taxes payable	29,473	29,906
Other taxes payable	91,290	107,586
Accrued payroll and other liabilities	112,072	141,970
Provision for contingencies	777	1,748
Interest payable	20,627	21,899
Short-term debt	32,528	7,549
Current portion of long-term debt	6,156	4,727
Derivative instruments	10,958	2,048
Deferred income taxes	895	—
Total current liabilities	542,066	659,156
Non-current liabilities		
Accrued payroll and other liabilities	18,440	35,446
Provision for contingencies	11,427	13,074
Long-term debt, excluding current portion	761,080	771,171
Deferred income taxes	4,180	6,113
Total non-current liabilities	795,127	825,804
Total liabilities	1,337,193	1,484,960
Equity		
Class A shares - no par value common stock; 420,000,000 shares authorized; 130,216,043 shares issued and outstanding at December 31, 2014; 129,867,426 shares issued and outstanding at December 31, 2013	365,701	358,820
Class B shares - no par value common stock; 80,000,000 shares - authorized, issued and outstanding at December 31, 2014 and 2013	132,915	132,915
Additional paid-in capital	15,974	17,250
Retained earnings	244,791	404,287
Accumulated other comprehensive losses	(302,467)	(218,735)
Total Arcos Dorados Holdings Inc. shareholders' equity	456,914	694,537
Non-controlling interests in subsidiaries	673	762

Total equity	<u>457,587</u>	<u>695,299</u>
Total liabilities and equity	<u>\$ 1,794,780</u>	<u>\$ 2,180,259</u>

See Notes to the Consolidated Financial Statements.

Arcos Dorados Holdings Inc.
Consolidated Statements of Cash Flows

For the fiscal years ended December 31, 2014, 2013 and 2012
Amounts in thousands of US dollars

	2014	2013	2012
Operating activities			
Net (loss) income attributable to Arcos Dorados Holdings Inc	\$ (109,333)	\$ 53,854	\$ 114,332
Adjustments to reconcile net (loss) income attributable to Arcos Dorados Holdings Inc. to cash provided by operations:			
Non-cash charges and credits:			
Depreciation and amortization	116,811	114,860	92,328
Loss from derivative instruments	685	4,141	891
Amortization and accrual of letter of credit fees and deferred financing costs	4,195	4,363	4,342
Net income attributable to non-controlling interests	305	18	256
Deferred income taxes	7,419	9,113	14,228
Foreign currency exchange results	55,894	23,350	13,788
Accrued net share-based compensation expense	9,252	7,027	1,265
Loss from purchase, exchange and call of 2019 Notes	—	23,467	—
Impairment of long-lived assets and goodwill	52,915	2,958	2,665
Write-offs of property and equipment	7,111	6,489	4,259
Others, net	5,449	(8,806)	(2,064)
Changes in assets and liabilities:			
Accounts payable	(16,128)	96,957	22,575
Accounts and notes receivable and other receivables	(9,779)	(43,835)	(48,168)
Inventories, prepaid and other assets	53,082	(102,362)	14,628
Income taxes payable	15,884	10,773	(23,042)
Other taxes payable	(27)	13,727	8,414
Interest payable	(1,054)	1,492	6,134
Accrued payroll and other liabilities and provision for contingencies	(198)	(9,883)	(9,956)
Others	608	9,311	13,238
Net cash provided by operating activities	193,091	217,014	230,113
Investing activities			
Property and equipment expenditures	(169,813)	(313,462)	(294,478)
Purchases of restaurant businesses paid at acquisition date	(825)	(324)	(6,004)
Proceeds from sale of property and equipment	3,237	7,751	6,643
Proceeds from sales of restaurant businesses	1,938	6,452	—
Loans to related parties	(2,500)	(2,000)	(7,000)
Other investing activity	(1,001)	(9,072)	(5,582)
Net cash used in investing activities	(168,964)	(310,655)	(306,421)
Financing activities			
Issuance of 2023 Notes	—	378,409	—
Dividend payments to Arcos Dorados Holdings Inc.'s shareholders	(50,036)	(37,527)	(50,036)
Net payment of derivative instruments	—	(9,975)	(4,322)
Purchase and call of 2019 Notes	—	(237,006)	—
Issuance of 2016 Notes	—	—	149,658
Issuance of other long-term debt	33,267	8,483	3,073
Net short-term borrowings	26,296	8,743	(157)
Other financing activities	(8,343)	(8,825)	(7,570)
Net cash provided by financing activities	1,184	102,302	90,646
Effect of exchange rate changes on cash and cash equivalents	(61,929)	(17,864)	(5,788)
(Decrease) increase in cash and cash equivalents	(36,618)	(9,203)	8,550
Cash and cash equivalents at the beginning of the year	175,648	184,851	176,301
Cash and cash equivalents at the end of the year	\$ 139,030	\$ 175,648	\$ 184,851
Supplemental cash flow information:			
Cash paid during the year for:			
Interest	\$ 71,369	\$ 61,771	\$ 55,347

Income tax		13,139	25,422	30,700
Non-cash investing and financing activities:				
Issuance of 2023 Notes as consideration for the exchange of 2019 Notes	\$	—	\$ 98,767	\$ —
Dividend declared pending of payment		12,509	12,509	—
Seller financing pending of payment and settlement of franchise receivables related to purchases of restaurant businesses		1,864	3,711	—

See Notes to the Consolidated Financial Statements.

Dorados Holdings Inc.'s shareholders (\$0.24 per share)	—	—	—	—	—	(50,036)	—	(50,036)	—	(50,036)
Issuance of shares in connection with the partial vesting of outstanding restricted share units under the 2011 Equity Incentive Plan	348,617	6,881	—	—	(6,881)	—	—	—	—	—
Stock-based compensation related to the 2011 Equity Incentive Plan	—	—	—	—	6,163	—	—	6,163	—	6,163
Acquisition of non-controlling interests	—	—	—	—	(558)	—	—	(558)	(192)	(750)
Dividends on restricted share units under the 2011 Equity Incentive Plan	—	—	—	—	—	(127)	—	(127)	—	(127)
Dividends to non-controlling interests	—	—	—	—	—	—	—	—	(97)	(97)
Balances at December 31, 2014	130,216,043	365,701	80,000,000	132,915	15,974	244,791	(302,467)	456,914	673	457,587

See Notes to the Consolidated Financial Statements.

Arcos Dorados Holdings Inc.

Notes to the Consolidated Financial Statements

As of December 31, 2014 and 2013 and for each of the three years in the period ended December 31, 2014

Amounts in thousands of US dollars, except for share data and as otherwise indicated

1. Organization and nature of business

Arcos Dorados Holdings Inc. (the “Company”) is a limited liability company organized and existing under the laws of the British Virgin Islands. The Company’s fiscal year ends on the last day of December. The Company has a 99.999% equity interest in Arcos Dorados Cooperatieve U.A., which has a 100% equity interest in Arcos Dorados B.V. (“ADBV”).

On August 3, 2007 the Company, indirectly through its wholly-owned subsidiary ADBV, entered into a Stock Purchase Agreement and Master Franchise Agreements (“MFAs”) with McDonald’s Corporation pursuant to which the Company completed the acquisition of the McDonald’s business in Latin America and the Caribbean (“LatAm business”). See Note 4 for details. Prior to this acquisition, the Company did not carry out operations.

The Company, through ADBV’s wholly-owned and majority owned subsidiaries, operates and franchises McDonald’s restaurants in the food service industry. The Company has operations in twenty territories as follows: Argentina, Aruba, Brazil, Chile, Colombia, Costa Rica, Curacao, Ecuador, French Guyana, Guadeloupe, Martinique, Mexico, Panama, Peru, Puerto Rico, Trinidad and Tobago, Uruguay, the U.S. Virgin Islands of St. Croix and St. Thomas and Venezuela. All restaurants are operated either by the Company’s subsidiaries or by independent entrepreneurs under the terms of sub-franchisee agreements (franchisees).

2. Basis of presentation and principles of consolidation

The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America (“US GAAP”) and include the accounts of the Company and its subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. The Company has elected to report its consolidated financial statements in United States dollars (“\$” or “US dollars”).

3. Summary of significant accounting policies

The following is a summary of significant accounting policies followed by the Company in the preparation of the consolidated financial statements.

Use of estimates

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles 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 revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Foreign currency translation

The financial statements of the Company’s foreign operating subsidiaries are translated in accordance with guidance in ASC 830 Foreign Currency Matters. Except for the Company’s Venezuelan operations, the functional currencies of the Company’s foreign operating subsidiaries are the local currencies of the countries in which they conduct their operations. Therefore, assets and liabilities are translated into US dollars at the balance sheets date exchange rates, and revenues and expenses are translated at average rates prevailing during the periods. Translation adjustments are included in the “Accumulated other comprehensive losses” component of shareholders’ equity. The Company includes foreign currency exchange results related to monetary assets and liabilities denominated in currencies other than its functional currencies in its income statement.

Effective January 1, 2010, Venezuela is considered to be highly inflationary, and as such, the financial statements of the Company’s Venezuelan subsidiaries are remeasured as if their functional currencies were the reporting currency (US dollars). As a result, remeasurement gains and losses are recognized in earnings rather than in the cumulative translation adjustment, component of “Accumulated other comprehensive losses” within shareholders’ equity.



Arcos Dorados Holdings Inc.

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3. Summary of significant accounting policies (continued)

Foreign currency translation (continued)

See Note 21 for additional information pertaining to the Company's Venezuelan operations, including currency restrictions and controls existing in the country and a discussion of the exchange rate used for remeasurement purposes.

Cash and cash equivalents

The Company considers all highly liquid investments with an original maturity of three months or less, from the date of purchase, to be cash equivalents.

Revenue recognition

The Company's revenues consist of sales by Company-operated restaurants and revenues from restaurants operated by franchisees. Sales by Company-operated restaurants are recognized on a cash basis. The Company presents sales net of sales tax and other sales-related taxes. Revenues from restaurants operated by franchisees include rental income, initial franchise fees and royalty income. Rental income is measured on a monthly basis based on the greater of a fixed rent, computed on a straight-line basis, or a certain percentage of gross sales reported by franchisees. Initial franchise fees represent the difference between the amount the Company collects from the franchisee and the amount the Company pays to McDonald's Corporation upon the opening of a new restaurant, which is when the Company has performed substantially all initial services required by the franchisee agreement. Royalty income represents the difference, if any, between the amount the Company collects from the franchisee and the amount the Company is required to pay to McDonald's Corporation. Royalty income is recognized in the period earned.

Accounts and notes receivable and allowance for doubtful accounts

Accounts receivable primarily consist of royalty and rent receivables due from franchisees and debit and credit card receivables. Accounts receivable are initially recorded at fair value and do not bear interest. Notes receivable relates to interest-bearing financing granted to certain franchisees in connection with the acquisition of equipment and third-party suppliers. The Company maintains an allowance for doubtful accounts in an amount that it considers sufficient to cover losses resulting from the inability of its franchisees to make required payments. In judging the adequacy of the allowance for doubtful accounts, the Company considers multiple factors including historical bad debt experience, the current economic environment and the aging of the receivables.

Other receivables

Other receivables primarily consist of value-added tax and other tax receivables (amounting to \$32,115 and \$60,165 as of December 31, 2014 and 2013, respectively), receivables with an independent logistic operator (amounting to \$11,795 and \$38,213 as of December 31, 2014 and 2013, respectively) and receivables from related parties (amounting to \$1,796 and \$16,773 at December 31, 2014 and 2013, respectively). Other receivables are reported at the amount expected to be collected.

Inventories

Inventories are stated at the lower of cost or market, with cost being determined on a first-in, first-out basis.

Arcos Dorados Holdings Inc.

Notes to the Consolidated Financial Statements

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3. Summary of significant accounting policies (continued)

Property and equipment, net

Property and equipment are stated at cost, net of accumulated depreciation. Property costs include costs of land and building for both company-operated and franchise restaurants while equipment costs primarily relate to company-operated restaurants. Cost of property and equipment acquired from McDonald's Corporation (as part of the acquisition of LatAm business) was determined based on its estimated fair market value at the acquisition date, then partially reduced by the allocation of the negative goodwill that resulted from the purchase price allocation. Cost of property and equipment acquired or constructed after the acquisition of LatAm business in connection with the Company's restaurant reimagining and extension program is comprised of acquisition and construction costs and capitalized internal costs. Capitalized internal costs include payroll expenses related to employees fully dedicated to restaurant construction projects and related travel expenses. Capitalized payroll costs are allocated to each new restaurant location based on the actual time spent on each project. The Company commences capitalizing costs related to construction projects when it becomes probable that the project will be developed – when the site has been identified and the related profitability assessment has been approved. Maintenance and repairs are expensed as incurred. Accumulated depreciation is calculated using the straight-line method over the following estimated useful lives: buildings – up to 40 years; leasehold improvements – the lesser of useful lives of assets or lease terms which generally include option periods; and equipment 3 to 12 years.

Intangible assets, net

Intangible assets include computer software costs, initial franchise fees, reacquired rights under franchise agreements and letter of credit fees.

The Company follows the provisions of ASC 350-40-30 within ASC 350 Intangibles, Subtopic 40 Internal Use Software which requires the capitalization of costs incurred in connection with developing or obtaining software for internal use. These costs are amortized over a period of three years on a straight line basis.

The Company is required to pay to McDonald's Corporation an initial franchisee fee upon opening of a new restaurant. The initial franchise fee related to Company-operated restaurants is capitalized as an intangible asset and amortized on a straight-line basis over the term of the franchise.

A reacquired franchise right is recognized as an intangible asset as part of the business combination in the acquisition of franchised restaurants apart from goodwill with an assigned amortizable life limited to the remaining contractual term (i.e., not including any renewal periods). The value assigned to the reacquired franchise right excludes any amounts recognized as a settlement gain or loss and is limited to the value associated with the remaining contractual term and operating conditions for the acquired restaurants. The reacquired franchise right is measured using a valuation technique that considers restaurant's cash flows after payment of an at-market royalty rate to the Company. The cash flows are projected for the remaining contractual term, regardless of whether market participants would consider potential contractual renewals in determining its fair value.

Letter of credit fees are amortized on a straight-line basis over the term of the Letter of Credit.

Impairment and disposal of long-lived assets

In accordance with the guidance within ASC 360-10-35, the Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate the carrying value of the asset may not be recoverable. For purposes of reviewing assets for potential impairment assets are grouped at a country level for each of the operating markets. The Company manages its restaurants as a group or portfolio with significant common costs and promotional activities; as such, each restaurant's cash flows are not largely independent of the cash flows of others in a market. If an indicator of impairment exists for any grouping of assets, an estimate of undiscounted future cash flows produced by each individual restaurant within the asset grouping is compared to its carrying value. If an individual restaurant is determined to be impaired, the loss is measured by the excess of the carrying amount of the restaurant over its fair value considering its highest and best use, as determined by an estimate of discounted future cash flows or its market value.

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3. Summary of significant accounting policies (continued)

Impairment and disposal of long-lived assets (continued)

During June 2014, the Company performed an impairment testing of its long-lived assets in Venezuela considering the operating losses incurred in this market as a consequence of the Company's currency exchange rate change (indicator of potential impairment), as mentioned in Note 21. As a result of this analysis, the Company recorded an impairment charge of \$45,186, primarily associated to a real estate acquired during the fourth quarter of 2013, using a fair market value approach. The impairment charge also included certain restaurants with undiscounted future cash flows insufficient to recover their carrying value. Afterwards, in the fourth quarter, the Company assessed all markets for impairment indicators. As a result of these assessments, the Company performed the impairment testing of its long-lived assets in the following markets:

	2014	2013	2012
Puerto Rico	Yes	Yes	Yes
Mexico	Yes	Yes	Yes
Peru	Yes	Yes	Yes
Aruba	Yes	Yes	Yes
Curacao	Yes	Yes	Yes
USVI	Yes	Yes	Yes
Venezuela	Yes	No	No
Colombia	Yes	Yes	No

As a result of the impairment testing the Company recorded the following impairment charges for the markets indicated below:

Fiscal year	Markets	Total
2014	Mexico, Puerto Rico, Peru, Colombia and Venezuela	\$ 50,886
2013	Mexico, Puerto Rico and Peru	2,958
2012	Mexico, Puerto Rico and Peru	1,982

Goodwill

Goodwill represents the excess of cost over the estimated fair market value of net tangible assets and identifiable intangible assets acquired. In accordance with the guidance within ASC 350 Intangibles-Goodwill and Other, goodwill is stated at cost and reviewed for impairment on an annual basis. The annual impairment test is mostly performed during the fourth quarter of the fiscal year and compares the fair value of each reporting unit, generally based on discounted future cash flows, with its carrying amount including goodwill. If the carrying amount of the reporting unit exceeds its fair value, an impairment loss is measured as the difference between the implied fair value of the reporting unit's goodwill and the carrying amount of goodwill. As a result of the analyses performed during fiscal years 2014 and 2012, the Company recorded impairment charges of the full amounts of goodwill that had been generated in the acquisition of restaurants in Puerto Rico. The impairment charges amounting to \$2,029 in 2014 and \$683 in 2012 are included within "Other operating expenses, net" in the consolidated statements of income. No impairments of goodwill were recognized during fiscal year 2013.

Arcos Dorados Holdings Inc.

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3. Summary of significant accounting policies (continued)

Advertising costs

Advertising costs are expensed as incurred. Advertising expenses related to Company-operated restaurants were \$146,363, \$160,184 and \$147,194 in 2014, 2013 and 2012, respectively. Advertising expenses related to franchised operations do not affect the Company's expenses since these are recovered from franchisees. Advertising expenses related to franchised operations were \$44,828, \$49,820 and \$46,614 in 2014, 2013 and 2012, respectively.

Accounting for income taxes

The Company records deferred income taxes using the liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. The guidance requires companies to set up a valuation allowance for that component of net deferred tax assets which does not meet the more likely than not criterion for realization.

Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

The Company is regularly audited by tax authorities, and tax assessments may arise several years after tax returns have been filed. Accordingly, tax liabilities are recorded when, in management's judgment, a tax position does not meet the more likely than not threshold for recognition. For tax positions that meet the more likely than not threshold, a tax liability may be recorded depending on management's assessment of how the tax position will ultimately be settled. The Company records interest and penalties on unrecognized tax benefits in the provision for income taxes.

Accounts payable outsourcing

The Company offers its suppliers access to an accounts payable services arrangement provided by third party financial institutions. This service allows the Company's suppliers to view its scheduled payments online, enabling them to better manage their cash flow and reduce payment processing costs. Independent of the Company, the financial institutions also allow suppliers to sell their receivables to the financial institutions in an arrangement separately negotiated by the supplier and the financial institution. The Company has no economic interest in the sale of these receivables and no direct relationship with the financial institutions concerning the sale of receivables. All of the Company's obligations, including amounts due, remain to the Company's suppliers as stated in the supplier agreements. As of December 31, 2014 and 2013, \$1,850 and \$1,859, respectively, of the Company's total accounts payable are available for this purpose and have been sold by suppliers to participating financial institutions.

Share-based compensation

The Company recognizes compensation expense as services required to earn the benefits are rendered. See Note 16 for details of the outstanding plans and the related accounting policies.

Derivative financial instruments

The Company utilizes certain hedge instruments to manage its interest rate and foreign currency rate exposures, among others. The counterparties to these instruments generally are major financial institutions. The Company does not hold or issue derivative instruments for trading purposes. In entering into these contracts, the Company assumes the risk that might arise from the possible inability of counterparties to meet the terms of their contracts. The Company does not expect any losses as a result of counterparty defaults. All derivatives are recognized as either assets or liabilities in the balance sheets and are measured at fair value. Additionally, the fair value adjustments will affect either shareholders' equity as accumulated other comprehensive income (loss) or net income (loss) depending on whether the derivative instrument qualifies as a hedge for accounting purposes and, if so, the nature of the hedging activity.

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3. Summary of significant accounting policies (continued)

Severance payments

Under certain laws and labor agreements of the countries in which the Company operates, the Company is required to make minimum severance payments to employees who are dismissed without cause and employees leaving its employment in certain other circumstances. The Company accrues severance costs if they relate to services already rendered, are related to rights that accumulate or vest, are probable of payment and can be reasonably estimated. Otherwise, severance payments are expensed as incurred.

Provision for contingencies

The Company accrues liabilities when it is probable that future costs will be incurred and such costs can be reasonably estimated. Such accruals are based on developments to date, the Company's estimates of the outcomes of these matters and the Company's lawyers' experience in contesting, litigating and settling other matters. As the scope of the liabilities becomes better defined, there may be changes in the estimates of future costs. See Note 17 for details.

Comprehensive income

Comprehensive income includes net income as currently reported under generally accepted accounting principles and also includes the impact of other events and circumstances from non-owner sources which are recorded as a separate component of shareholders' equity. The Company reports foreign currency translation gains and losses, unrealized results on cash flow hedges as well as unrecognized prior service costs of post-employment benefits as components of comprehensive income.

Recent accounting pronouncements

In May 2014, the FASB issued guidance codified in Accounting Standards Codification (ASC) 606, "Revenue Recognition - Revenue from Contracts with Customers," which amends the guidance in former ASC 605, "Revenue Recognition," and becomes effective beginning January 1, 2017. The standard's core principle is that a company must recognize revenue when it transfers promised goods or services to customers, in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The Company is currently evaluating the impact of the provisions of ASC 606.

In August 2014, the FASB issued new guidance related to the disclosures around going concern. The new standard provides guidance around management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. Early adoption is permitted. The adoption of this standard will not have a material impact on the Company's financial statements.

No other new accounting pronouncement issued or effective during the periods had or is expected to have a material impact on the Company's consolidated financial statements.

4. Acquisition of businesses

LatAm Business

On August 3, 2007, the Company, indirectly through its wholly-owned subsidiary ADBV, entered into a Stock Purchase Agreement with McDonald's Corporation pursuant to which the Company completed the acquisition of the McDonald's business in Latin America and the Caribbean for a final purchase price of \$698,080.

The acquisition of the LatAm business was accounted for by the purchase method of accounting and, accordingly, the purchase price was allocated to the assets acquired and liabilities assumed based on the estimated fair values at the date of acquisition. When the fair value of the net assets acquired exceeded the purchase price, the resulting negative goodwill was allocated to partially reduce the fair value of the non-current assets acquired on a pro-rata basis.

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4. Acquisition of businesses (continued)

LatAm Business (continued)

In connection with this transaction, ADBV and certain subsidiaries (the “MF subsidiaries”) also entered into 20-year Master Franchise Agreements (“MFAs”) with McDonald’s Corporation which grants to the Company and its MF subsidiaries the following:

- i. The right to own and operate, directly or indirectly, franchised restaurants in each territory;
- ii. The right and license to grant sub franchises in each territory;
- iii. The right to adopt and use, and to grant the right and license to sub franchisees to adopt and use, the system in each territory;
- iv. The right to advertise to the public that it is a franchisee of McDonald’s;
- v. The right and license to grant sub franchises and sublicenses of each of the foregoing rights and licenses to each MF subsidiary.

The Company is required to pay to McDonald’s Corporation continuing franchise fees (Royalty fees) on a monthly basis. The amount to be paid during the first 10 years of the MFAs is equal to 5% of the US dollar equivalent of the gross product sales of each of the franchised restaurants. This percentage increases to 6% and 7% for the subsequent two 5-year periods of the agreement. Payment of monthly royalties is due on the seventh business day of the next calendar month.

Pursuant to the MFAs provisions, McDonald’s Corporation has the right to (a) terminate the MFAs, or (b) exercise a call option over the Company’s shares or any MF subsidiary, if the Company or any MF subsidiary (i) fails to comply with the McDonald’s System (as defined in the MFAs), (ii) files for bankruptcy, (iii) defaults on its financial debt payments, (iv) substantially fails to achieve targeted openings and reinvestments requirements, or (v) upon the occurrence of any other event of default as defined in the MFAs.

Other acquisitions

During fiscal years 2014, 2013 and 2012, the Company acquired franchised restaurants in certain territories. Presented below is supplemental information about these acquisitions:

Purchases of restaurant businesses:	2014	2013	2012
Property and equipment	\$ 583	\$ 2,186	\$ 1,793
Identifiable intangible assets	518	6,628	6,061
Goodwill	2,029	—	1,196
Assumed debt	—	(317)	—
Gain on bargain purchase of franchised restaurants	(71)	(3,827)	(1,161)
Purchase price	3,059	4,670	7,889
Restaurants sold in exchange	—	(635)	—
Settlement of franchise receivables	(1,436)	—	(1,885)
Seller financing	(798)	(3,711)	—
Purchase price paid at acquisition date	\$ 825	\$ 324	\$ 6,004

Arcos Dorados Holdings Inc.**Notes to the Consolidated Financial Statements**

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5. Accounts and notes receivable, net

Accounts and notes receivable, net consist of the following at year end:

	2014	2013
Receivables from franchisees	\$ 38,330	\$ 52,475
Debit and credit card receivables	38,826	39,098
Meal voucher receivables	12,962	14,375
Notes receivable	2,258	9,846
Allowance for doubtful accounts	(9,373)	(5,098)
	\$ 83,003	\$ 110,696

6. Prepaid expenses and other current assets

Prepaid expenses and other current assets consist of the following at year end:

	2014	2013
Prepaid taxes	\$ 43,228	\$ 45,782
Prepaid expenses	29,279	48,576
Promotion items	12,086	14,786
	\$ 84,593	\$ 109,144

7. Property and equipment, net

Property and equipment, net consist of the following at year-end:

	2014	2013
Land	\$ 171,776	\$ 190,424
Buildings and leasehold improvements	704,636	727,567
Equipment	620,166	686,744
Total cost	1,496,578	1,604,735
Total accumulated depreciation	(380,297)	(360,424)
	\$ 1,116,281	\$ 1,244,311

Total depreciation expense for fiscal years 2014, 2013 and 2012 amounted to \$101,703, \$96,563 and \$77,503, respectively.

Arcos Dorados Holdings Inc.

Notes to the Consolidated Financial Statements

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8. Net intangible assets and goodwill

Net intangible assets and goodwill consist of the following at year-end:

	2014	2013
Net intangible assets (i)		
Computer software cost	\$ 64,103	\$ 69,319
Initial franchise fees	18,136	25,629
Reacquired franchised rights	9,878	11,625
Letter of credit fees	940	940
Others	1,000	—
Total cost	94,057	107,513
Total accumulated amortization	(51,088)	(54,042)
Subtotal	42,969	53,471
Goodwill (ii)		
Mexico	6,840	7,748
Brazil	6,247	7,021
Ecuador	273	273
Peru	189	201
Chile	1,227	1,416
Colombia	119	245
Subtotal	14,895	16,904
	\$ 57,864	\$ 70,375

- (i) Total amortization expense for fiscal years 2014, 2013 and 2012 amounted to \$15,108, \$18,297 and \$14,825, respectively. The estimated aggregate amortization expense for each of the five succeeding fiscal years and thereafter is as follows: \$15,108 for 2015, \$11,332 for 2016; \$2,223 for 2017; \$2,223 for 2018; \$2,223 for 2019; and thereafter \$9,860.
- (ii) Related to the acquisition of franchised restaurants (Mexico, Brazil, Peru, Chile and Colombia) and non-controlling interests in subsidiaries (Ecuador and Chile).

9. Accrued payroll and other liabilities

Accrued payroll and other liabilities consist of the following at year end:

Arcos Dorados Holdings Inc.

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9. Accrued payroll and other liabilities (continued)

	2014	2013
Current:		
Accrued payroll	\$ 82,396	\$ 101,183
Long-term incentive plan	806	3,620
Dividends payable	12,509	12,509
Accrued expenses	8,720	13,422
Amnesty program	—	2,220
Other liabilities	7,641	9,016
	\$ 112,072	\$ 141,970
Non-current:		
Long-term incentive plan	\$ —	\$ 1,302
Amnesty program	—	15,598
Other liabilities	18,440	18,546
	\$ 18,440	\$ 35,446

10. Short-term debt

Short-term debt consists of the following at year-end:

	2014	2013
Bank overdrafts (i)	\$ 528	\$ 7,156
Other short-term loans (ii)	32,000	393
	\$ 32,528	\$ 7,549

(i) As of December 31, 2013, mainly comprised of an overdraft granted by *Banco Francés* in Argentina totaling 43.5 million of Argentine *Pesos* (equivalent to \$6,676 at year-end exchange rate). This overdraft matured in April 2014 and accrued interest at an annual rate of 21.75%. During January 2014 this overdraft was settled before its maturity.

(ii) As of December 31, 2014, mainly comprised of a loan granted by Citibank in Colombia totaling \$32 million. This loan matures in January 2015 and accrues interest at a weighted-average annual rate of 2.34%.

Revolving Credit Facility

On August 2, 2013, ADBV renewed its committed revolving credit facility with Bank of America, N.A., as lender, for up to \$75 million maturing on August 3, 2015. The obligations of ADBV under the revolving credit facility are jointly and severally guaranteed by certain of the Company's subsidiaries on an unconditional basis. This revolving credit facility will permit the Company to borrow money from time to time to cover its working capital needs and for other general corporate purposes. Each loan made to ADBV under the revolving credit facility will bear interest at an annual rate equal to LIBOR plus 2.50%. Interest on each loan will be payable on the date of any prepayment, at maturity and on a quarterly basis, beginning with the date that is three calendar months following the date the loan is made.

The revolving credit facility includes customary covenants including, among others, restrictions on the ability of ADBV, the guarantors and certain material subsidiaries to: (i) incur liens, (ii) enter into any merger, consolidation or amalgamation; (iii) sell, assign, lease or transfer all or substantially all of the borrower's or guarantor's business or property; (iv) enter into transactions with affiliates; (v) engage in substantially different lines of business; (vi) engage in transactions that violate certain anti-terrorism laws; and (vii) permit the consolidated net indebtedness to EBITDA ratio to be greater than 3.0 to 1 on the last day of any fiscal quarter of the borrower. The revolving credit facility provides for customary events of default, which, if any of them occurs, would permit or require the lender to terminate its obligation to provide loans under the revolving credit facility and/or to declare all sums outstanding under the loan documents immediately due and payable.



Arcos Dorados Holdings Inc.

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10. Short-term debt (continued)

Revolving Credit Facility (continued)

No amounts are due at the date of issuance of these consolidated financial statements in connection with this revolving credit facility.

11. Long-term debt

Long-term debt consists of the following at year-end:

	2014	2013
2023 Notes	\$ 468,976	\$ 468,470
2016 Notes	254,963	287,547
Capital lease obligations	5,652	7,563
Other long-term borrowings	37,645	12,318
Total	767,236	775,898
Current portion of long-term debt	6,156	4,727
Long-term debt, excluding current portion	\$ 761,080	\$ 771,171

2023 and 2016 Notes

On September 27, 2013, the Company issued senior notes which are due in 2023 (the “2023 Notes”). Periodic payments of principal are not required and interest is paid semi-annually commencing on March 27, 2014. The gross proceeds from the cash issuance of 2023 Notes amounting to \$378,409 were partially used to finance the purchase of 2019 Notes discussed below and to repay certain of the Company’s short-term debt.

The Company recorded the portion of 2023 Notes issued in exchange for cash at the original price of 100.909%. The portion of 2023 Notes issued as consideration for the partial exchange of 2019 Notes was recorded at the carrying value of the 2019 Notes since there were no substantive modifications to the terms of the debts according to ASC 470-50-40. The net discount amounting to \$5,420 (comprised of a discount of \$8,829 related to the non-cash issuance, partially offset by \$3,409 of a premium related to the cash issuance) is being accreted over the term of the 2023 Notes and recognized as a higher interest expense. The Company incurred \$3,313 of financing costs related to the cash issuance of 2023 Notes, which were capitalized as deferred financing costs (“DFC”) and are being amortized over the life of the notes.

On July 13, 2011, the Company issued Brazilian reais notes due in 2016 (the “2016 Notes”). Periodic payments of principal are not required and interest is paid semi-annually beginning on January 13, 2012. The Company incurred \$3,699 of financing costs related to these issuances, which were capitalized as deferred financing costs and are being amortized over the life of the notes.

The 2023 and 2016 Notes (the “Notes”) are redeemable, in whole or in part, at the option of the Company at any time at the applicable redemption price set forth in the indenture governing them. The Notes are fully and unconditionally guaranteed on a senior unsecured basis by certain of the Company’s subsidiaries. The Notes and guarantees (i) are senior unsecured obligations and rank equal in right of payment with all of the Company’s and guarantors’ existing and future senior unsecured indebtedness; (ii) will be effectively junior to all of Company’s and guarantors’ existing and future secured indebtedness to the extent of the value of the Company’s assets securing that indebtedness; and (iii) are structurally subordinated to all obligations of the Company’s subsidiaries that are not guarantors.

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11. Long-term debt (continued)

2023 and 2016 Notes (continued)

The indenture governing the Notes limits the Company's and its subsidiaries' ability to, among other things, (i) create liens; (ii) enter into sale and lease-back transactions; and (iii) consolidate, merge or transfer assets. These covenants are subject to important qualifications and exceptions. The indenture governing the Notes also provides for events of default, which, if any of them occurs, would permit or require the principal, premium, if any, and interest on all of the then-outstanding 2023 and 2016 Notes to be due and payable immediately.

The Notes are listed on the Luxembourg Stock Exchange and trade on the Euro MTF Market.

2019 Notes

In October 2009, ADBV issued senior notes for an aggregate principal amount of \$450,000 at a price of 99.136% (the "2019 Notes"). The 2019 Notes matured on October 1, 2019 and bore interest of 7.5% per year. Periodic payments of principal were not required under the 2019 Notes. Interest was paid semi-annually.

On July 18, 2011 the Company redeemed 31.42% or \$141,400 of the outstanding principal amount of its 2019 Notes at a redemption price of 107.5% plus accrued and unpaid interest.

On September 10, 2013 the Company launched a tender and exchange offer pursuant to which it offered to exchange any and all of ADBV outstanding 2019 Notes for newly issued 2023 Notes and to purchase any and all of ADBV outstanding 2019 Notes for cash. The tender and exchange offer expired on September 23, 2013 and October 7, 2013, respectively. At September 30, 2013 the Company accepted and exchanged \$89,955 of ADBV 2019 Notes and accepted and purchased \$118,366 of ADBV 2019 Notes that were tendered prior to September 23, 2013 (the early exchange date and tender expiration date). The total aggregate amount exchanged or purchased was \$208,321, representing 67.5% of the then outstanding principal amount of the 2019 Notes. The Company issued senior notes due 2023 for an aggregate principal amount of \$98,225 and paid \$51 in cash as consideration for the exchange. The Company paid \$128,131 as tender consideration for the purchase (equal to a redemption price of 108.25%). The Company also paid \$7,638 in cash for accrued and unpaid interests related to the tendered and exchanged debt. On October 7, 2013, the Company accepted and exchanged \$512 of ADBV 2019 Notes that were tendered after the early exchange date and before the exchange expiration date in connection with the tender and exchange offer that had been launched in September 2013. The Company issued additional 2023 Notes for an aggregate principal amount of \$542 and paid \$2 in cash as consideration for this additional exchange.

In addition, on December 17, 2013, the Company exercised its option to redeem all of the then outstanding principal amount of ADBV 2019 Notes (\$99,767) at a redemption price equal to 109.129%. As a result, the Company paid \$108,875 plus \$1,580 of accrued and unpaid interests related to the called portion of the 2019 Notes.

As a result of the purchase, exchange and call described above, the Company incurred a one-time loss amounting to \$23,467. This loss was comprised of (i) \$18,873 related to the consideration in excess of the principal amount of the purchased and called debt, (ii) \$2,599 related to the accelerated amortization of deferred financing costs of the purchased and called debt, (iii) \$1,127 related to the accelerated accretion of the original discount of the purchased and called debt, and (iv) \$868 related to the costs incurred in connection with the exchange offer. The exchange of debt was accounted for as a modification of debt and as such, the related effects are being recognized prospectively based on a new effective interest rate of the 2023 Notes. Loss from the purchase and call of the 2019 Notes at a price higher than the nominal value amounted to \$18,873 in 2013. This charge is included within "Net interest expense" in the consolidated statements of income.

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11. Long-term debt (continued)

Other required disclosures

The following table presents additional information related to the 2023 Notes, 2016 Notes and 2019 Notes:

	Annual interest rate	Currency	Principal as of December 31,		Maturity
			2014	2013	
2023 Notes	6.625%	USD	\$ 473,767	\$ 473,767	September 27, 2023
2016 Notes	10.25%	BRL	253,989	285,763	July 13, 2016
2019 Notes	7.5%	USD	—	—	October 1, 2019

	Interest Expense (i)			DFC Amortization (i)			Accretion of Premium (i)		
	2014	2013	2012	2014	2013	2012	2014	2013	2012
2023 Notes	\$ 31,387	\$ 8,196	\$ —	\$ 438	\$ 109	\$ —	\$ 506	\$ 123	\$ —
2016 Notes	28,798	31,418	30,051	778	777	704	—	—	—
2019 Notes	—	18,765	23,145	—	3,056	610	—	1,802	266

(i) These charges are included within "Net interest expense" in the consolidated statements of income.

At December 31, 2014, future payments related to the Company's long-term debt are as follows:

	Principal	Interest	Total
2015	\$ 6,156	\$ 61,369	\$ 67,525
2016	257,237	60,778	318,015
2017	3,263	34,439	37,702
2018	4,450	34,056	38,506
2019	4,475	33,646	38,121
Thereafter	495,472	130,894	626,366
Total payments	771,053	355,182	1,126,235
Interest	—	(355,182)	(355,182)
Discount on 2023 Notes	(7,772)	—	(7,772)
Premium on 2023 Notes	2,981	—	2,981
Premium on 2016 Notes	974	—	974
Long-term debt	\$ 767,236	\$ —	\$ 767,236

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12. Derivative instruments

Derivatives not designated as hedging instruments

Bond swaps

On December 10, 2009, the Company decided to hedge part of the Company's currency exposure from the 2019 Notes coupon payments related to the Company's generation of cash flows in Brazilian reais. Therefore in December 2009 ADBV entered into two coupon-only cross-currency interest rate swap agreements (bond swaps) with JP Morgan and Morgan Stanley to convert a portion of the coupons of the 2019 Notes denominated in US dollars to Brazilian reais.

On April 24, 2012 the Company settled these derivatives before their maturity. During fiscal year 2012, the Company made net payments to the counterparties totaling \$4,322 and recognized net losses of \$1,738 in connection with these agreements. The abovementioned loss is included within "Loss from derivative instruments" in the Company's consolidated statement of income.

Total equity return swap

The Company is exposed to stock price risk related to ADBV Long-Term Incentive Plan as the underlying liability is tied to the Company's stock price (see Note 16 for details). As the Company's stock price changes, such liability is adjusted and the impact is recorded in the Company's consolidated statement of income within "General and administrative expenses". On August 13, 2012 the Company entered into a total equity return swap agreement with Goldman Sachs International in order to minimize earnings volatility related to this risk, which was renewed twice and matures on September 12, 2015.

Under the agreement effective as from August 20, 2012, the Company receives (pays) the appreciation (depreciation), plus any dividends, on a notional number of 1,022,551 Class A shares (2,272,551 at the inception) over a reference price of approximately \$13.77 per share. The Company in turn pays interests at 3-month LIBOR plus 450 basis points (330 basis points at the inception and 380 between August 2013 and September 2014) over a US dollar notional amount (\$31,290 at the inception). The Company may, prior to maturity of the agreement and subject to certain limitations, reduce the notional number of Class A shares underlying the total equity return swap transaction. The counterparty can terminate the swap agreement if (i) the average of the Company's stock price for any three consecutive exchange business days is less than \$5.15 (\$7.57 at the inception); or (ii) on any day, there is a decline of 10% or more in the price with respect to the closing price of the preceding business day and the price per share at such time is less than \$8.95; or (iii) the consolidated net indebtedness to EBITDA ratio is greater than 3.0 to 1 (2.5 to 1 at the inception).

During fiscal year 2013 the Company reduced the notional number of class A shares underlying the total equity return swap transaction by 1,250,000 shares (equivalent to a notional amount of \$17,211). The Company paid \$1,731 as settlement of these share reductions (including interests and fees) during fiscal year 2013.

As from September 23, 2014, the Company is required to make a collateral deposit equal to the excess of the mark-to-market above a threshold of \$3,000, being \$500 the incremental basis. As of December 31, 2014, the collateral amounts to \$4,832 and is presented as a current asset within "Collateral deposits".

The Company has not designated the swap as a hedge under ASC 815. Therefore, the agreement was carried at fair market value in the consolidated balance sheets with changes reported in earnings, within "General and administrative expenses". The interest portion is recorded within "Net interest expense" in the Company's consolidated statement of income.

During fiscal years 2014, 2013 and 2012, the Company paid interests amounting to \$593, \$746 and \$318, respectively. See additional disclosures below for further information about this swap.

Arcos Dorados Holdings Inc.

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12. Derivative instruments (continued)

Derivatives designated as hedging instruments

Forward contracts

The Company has entered into various forward contracts in a few territories in order to hedge a portion of the foreign exchange risk associated with forecasted imports of goods. The effect of the hedges result in fixing the cost of goods acquired (i.e. the net settlement or collection adjusts the cost of inventory paid to the suppliers). In relation to these agreements, during fiscal years 2014, 2013 and 2012, the Company purchased a total amount of \$30,454, \$17,633 and \$23,261, respectively. As of December 31, 2014, the Company has forward contracts outstanding with a notional amount of \$12,375 that mature during 2015.

The Company made net collections (payments) totaling \$1,451, \$628 and \$(949) during fiscal years 2014, 2013 and 2012, respectively, as a result of the net settlements of these derivatives. See additional disclosures below for further information about these forward contracts.

Cross-currency interest rate swaps

On April 24, 2012, the Company entered into a cross-currency swap agreement with Bank of America to hedge the cash flows of a portion of the 2016 Notes. Pursuant to this agreement, the Company received interests at a fixed rate of 10.25% over a notional amount of 70 million of Brazilian reais and paid interests at a fixed rate of 4.90% over a notional amount of \$37,433. This agreement used to mature on July 13, 2016 with exchange of principal. However, it was settled before its maturity.

The Company collected \$1,828 and \$372 of net interest from the counterparty during fiscal years 2013 and 2012, respectively. On October 4, 2013, the Company settled the swap agreement before its maturity for \$9,975. As a result, the Company recorded a loss from the early settlement amounting to \$4,187, which was included within "Loss from derivative instruments" in the income statement.

On November 7, 2013, the Company entered into a cross-currency interest rate swap agreement with JP Morgan Chase Bank, N.A., to hedge all the variability in a portion (53.08)% of the principal and interest collections of its BRL intercompany loan receivable with ADBV. All the terms of the swap agreement match the terms of the BRL intercompany loan receivable. Pursuant to this agreement, the Company receives interests at a fixed rate of 4.38% over a notional amount of 47.3 million of US dollars and pays Brazilian reais interests at a fixed rate of 13% over a notional amount of R\$108 million on March 31 and September 30 of each year. This agreement matures on September 29, 2023 with exchange of principal. The Company paid \$3,512 during fiscal year 2014.

See additional disclosures below for further information about these swap agreements.

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12. Derivative instruments (continued)

Additional disclosures

The following table presents the fair values of derivative instruments included in the consolidated balance sheets as of December 31, 2014 and 2013:

Type of Derivative	Balance Sheets Location	Asset (Liability) Derivatives	
		Fair Value	
		2014	2013
Derivatives designated as hedging instruments under ASC 815			
Derivatives and Hedging			
Forward contracts	Other receivables	\$ 857	\$ 383
Cross-currency interest rate swap (i)	Derivative instruments	6,565	(180)
		<u>7,422</u>	<u>203</u>
Derivatives not designated as hedging instruments under ASC 815			
Derivatives and Hedging			
Total equity return swap (ii)	Derivative instruments	\$ (8,006)	\$ (1,378)
		<u>(8,006)</u>	<u>(1,378)</u>
Total derivative instruments		<u>\$ (584)</u>	<u>\$ (1,175)</u>

- (i) At December 31, 2014, presented in the consolidated balance sheet as follows: \$9,517 as a non-current asset and \$2,952 as a current liability. At December 31, 2013, presented in the consolidated balance sheet as follows: \$490 as a non-current asset and \$670 as a current liability.
- (ii) Presented in the consolidated balance sheet as a current liability.

The following tables present the pretax amounts affecting income and other comprehensive income for the fiscal year ended December 31, 2014 for each type of derivative relationship:

Derivatives in Cash Flow Hedging Relationships	Gain (Loss) Recognized in Accumulated OCI on Derivative (Effective Portion)	(Gain) Loss Reclassified from Accumulated OCI into Income (Effective Portion)(i)	Gain (Loss) Recognized in Income on Derivative
			(Amount Excluded from Effectiveness Testing and Ineffective Portion)
Forward contracts	\$ 1,925	\$ (1,451)	\$ —
Cross-currency interest rate swap	3,233	(1,341)	—
Total	<u>\$ 5,158</u>	<u>\$ (2,792)</u>	<u>\$ —</u>

- (i) The gain recognized in income related to forward contracts was recorded as an adjustment to food and paper. The net gain recognized in income related to the cross-currency interest rate swaps is presented in the consolidated income statement as follows: a gain of \$5,084 as an adjustment to foreign exchange results and a loss of \$3,743 as an adjustment to net interest expense.



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12. Derivative instruments (continued)

Additional disclosures (continued)

Derivatives Not Designated as Hedging Instruments	Loss Recognized in Income on Derivative instruments
Total equity return swap (ii)	\$ (7,221)
Others (iii)	(685)
Total	\$ (7,906)

(ii) A \$6,861 loss is recorded within “General and administrative expenses” and a \$360 loss within “Net interest expense” in the Company’s consolidated statement of income.

(iii) These results are recorded within “Loss from derivative instruments” in the Company’s consolidated statement of income.

The following tables present the pretax amounts affecting income and other comprehensive income for the fiscal year ended December 31, 2013 for each type of derivative relationship:

Derivatives in Cash Flow Hedging Relationships	Gain (Loss) Recognized in Accumulated OCI on Derivative (Effective Portion)	(Gain) Loss Reclassified from Accumulated OCI into Income (Effective Portion)(i)	Gain (Loss) Recognized in Income on Derivative (Amount Excluded from Effectiveness Testing and Ineffective Portion)(ii)
Forward contracts	\$ 1,011	\$ (628)	\$ —
Settled cross-currency interest rate swap	(294)	1,436	(4,187)
Outstanding cross-currency interest rate swap	(180)	(972)	—
Total	\$ 537	\$ (164)	\$ (4,187)

(i) The gain recognized in income related to forward contracts was recorded as an adjustment to food and paper. The net loss recognized in income related to the cross-currency interest rate swaps is presented in the consolidated income statement as follows: a loss of \$921 as an adjustment to foreign exchange results and a gain of \$457 as an adjustment to net interest expense.

(ii) Related to the loss incurred in connection with the settlement of the cross-currency interest rate swap agreement before its maturity. This result is recorded within “Loss from derivative instruments” in the Company’s consolidated statement of income.

Derivatives Not Designated as Hedging Instruments	Gain (Loss) Recognized in Income on Derivative instruments
Total equity return swap (iii)	\$ 97
Others (iv)	46
Total	\$ 143

- (iii) A \$630 gain is recorded within “General and administrative expenses” and a \$533 loss within “Net interest expense” in the Company’s consolidated statement of income.
- (iv) These results are recorded within “Loss from derivative instruments” in the Company’s consolidated statement of income.

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12. Derivative instruments (continued)

Additional disclosures (continued)

The following tables present the pretax amounts affecting income and other comprehensive income for the fiscal year ended December 31, 2012 for each type of derivative relationship:

Derivatives in Cash Flow Hedging Relationships	Gain (Loss) Recognized in Accumulated OCI on Derivative (Effective Portion)	(Gain) Loss Reclassified from Accumulated OCI into Income (Effective Portion)(i)	Gain (Loss) Recognized in Income on Derivative (Amount Excluded from Effectiveness Testing and Ineffective Portion)
Forward contracts	\$ (901)	\$ 949	\$ —
Settled cross-currency interest rate swap	(3,294)	2,152	—
Total	\$ (4,195)	\$ 3,101	\$ —

- (i) The loss recognized in income related to forward contracts was recorded as an adjustment to food and paper. The net loss recognized in income related to the cross-currency interest rate swap is presented in the consolidated income statement as follows: a loss of \$3,314 as an adjustment to foreign exchange results and a gain of \$1,162 as an adjustment to net interest expense.

Derivatives Not Designated as Hedging Instruments	Gain (Loss) Recognized in Income on Derivative instruments (i)
Bond swaps (i)	\$ (1,738)
Total equity return swap (ii)	(4,270)
Others (i)	847
Total	\$ (5,161)

- (i) These results are recorded within “Loss from derivative instruments” in the Company’s consolidated statement of income.
(ii) A \$4,111 loss is recorded within “General and administrative expenses” and a \$159 loss within “Net interest expense” in the Company’s consolidated statement of income.

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13. Operating lease agreements

At December 31, 2014, the Company was the lessee at 2,593 locations through ground leases (the Company leases the land and the Company or franchisee owns the building) and through improved leases (the Company leases land and buildings). Lease terms for most restaurants vary between 10 and 20 years and, in many cases, provide for rent escalations and renewal options, with certain leases providing purchase options. Escalations terms vary by reporting unit, with examples including fixed-rent escalations, escalations based on an inflation index, and fair value adjustments. According to rental terms, the Company pays a monthly rental based on the greater of a fixed rent or a certain percentage of the Company's gross sales. For most locations, the Company is obligated for the related occupancy costs including property taxes, insurance and maintenance. However, for franchised sites, the Company requires the franchisees to pay these costs. In addition, the Company is the lessee under non-cancelable leases covering certain offices and warehouses.

In March 2010, the Company entered into an aircraft operating lease agreement for a term of 8 years, which provides for quarterly payments of \$690. The agreement includes a purchase option at the end of the lease term at fair market value and also an early purchase option at a fixed amount of \$26,685 at maturity of the 24th quarterly payment. The Company was required to make a cash deposit of \$5,325 as collateral for the obligations assumed under this agreement.

At December 31, 2014, future minimum payments required under existing operating leases with initial terms of one year or more are:

	Restaurant	Other	Total
2015	\$ 142,296	\$ 7,711	\$ 150,007
2016	128,904	6,640	135,544
2017	118,873	5,884	124,757
2018	104,247	3,013	107,260
2019	89,205	1,469	90,674
Thereafter	443,431	2,820	446,251
Total minimum payment	\$ 1,026,956	\$ 27,537	\$ 1,054,493

The following table provides detail of rent expense for fiscal years 2014, 2013 and 2012:

	2014	2013	2012
Company-operated restaurants (i)	\$ 151,724	\$ 153,538	\$ 140,014
Franchised restaurants (ii)	48,814	48,911	44,457
Total rent expense	\$ 200,538	\$ 202,449	\$ 184,471

(i) Included within "Occupancy and other operating expenses" in the consolidated statements of income.

(ii) Included within "Franchised restaurants – occupancy expenses" in the consolidated statements of income.

The following table provides a breakdown detail of rent expense between minimum and contingent rentals for fiscal years 2014, 2013 and 2012:

	2014	2013	2012
Minimum rentals	\$ 131,463	\$ 126,329	\$ 117,006
Contingent rentals based on sales	69,075	76,120	67,465
Total rent expense	\$ 200,538	\$ 202,449	\$ 184,471

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14. Franchise arrangements

Individual franchise arrangements generally include a lease and a license and provide for payment of initial fees as well as continuing rent and service fees (royalties) to the Company based upon a percentage of sales with minimum rent payments. The Company's franchisees are granted the right to operate a restaurant using the McDonald's system and, in most cases, the use of a restaurant facility, generally for a period of 20 years. Franchisees pay related occupancy costs including property taxes, insurance and maintenance. Pursuant to the MFAs, the Company pays initial fees and continuing service fees for franchised restaurants to McDonald's Corporation. Therefore, the margin for franchised restaurants is primarily comprised of rental income net of occupancy expenses (depreciation for owned property and equipment and/or rental expense for leased properties).

At December 31, 2014 and 2013, net property and equipment under franchise arrangements totaled \$170,400 and \$191,422, respectively (including land for \$48,797 and \$58,976, respectively).

Revenues from franchised restaurants for fiscal years 2014, 2013 and 2012 consisted of:

	2014	2013	2012
Rent	\$ 145,540	\$ 171,859	\$ 161,591
Initial fees (i)	564	929	780
Royalty fees (ii)	659	639	652
Total	\$ 146,763	\$ 173,427	\$ 163,023

(i) Presented net of initial fees paid to McDonald's Corporation for \$885, \$1,150 and \$882 in 2014, 2013 and 2012, respectively.

(ii) Presented net of royalties fees paid to McDonald's Corporation for \$63,680, \$69,933 and \$65,756 in 2014, 2013 and 2012, respectively.

At December 31, 2014, future minimum rent payments due to the Company under existing franchised agreements are:

	Owned sites	Leased sites	Total
2015	\$ 7,284	\$ 12,732	\$ 20,016
2016	7,110	11,663	18,773
2017	6,923	10,811	17,734
2018	6,527	9,987	16,514
2019	5,352	9,288	14,640
Thereafter	28,467	51,701	80,168
Total	\$ 61,663	\$ 106,182	\$ 167,845

15. Income taxes

The Company's operations are conducted by its foreign subsidiaries in Latin America and the Caribbean. The foreign subsidiaries are incorporated under the laws of their respective countries and as such the Company is taxed in such foreign countries.

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15. Income taxes (continued)

Statutory tax rates in the countries in which the Company operates for fiscal years 2014, 2013 and 2012 were as follows:

	2014	2013	2012
Puerto Rico	20%	20%	20%
Argentina, Martinique, French Guyana, Guadeloupe, St Croix, St. Thomas, Aruba and Curacao	35%	35%	35%
Brazil and Venezuela	34%	34%	34%
Colombia	34%	34%	33%
Costa Rica, Peru and Mexico	30%	30%	30%
Panamá, Uruguay, Trinidad and Tobago and Netherlands	25%	25%	25%
Ecuador	22%	22%	23%
Chile	21%	20%	20%

Income tax expense for fiscal years 2014, 2013 and 2012 consisted of the following:

	2014	2013	2012
Current income tax expense	\$ 25,060	\$ 33,609	\$ 32,147
Deferred income tax expense	7,419	9,113	14,228
Income tax expense	\$ 32,479	\$ 42,722	\$ 46,375

Income tax expense for fiscal years 2014, 2013 and 2012 differed from the amounts computed by applying the Company's weighted-average statutory income tax rate to pre-tax income as a result of the following:

	2014	2013	2012
Pre-tax (loss) income	(76,549)	96,594	160,963
Weighted-average statutory income tax rate (i)	40.9%	31.9%	35.2%
Income tax (benefit) expense at weighted-average statutory tax rate on pre-tax income	(31,346)	30,833	56,659
<u>Permanent differences :</u>			
Change in valuation allowance	71,695	39,621	(7,660)
Non-deductible expenses	15,641	13,500	22,258
Tax benefits, including tax inflation adjustment	(53,173)	(43,868)	(26,335)
Exchange rate differences	28,287	115	199
Others	1,375	2,521	1,254
Income tax expense	32,479	42,722	46,375

- (i) Weighted-average statutory income tax rate is calculated based on the aggregated amount of the income before taxes by country multiplied by the prevailing statutory income tax rate, divided by the consolidated income before taxes.

The tax effects of temporary differences and carryforwards that comprise significant portions of deferred tax assets and liabilities at December 31, 2014 and 2013 are presented below:

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15. Income taxes (continued)

	2014	2013
Tax loss carryforwards (i)	\$ 258,046	\$ 276,468
Purchase price allocation adjustment	57,786	74,349
Property and equipment, tax inflation	53,172	41,212
Other accrued payroll and other liabilities	14,328	20,941
Share-based compensation	5,266	6,532
Provision for contingencies	2,700	2,809
Other deferred tax assets (ii)	40,777	20,880
Other deferred tax liabilities (iii)	(10,781)	(12,499)
Property and equipment - difference in depreciation rates	(32,850)	(41,087)
Valuation allowance (iv)	(301,012)	(270,057)
Net deferred tax asset	\$ 87,432	\$ 119,548

- (i) As of December 31, 2014, the Company and its subsidiaries has accumulated operating tax loss carryforwards amounting to \$907,159. The Company has operating tax loss carryforwards amounting to \$248,552, expiring between 2015 and 2019. In addition, the Company has operating tax loss carryforwards amounting to \$184,101 expiring after 2019 and operating tax loss carryforwards amounting to \$474,506 that do no expire.
- (ii) Venezuela's foreign currency exchange differences is included in these figures amounting to \$ 26,361 for the year ended December 31, 2014.
- (iii) Primarily related to intangible assets and foreign currency exchange differences.
- (iv) In assessing the realization of deferred income tax assets, the Company considers whether it is more likely than not that some portion or all of the deferred income tax assets will not be realized.

The total amount of \$87,432 for the year ended December 31, 2014, is presented in the consolidated balance sheet as current asset, non-current asset, current liability and non-current liability amounting to \$17,188, \$75,319 \$895 and \$4,180, respectively.

The total amount of \$119,548 for the year ended December 31, 2013, is presented in the consolidated balance sheet as current asset, non-current asset and non-current liability amounting to \$27,974, \$97,687 and \$6,113, respectively.

Deferred income taxes have not been recorded for temporary differences related to investments in certain foreign subsidiaries. These temporary differences were \$221,100 at December 31, 2014 and consisted of undistributed earnings considered permanently invested in subsidiaries. Determination of the deferred income tax liability on these unremitted earnings is not practicable because such liability, if any, is dependent on circumstances existing if and when remittance occurs.

As of December 31, 2014 and 2013, the Company's gross unrecognized tax benefits totaled \$221 and \$1,697 (including interests and penalties), respectively, that would favorably affect the effective tax rate if resolved in the Company's favor.

The following table presents a reconciliation of the beginning and ending amounts of unrecognized tax benefits:

	2014	2013
Balances at beginning balance	\$ 1,697	\$ 1,554
(Decrease) increase for positions taken in prior years	(1,476)	143
Balances at ending balance	\$ 221	\$ 1,697

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15. Income taxes (continued)

The Company is regularly under audit in multiple tax jurisdictions. It is reasonably possible that, as a result of audit progression within the next 12 months, there may be new information that causes the Company to reassess the total amount of unrecognized tax benefits recorded. While the Company cannot estimate the impact that new information may have on the unrecognized tax benefit balance, the Company believes that the liabilities that are recorded are appropriate and adequate as determined under ASC 740. The Company is generally no longer subject to income tax examinations by tax authorities for years prior to 2008.

16. Share-based compensation

ADBV Long-Term Incentive Plan

During 2008, the Company implemented a long-term incentive plan to reward employees for increases in the fair value of the Company's stock subsequent to the date of grant. In accordance with this plan, in fiscal years 2008, 2009 and 2010 the Company granted units (called "CADs") to certain employees, pursuant to which the employees are entitled to receive, when vested, a cash payment equal to the appreciation in fair value over the base value. The awards vest over a requisite service period of five years as follows: 40% at the second anniversary of the date of grant and 20% at each of the following three years. The exercise right is cumulative and, once such right becomes exercisable, it may be exercised in whole or in part during quarterly window periods until the date of termination, which occurs the two months after the fifth anniversary of the date of grant. Exercisable outstanding awards at the date of termination are automatically settled by the Company. In April 2014, the Company communicated to its employees the three year's expiration extension of ADBV Long-Term Incentive Plan outstanding units exercise right, without any change in the vesting period. Upon this resolution, units for which its exercise right was originally scheduled to expire in May, 2014 will expire in May, 2017, and units for which its exercise right was originally scheduled to expire in May, 2015 will expire in May, 2018. The employees affected by this resolution were 84. The total incremental compensation cost resulting from the modification as of December 31, 2014, amounts to \$149, which has been recorded under "General and administrative expenses".

The Company recognizes compensation expense related to these benefits on a straight-line basis over the requisite service period for each separately vesting portion of the award as if the award was, in substance, multiple awards. The accrued liability is remeasured at the end of each reporting period until settlement.

The following variables and assumptions have been used by the Company for purposes of measuring its liability awards at December 31, 2014 and 2013:

	2014	2013
Current share price (i)	5.41	12.12
Weighted-average base value of outstanding units	6.77	6.76
Expected volatility (ii)	40.4%	32.3%
Dividend yield	4.4%	2.0%
Risk-free interest rate	0.5%	0.1%
Expected term	1.58	0.95

(i) Equal to the quoted market price per share at the end of the year.

(ii) Based on implied volatility of the Company's class A shares.

The following table summarizes the activity under the plan for fiscal years 2014, 2013 and 2012:

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16. Share-based compensation (continued)

ADBV Long-Term Incentive Plan (continued)

	Units	Weighted- average base value	Weighted- average fair value
Outstanding at December 31, 2011	2,923,582	5.82	14.44
Exercised (i)	(696,067)	4.61	
Forfeited	(98,294)	5.62	
Outstanding at December 31, 2012	2,129,221	6.22	5.79
Exercised (ii)	(1,022,347)	5.69	
Forfeited	(88,568)	6.32	
Outstanding at December 31, 2013	1,018,306	6.76	5.23
Exercised (iii)	(119,464)	6.79	
Forfeited	(25,304)	6.25	
Outstanding at December 31, 2014	873,538	6.77	0.93
Exercisable at December 31, 2014	664,392	7.15	0.75

(i) The total amount paid for these exercises was \$5,811.

(ii) The total amount paid for these exercises was \$7,857.

(iii) The total amount paid for these exercises was \$344.

The following table provides a summary of the plan at December 31, 2014:

	Vested (i)	Non-vested (ii)	Total
Number of units outstanding	664,392	209,146	873,538
Weighted-average fair market value per unit	0.75	1.53	0.93
Total fair value of the plan	497	319	816
Weighted-average accumulated percentage of service	100	96.71	98.72
Accrued liability (iii)	497	309	806
Compensation expense not yet recognized (iv)	—	10	10

(i) Related to exercisable awards.

(ii) Related to awards that will vest in March 2015.

(iii) The total accrued liability of \$806 related to outstanding units is presented within "Accrued payroll and other liabilities" in the Company's current liabilities balance sheet.

(iv) Expected to be recognized in a weighted-average period of 2 months.

Compensation expense is included within "General and administrative expenses" in the consolidated statement of income. As discussed in Note 12, on August 13, 2012, the Company entered into a total equity return swap agreement to minimize earnings volatility related to these awards. The adjustments to the value of the swap tend to minimize the adjustments to the carrying value of the ADBV Long-Term Incentive Plan liability derived from changes in the Company's stock price, which are also recorded in "General and administrative expenses". As a result, there is a reduction of the impact on the Company's consolidated statement of income as from the effective date of the agreement.

Not including the impact of the total equity return swap agreement, compensation expense (benefit) for the fiscal years 2014, 2013 and 2012 amounted to \$(3,772), \$1,875 and \$(15,746), respectively.

The Company recognized \$905, \$334 and \$4,424 of related income tax expense (benefit) during fiscal years 2014, 2013 and 2012, respectively.

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16. Share-based compensation (continued)

2011 Equity Incentive Plan

In March 2011, the Company adopted its Equity Incentive Plan, or 2011 Plan, to attract and retain the most highly qualified and capable professionals and to promote the success of its business. This plan replaces the ADBV Long-Term Incentive Plan discussed above, although the awards that have already been granted will remain outstanding until their respective termination dates. Like the ADBV Long-Term Incentive Plan, the 2011 Plan is being used to reward certain employees for the success of the Company's business through an annual award program. The 2011 Plan permits grants of awards relating to class A shares, including awards in the form of shares (also referred to as stock), options, restricted shares, restricted share units, share appreciation rights, performance awards and other share-based awards as will be determined by the Company's Board of Directors. The maximum number of shares that may be issued under the 2011 Plan is 2.5% of the Company's total outstanding class A and class B shares immediately following its initial public offering.

The Company made a special grant of stock options and restricted share units in 2011 in connection with its initial public offering. Both types of special awards vest as follows: 1/3 on each of the second, third and fourth anniversaries of the grant date. The Company also made recurring grants of stock options and restricted share units in each of the fiscal years 2011, 2012, 2013 and 2014. Both types of these recurring annual awards vest as follows: 40% on the second anniversary of the date of grant and 20% on each of the following three anniversaries. For all grants, each stock option granted represents the right to acquire a Class A share at its grant-date fair market value, while each restricted share unit represents the right to receive a Class A share when vested. The exercise right for the stock options is cumulative and, once such right becomes exercisable, it may be exercised in whole or in part during quarterly window periods until the date of termination, which occurs at the seventh anniversary of the date of grant.

The Company utilizes a Black-Scholes option-pricing model to estimate the value of stock options at the grant date. The value of restricted shares units is based on the quoted market price of the Company's class A shares at the grant date. The following variables and assumptions have been used by the Company for purposes of measuring its stock options awards at each grant date (on the second quarter of each year):

	2014	2013	2012
Grant-date stock price (i)	8.58	14.31	14.35
Weighted-average strike price	8.58	14.31	14.35
Expected volatility (ii)	35.5%	38.0%	48.0%
Dividend yield	2.8%	1.7%	1.7%
Risk-free interest rate	1.3%	1.0%	0.8%
Expected term	4.1	5.0	5.0

(i) Equal to the quoted market price per Class A share at market-closing of the date of grant.

(ii) Based on implied volatility of the Company's class A shares.

The resulting value of stock options and restricted share units granted was \$491 and \$2,723, respectively, during fiscal year 2014; \$1,807 and \$3,056, respectively, during the fiscal year 2013; \$3,051 and \$3,030, respectively, during fiscal year 2012.

The Company recognizes stock-based compensation expense on a straight-line basis over the requisite service period for each separately vesting portion of the award as if the award was, in substance, multiple awards. The Company recognized stock-based compensation expense in the amount of \$6,163, \$5,782 and \$12,900 during fiscal years 2014, 2013 and 2012, respectively, of which \$2,503, \$1,964 and \$7,997 relates to the special awards granted in connection with the initial public offering. Stock-based compensation expense is included within "General and administrative expenses" in the consolidated statements of income.

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16. Share-based compensation (continued)

2011 Equity Incentive Plan (continued)

The Company recognized \$678, \$88 and \$2,807 of related income tax benefits during fiscal years 2014, 2013 and 2012, respectively.

Stock Options

The following table summarizes the activity of stock options during fiscal years 2014, 2013 and 2012:

	Units	Weighted- average strike price	Weighted- average grant-date fair value
Outstanding at December 31, 2011	1,879,847	21.20	5.55
2012 annual grant	584,587	14.35	5.22
Outstanding at December 31, 2012	2,464,434	19.58	5.47
2013 annual grant	431,726	14.31	4.19
Forfeitures	(462,272)	19.97	5.41
Outstanding at December 31, 2013	2,433,888	18.57	5.26
2014 annual grant	247,475	8.58	1.98
Forfeitures	(130,528)	18.14	5.27
Outstanding at December 31, 2014	2,550,835	17.62	4.94
Exercisable at December 31, 2014	1,104,516	19.99	5.48

The following table provides a summary of outstanding stock options at December 31, 2014:

	Vested (i)	Non-vested (ii)	Total
Number of units outstanding	1,104,516	1,446,319	2,550,835
Weighted-average grant-date fair market value per unit	5.48	4.52	4.94
Total grant-date fair value	6,057	6,538	12,595
Weighted-average accumulated percentage of service	100.0	71.4	85.2
Stock-based compensation recognized in Additional paid-in capital	6,057	4,670	10,727
Compensation expense not yet recognized (iii)	—	1,868	1,868

- (i) Related to exercisable awards.
- (ii) Related to awards that will vest between fiscal years 2015 and 2019.
- (iii) Expected to be recognized in a weighted-average period of 2.9 years.

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16. Share-based compensation (continued)

2011 Equity Incentive Plan (continued)

Restricted Share Units

The following table summarizes the activity of restricted share units during fiscal years 2014, 2013 and 2012:

	Units	Weighted- average grant-date fair value
Outstanding at December 31, 2011	1,013,592	21.20
2012 annual grant	211,169	14.35
Outstanding at December 31, 2012	1,224,761	20.02
2013 annual grant	213,600	14.31
Partial vesting of 2011 grants (i)	(338,014)	21.20
Forfeitures	(158,279)	19.70
Outstanding at December 31, 2013	942,068	18.36
2014 annual grant	317,351	8.58
Partial vesting of 2011 grants (ii)	(274,314)	21.20
Partial vesting of 2012 grants (iii)	(74,303)	14.35
Forfeitures	(47,947)	15.11
Outstanding at December 31, 2014	862,855	14.38
Exercisable at December 31, 2014	—	—

- (i) The Company issued 338,014 Class A shares in connection with this partial vesting. Therefore, accumulated recorded compensation expense totaling \$7,166 was reclassified from “Additional paid-in capital” to “Common Stock” upon issuance.
- (ii) The Company issued 274,314 Class A shares in connection with this partial vesting. Therefore, accumulated recorded compensation expense totaling \$5,815 was reclassified from “Additional paid-in capital” to “Common Stock” upon issuance.
- (iii) The Company issued 74,303 Class A shares in connection with this partial vesting. Therefore, accumulated recorded compensation expense totaling \$1,066 was reclassified from “Additional paid-in capital” to “Common Stock” upon issuance.

The following table provides a summary of outstanding restricted share units at December 31, 2014:

Number of units outstanding (i)	862,855
Weighted-average grant-date fair market value per unit	14.38
Total grant-date fair value	12,409
Weighted-average accumulated percentage of service	66.7%
Stock-based compensation recognized in Additional paid-in capital	8,273
Compensation expense not yet recognized (ii)	4,136

- (i) Related to awards that will vest between fiscal years 2015 and 2019.
- (ii) Expected to be recognized in a weighted-average period of 3.4 years.

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17. Commitments and contingencies

Commitments

The MFAs require the Company and its MF subsidiaries, among other obligations:

- (i) to pay monthly royalties commencing at a rate of approximately 5% of gross sales of the restaurants, substantially consistent with market;
- (ii) to agree with McDonald's on a restaurant opening plan and a reinvestment plan for each three-year period and pay an initial franchise fee for each new restaurant opened; for the three-year period commenced on January 1, 2014 the Company must reinvest an aggregate of at least \$180 million; and open no less than 250 new restaurants
- (iii) to commit to funding a specified Strategic Marketing Plan;
- (iv) to own (or lease) directly or indirectly, the fee simple interest in all real property on which any franchised restaurant is located; and
- (v) to maintain a minimum fixed charge coverage ratio as well as a maximum leverage ratio.

Mainly as a consequence of changing the exchange rates used for remeasurement of its bolivar-denominated assets and liabilities and operating results in Venezuela, mentioned in Note 21, the Company was not in compliance with the ratios mentioned in (v) above for certain periods in 2014. For that reason, on July 31, 2014, McDonald's granted the Company a limited waiver for a six-month period (from and as of June 30, 2014 until and including December 31, 2014), during which time, the Company was not required to maintain the financial ratios set forth in the MFA. Notwithstanding the foregoing, the Company does not expect any material adverse effect to its business, results of operations, financial condition or cash flows as a result of this situation. The Company continues monitoring the compliance with the quarterly ratios set forth in the MFA.

The Company has negotiated and obtained temporary royalty waivers from McDonald's Corporation for its operations in Venezuela considering the restrictions and regulations in place affecting its operations in that country. For the fiscal years 2014, 2013 and 2012, the Company has recorded a royalty waiver amounting to \$6.1 million, \$8 million and \$5 million, respectively, recorded as lower "Royalty fees" in the consolidated statements of income. As of June 1, 2014 the Company agreed with McDonald's Corporation to calculate royalties using the SICAD II exchange rate. Therefore, no further waiver is being recorded, since SICAD II is the exchange rate used for remeasurement purposes (see Note 21 for more details).

In addition, the Company maintains standby letters of credit with an aggregate drawing amount of \$80 million in favor of McDonald's Corporation as collateral for the obligations assumed under the MFAs. The letter of credit can be drawn if certain events occur, including the failure to pay royalties. No amounts have been drawn at the date of issuance of these financial statements.

Provision for contingencies

The Company has certain contingent liabilities with respect to existing or potential claims, lawsuits and other proceedings, including those involving labor, tax and other matters. At December 31, 2014 the Company maintains a provision for contingencies amounting to \$20,139 (\$22,341 at December 31, 2013), which is presented net of judicial deposits amounting to \$7,935 (\$7,519 at December 31, 2013) that the Company was required to make in connection with the proceedings. As December 31, 2014 and 2013, the net amount of \$12,204 and \$14,822 is presented as follows: \$777 and \$1,748 as a current liability and \$11,427 and \$13,074 as a non-current liability, respectively. Breakdown of the provision for contingencies is as follows:

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17. Commitments and contingencies (continued)

Provision for contingencies (continued)

	2014	2013
Tax contingencies in Brazil (i)	\$ 1,999	\$ 2,235
Labor contingencies in Brazil (ii)	10,360	9,484
Other (iii)	7,780	10,622
Subtotal	20,139	22,341
Judicial deposits (iv)	(7,935)	(7,519)
Provision for contingencies	\$ 12,204	\$ 14,822

- (i) Tax contingencies in Brazil. It mainly relates to tax on bank account transactions (CPMF), abolished in 2007. During fiscal year 2012, the Company settled the contingency over royalty payments, paying \$11,473 in cash. In addition, the Company entered into an amnesty program to settle the contingency related to VAT special treatment for restaurants in Rio de Janeiro in 18 equal monthly installments, commencing in May 2012, pursuant to which the Company reclassified \$28,428 to “Accrued payroll and other liabilities” in the consolidated balance sheet. During fiscal year 2012, the Company also recorded an accrual of \$3,770 and a currency translation adjustment amounting to \$(2,327). In addition, during fiscal year 2012 there was an increase of \$458 as a result of certain balance sheet reclassifications. During fiscal year 2013, the Company recorded an accrual of \$13 and a currency translation adjustment amounting to \$(527). In addition, the Company made certain balance sheet reclassifications totaling \$(271) and settlements amounting to \$991 that the Company recovered from McDonald’s Corporation. During fiscal year 2014, the Company recorded an accrual of \$14 and a currency translation adjustment amounting to \$(250). No settlements were done during fiscal year 2014.
- (ii) Labor contingencies in Brazil. It primarily relates to dismissals in the normal course of business. During fiscal years 2014, 2013 and 2012, the Company recorded accruals of \$22,726, \$12,714 and \$10,751, respectively, primarily related to new dismissal claims and to increases on estimated future costs of outstanding claims; and a currency translation adjustment amounting to \$(1,239), \$(1,586) and \$(930), respectively. In addition, the Company made settlements totaling \$20,582, \$15,900 and \$15,211, respectively. During fiscal year 2014, the Company made certain balance sheet reclassifications amounting to \$29.
- (iii) Other contingencies. It mainly relates to tax and labor contingencies in other countries. During fiscal years 2014, 2013 and 2012, the Company recorded accruals of \$3,620, \$4,546 and \$1,251, respectively; and currency translation adjustment amounting \$(2,945), \$(2,160) and \$(1,195), respectively. In addition, the Company made settlements totaling \$2,974, \$2,060 and \$736, respectively. During fiscal years 2014 and 2013, the Company made certain balance sheet reclassifications amounting to \$543 and \$745, respectively.
- (iv) Judicial deposits. It primarily relates to judicial deposits the Company was required to make in connection with the proceedings in Brazil. During fiscal years 2014, 2013 and 2012, there was a net increase amounting to \$416, \$300 and \$367, respectively; including foreign currency translation for \$(986), \$(1,049) and \$(671), respectively.

As of December 31, 2014, there are certain matters related to the interpretation of tax and labor laws for which there is a possibility that a loss may have been incurred in accordance with ASC 450-20-50-4 within a range of \$24 and \$34 million.

Additionally, there is a lawsuit filed by several Puerto Rican franchisees against McDonald’s Corporation and certain subsidiaries purchased by the Company during the acquisition of the LatAm business (“the Puerto Rican franchisees lawsuit”). The claim seeks declaratory judgment and damages in the aggregate amount of \$66.7 million plus plaintiffs’ attorney fees. At the end of 2014 the plaintiffs finalized their presentation of evidence whereas the Company has not started yet. The Company believes that a final negative resolution has a low probability of occurrence.

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17. Commitments and contingencies (continued)

During 2014, another franchisee filed a complaint against the Company and McDonald's Corporation, asserting a very similar claim to the one filed in the Puerto Rican franchisees lawsuit. The claim seeks declaratory judgment and damages in the amount of \$30 million plus plaintiffs' attorney fees. Although this case is in its early stages, the Company believes that a final negative resolution has a low probability of occurrence, since its close resemblance to the Puerto Rican franchisees lawsuit.

Furthermore, the Puerto Rico Owner Operator's Association ("PROA"), an association integrated by the Company's franchisees that meets periodically to coordinate the development of promotional and marketing campaigns (an association that at the time of the claim was formed solely by franchisees that are plaintiffs in the Puerto Rican franchisees lawsuit), filed a third party complaint and counterclaim against the Company and other third party defendants, in the amount of \$31 million. Although certain negative resolutions occurred in that lawsuit at the preliminary and first instance stages, no provision has been recorded because the Company believes that a final negative resolution has a low probability of occurrence.

Pursuant to Section 9.3 of the Stock Purchase Agreement, McDonald's Corporation indemnifies the Company for certain Brazilian claims as well as for specific and limited claims arising from the Puerto Rican franchisees lawsuit.

At December 31, 2014, the non-current portion of the provision for contingencies includes \$4,395 related to Brazilian claims that are covered by the indemnification agreement. As a result, the Company has recorded a non-current asset in respect of McDonald's Corporation's indemnity in the consolidated balance sheet.

18. Disclosures about fair value of financial instruments

As defined in ASC 820 Fair Value Measurement and Disclosures, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). The transaction is based on a hypothetical transaction in the principal or most advantageous market considered from the perspective of the market participant that holds the asset or owes the liability. The valuation techniques that can be used under this guidance are the market approach, income approach or cost approach. The market approach uses prices and other information for market transactions involving identical or comparable assets or liabilities, such as matrix pricing. The income approach uses valuation techniques to convert future amounts to a single discounted present amount based on current market conditions about those future amounts, such as present value techniques, option pricing models (e.g. Black-Scholes model) and binomial models (e.g. Monte-Carlo model). The cost approach is based on current replacement cost to replace an asset.

The Company utilizes market data or assumptions that market participants who are independent, knowledgeable and willing and able to transact would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated or generally unobservable. The Company attempts to utilize valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. The Company is able to classify fair value balances based on the observance of those inputs. The guidance establishes a formal fair value hierarchy based on the inputs used to measure fair value. The hierarchy gives the highest priority to level 1 measurements and the lowest priority to level 3 measurements, and accordingly, level 1 measurement should be used whenever possible.

The three levels of the fair value hierarchy as defined by the guidance are as follows:

Level 1: Valuations utilizing quoted, unadjusted prices for identical assets or liabilities in active markets that the Company has the ability to access. This is the most reliable evidence of fair value and does not require a significant degree of judgment. Examples include exchange-traded derivatives and listed equities that are actively traded.

Level 2: Valuations utilizing quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly for substantially the full term of the asset or liability.

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18. Disclosures about fair value of financial instruments (continued)

Financial instruments that are valued using models or other valuation methodologies are included. Models used should primarily be industry-standard models that consider various assumptions and economic measures, such as interest rates, yield curves, time value, volatilities, contract terms, current market prices, credit risk or other market-corroborated inputs. Examples include most over-the-counter derivatives (non-exchange traded), physical commodities, most structured notes and municipal and corporate bonds.

Level 3: Valuations utilizing significant unobservable inputs provides the least objective evidence of fair value and requires a significant degree of judgment. Inputs may be used with internally developed methodologies and should reflect an entity's assumptions using the best information available about the assumptions that market participants would use in pricing an asset or liability. Examples include certain corporate loans, real-estate and private equity investments and long-dated or complex over-the-counter derivatives.

Depending on the particular asset or liability, input availability can vary depending on factors such as product type, longevity of a product in the market and other particular transaction conditions. In some cases, certain inputs used to measure fair value may be categorized into different levels of the fair value hierarchy. For disclosure purposes under this guidance, the lowest level that contains significant inputs used in valuation should be chosen. Pursuant to ASC 820-10-50, the Company has classified its assets and liabilities into these levels depending upon the data relied on to determine the fair values. The fair values of the Company's derivatives are valued based upon quotes obtained from counterparties to the agreements and are designated as Level 2.

The following fair value hierarchy table presents information about the Company's assets and liabilities measured at fair value on a recurring basis as of December 31, 2014:

	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of December 31, 2014
Assets				
Cash equivalents	\$ 44,375	\$ —	\$ —	\$ 44,375
Cross-currency interest rate swap	—	9,517	—	9,517
Total Assets	\$ 44,375	\$ 9,517	\$ —	\$ 53,892
Liabilities				
Cross-currency interest rate swap	\$ —	\$ 2,952	\$ —	\$ 2,952
Total equity return swap	—	8,006	—	8,006
Long-term incentive plan	—	806	—	806
Total Liabilities	\$ —	\$ 11,764	\$ —	\$ 11,764

The derivative contracts were measured based on quotes from the Company's counterparties. Such quotes have been derived using models pricing or discounted cash analysis that incorporate observable market parameters for all significant inputs such as interest yield curves, options volatilities and currency rates and that were observable for substantially the full term of the derivative contracts.

Certain financial assets and liabilities not measured at fair value

At December 31, 2014, the fair value of the Company's short-term and long-term debt was estimated at \$806,000, compared to a carrying amount of \$820,391. This fair value was estimated using various pricing models or discounted cash flow analysis that incorporated quoted market prices, and is similar to Level 2 within the valuation hierarchy. The carrying amount for both cash and equivalents and notes receivable approximates fair value.

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18. Disclosures about fair value of financial instruments (continued)

Non-financial assets and liabilities measured at fair value on a nonrecurring basis

Certain assets and liabilities are measured at fair value on a nonrecurring basis; that is, the assets and liabilities are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (e.g., when there is evidence of impairment). At December 31, 2014, no material fair value adjustments or fair value measurements were required for non-financial assets or liabilities, except for those required in connection with the impairment of long-lived assets and goodwill. Refer to Note 3 for more details, including inputs and valuation techniques used to measure fair value of these non-financial assets.

19. Certain risks and concentrations

The Company's financial instruments that are exposed to concentration of credit risk primarily consist of cash and cash equivalents and accounts and notes receivables. Cash and cash equivalents are deposited with various creditworthy financial institutions, and therefore the Company believes it is not exposed to any significant credit risk related to cash and cash equivalents. Concentrations of credit risk with respect to accounts and notes receivables are generally limited due to the large number of franchisees comprising the Company's franchise base.

All the Company's operations are concentrated in Latin America and the Caribbean. As a result, the Company's financial condition and results of operations depend, to a significant extent, on macroeconomic and political conditions prevailing in the region. See Note 21 for additional information pertaining to the Company's Venezuelan operations.

20. Segment and geographic information

The Company is required to report information about operating segments in annual financial statements and interim financial reports issued to shareholders in accordance with ASC 280. Operating segments are components of a company about which separate financial information is available that is regularly evaluated by the chief operating decision maker(s) in deciding how to allocate resources and assess performance. ASC 280 also requires disclosures about the Company's products and services, geographical areas and major customers.

As discussed in Note 1, the Company through its wholly-owned and majority-owned subsidiaries operates and franchises McDonald's restaurants in the food service industry. The Company has determined that its reportable segments are those that are based on the Company's method of internal reporting. The Company manages its business as distinct geographic segments and its operations are divided into four geographical divisions, which as from January 1, 2013 are as follows: Brazil; the Caribbean division, consisting of Aruba, Curacao, Colombia, French Guyana, Guadeloupe, Martinique, Puerto Rico, Trinidad and Tobago, the U.S. Virgin Islands of St. Croix and St. Thomas and Venezuela; the North Latin America division ("NOLAD"), consisting of Costa Rica, Mexico and Panama; and the South Latin America division ("SLAD"), consisting of Argentina, Chile, Ecuador, Peru and Uruguay. The accounting policies of the segments are the same as those described in Note 3.

In January 2013, the Company made certain organizational changes in the structure of its geographical divisions in order to balance their relative weight in terms of number of restaurants and revenues. As a result of the reorganization effective January 1, 2013, Colombia and Venezuela, which were part of SLAD, became part of the Caribbean division with headquarters located in Colombia. In accordance with ASC 280, Segment Reporting, the Company has restated its comparative segment information based on the new structure of its geographical divisions.

The following table presents information about profit or loss and assets for each reportable segment:

Arcos Dorados Holdings Inc.

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Amounts in thousands of US dollars, except for share data and as otherwise indicated

20. Segment and geographic information (continued)

	For the fiscal year ended December 31,		
	2014	2013	2012
Revenues :			
Brazil	\$ 1,816,046	\$ 1,842,324	\$ 1,797,556
Caribbean division	594,220	830,447	754,730
NOLAD	385,114	407,772	384,041
SLAD	855,685	952,767	861,067
Total revenues	\$ 3,651,065	\$ 4,033,310	\$ 3,797,394
Adjusted EBITDA :			
Brazil	\$ 237,699	\$ 245,957	\$ 240,954
Caribbean division	(8,136)	67,180	69,109
NOLAD	27,701	27,397	26,738
SLAD	87,976	105,495	93,756
Total reportable segments	345,240	446,029	430,557
Corporate and others (i)	(93,566)	(101,562)	(89,996)
Total adjusted EBITDA	\$ 251,674	\$ 344,467	\$ 340,561

Arcos Dorados Holdings Inc.

Notes to the Consolidated Financial Statements

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Amounts in thousands of US dollars, except for share data and as otherwise indicated

20. Segment and geographic information (continued)

	For the fiscal year ended December 31,		
	2014	2013	2012
Adjusted EBITDA reconciliation :			
Total Adjusted EBITDA	\$ 251,674	\$ 344,467	\$ 340,561
(Less) Plus items excluded from computation that affect operating income:			
Depreciation and amortization	(116,811)	(114,860)	(92,328)
Gains from sale or insurance recovery of property and equipment	3,379	10,326	3,328
Write-offs of property and equipment	(7,111)	(6,489)	(4,259)
Impairment of long-lived assets	(50,886)	(2,958)	(1,982)
Impairment of goodwill	(2,029)	—	(683)
Stock-based compensation related to the special awards in connection with the initial public offering under the 2011 Plan	(2,503)	(1,964)	(7,997)
One-time expenses related to G&A optimization plan	(4,707)	—	—
ADBV Long-Term Incentive Plan incremental compensation from modification	(149)	—	—
Operating income	70,857	228,522	236,640
(Less) Plus:			
Net interest expense	(72,750)	(88,156)	(54,247)
Loss from derivative instruments	(685)	(4,141)	(891)
Foreign currency exchange results	(74,117)	(38,783)	(18,420)
Other non-operating income (expenses), net	146	(848)	(2,119)
Income tax expense	(32,479)	(42,722)	(46,375)
Net income attributable to non-controlling interests	(305)	(18)	(256)
Net (loss) income attributable to Arcos Dorados Holdings Inc.	\$ (109,333)	\$ 53,854	\$ 114,332

Arcos Dorados Holdings Inc.
Notes to the Consolidated Financial Statements

As of December 31, 2014 and 2013 and for each of the three years in the period ended December 31, 2014

Amounts in thousands of US dollars, except for share data and as otherwise indicated

20. Segment and geographic information (continued)

	For the fiscal year ended December 31,		
	2014	2013	2012
<u>Depreciation and amortization :</u>			
Brazil	\$ 60,261	\$ 57,818	\$ 47,659
Caribbean division	29,142	28,663	26,164
NOLAD	28,565	28,597	26,628
SLAD	19,989	23,172	18,867
Total reportable segments	137,957	138,250	119,318
Corporate and others (i)	8,202	8,607	7,279
Purchase price allocation (ii)	(29,348)	(31,997)	(34,269)
Total depreciation and amortization	\$ 116,811	\$ 114,860	\$ 92,328
<u>Property and equipment expenditures :</u>			
Brazil	\$ 100,455	\$ 127,743	\$ 133,734
Caribbean division	18,717	99,565	51,972
NOLAD	23,680	32,533	36,759
SLAD	25,423	51,337	69,672
Others	1,538	2,284	2,341
Total property and equipment expenditures	\$ 169,813	\$ 313,462	\$ 294,478
As of December 31,			
	2014	2013	
<u>Total assets :</u>			
Brazil	\$ 833,334	\$ 907,406	
Caribbean division	444,641	692,689	
NOLAD	360,644	412,466	
SLAD	291,473	340,795	
Total reportable segments	1,930,092	2,353,356	
Corporate and others (i)	98,651	114,016	
Purchase price allocation (ii)	(233,963)	(287,113)	
Total assets	\$ 1,794,780	\$ 2,180,259	

- (i) Primarily relates to corporate general and administrative expenses corporate supply chain operations in Venezuela and Uruguay, and related assets. Corporate general and administrative expenses consist of corporate office support costs in areas such as facilities, finance, human resources, information technology, legal, marketing, restaurant operations, supply chain and training. Corporate assets primarily include corporate cash and cash equivalents, a loan receivable with related parties, and a receivable with an independent logistic operator.
- (ii) Relates to the purchase price allocation adjustment made at corporate level, which reduces the total assets and the corresponding depreciation and amortization.

The Company's revenues are derived from two sources: sales by Company-operated restaurants and revenues from restaurants operated by franchisees. See Note 3 for more details. All of the Company's revenues are derived from foreign operations.

Long-lived assets consisting of property and equipment totaled \$1,116,281 and \$1,244,311 at December 31, 2014 and 2013, respectively. All of the Company's long-lived assets are related to foreign operations.

Arcos Dorados Holdings Inc.

Notes to the Consolidated Financial Statements

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21. Venezuelan operations

The Company conducts business in Venezuela where currency restrictions exist, limiting the Company's ability to immediately access cash through repatriations at the government's official exchange rate. The Company's access to these funds remains available for use within this jurisdiction and is not restricted. The official exchange rate is established by the Central Bank of Venezuela and the Venezuelan Ministry of Finance and the acquisition of foreign currency at the official exchange rate by Venezuelan companies to pay foreign debt or dividends is subject to a registration and approval process by the relevant Venezuelan authorities. Since these restrictions are in place, the Company has not been able to access the official exchange rate to pay royalties nor dividends.

Revenues and operating income of the Venezuelan operations were \$187,588 and \$(74,962), respectively, for fiscal year 2014; \$415,932 and \$43,939, respectively, for fiscal year 2013; and \$349,570 and \$45,164, respectively, for fiscal year 2012.

On February 8, 2013, the Venezuelan government announced the devaluation of its currency, from the preexisting official exchange rate of 4.30 Venezuelan *Bolívars Fuertes* (VEF) per US dollar to 6.30 VEF per US dollar. The previously available regulated foreign currency exchange system (SITME) with an executed rate of 5.30 VEF per US dollar used by the Company to remeasure transactions and balances denominated in local currency was eliminated. In addition, in March 2013, the Venezuelan government announced the creation of a new alternative currency exchange system called SICAD (Supplementary System for the Administration of Foreign Currency), an auction mechanism applicable only to certain imported products. As a result of these announcements the Company concluded that the new official exchange rate of 6.30 VEF per US dollar was the rate applicable for remeasurement purposes as from February 8, 2013. During fiscal year 2013, the Company recognized a foreign currency exchange loss of \$15,379 as a result of the exchange rate change.

At December 31, 2013, the Company had participated in only two auctions for a total amount of \$1,500, which were executed after year-end. Based on certain factors, including the limited number of SICAD auctions, the Company's limited access to the SICAD exchange, the restrictions placed on eligible participants and transactions, the amount of US dollars available for purchase through the auctions process, and the historical lack of official information about the resulting SICAD rate, the Company concluded that it would not be appropriate to use rates coming from the SICAD exchange system for financial reporting purposes at December 31, 2013. On January 23, 2014, effective on January 24, 2014, the government of Venezuela announced the creation of a new institution governing exchange rate control called the Foreign Trade Center (CENCOEX), in replacement of the Currency Administration Commission (CADIVI). Based on announcements made by the Venezuelan government, there would only be access to US dollars at a rate of 6.30 VEF per US dollar for the food and other industries deemed a priority. Imports of other products could be included in SICAD auctions depending on the related industry. On the other hand, Exchange Agreement N°25 issued on January 23, 2014, established that payments related to foreign investments and royalties, among others, must be made at the SICAD exchange rate.

In February 2014, a new Exchange Regime Act was enacted to introduce flexibility into the exchange control system by creating the Alternative System for the Administration of Foreign Currency (*Sistema Cambiario Alternativo de Divisas*), or SICAD II. The Exchange Regime Act became effective as of February 19, 2014. SICAD II is regulated through Exchange Agreement N° 27 of March 2014, and was expected to serve as an additional source for US dollars, albeit at a higher exchange rate than under SICAD, which as of December 31, 2014 was 49.99 VEF per US dollars. According to the new law, three trading systems exist: (i) a similar mechanism to the one administered by CADIVI, but administered by CENCOEX; (ii) SICAD; and (iii) SICAD II, where PDVSA (*Petróleos de Venezuela*), the Central Bank of Venezuela and private entities may participate in the acquisition and sale of foreign currency.

As a result of these announcements, the Company reassessed the exchange rate used for remeasurement purposes. Considering that SICAD would be the applicable exchange rate for dividend's remittance, based on the advice of legal counsel, the Company concluded that the SICAD exchange rate, amounting to 11.80 VEF per US dollar as of March 1, 2014, was the rate applicable for remeasurement purposes as from that date. As a result of the exchange rate change, the Company recognized a foreign currency exchange loss of \$19,697, including a related party receivable denominated in VEF, and a write down of certain inventories of \$7,611 within "Other operating expenses, net", due to the currency exchange rate change impact on their net recoverable value.

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21. Venezuelan operations (continued)

Based on the Company's lack of access to the SICAD auction system and its ability to settle transactions at the SICAD II rate, the Company concluded that the SICAD II exchange rate, amounting to 49.98 VEF per US dollar as of June 1, 2014, was the rate applicable for remeasurement purposes as from that date. As a result of the exchange rate change to SICAD II, the Company recognized a foreign currency exchange loss of \$38,963 including a related party receivable denominated in VEF, a write down of certain inventories of \$9,937 due to the currency exchange rate change impact on their net recoverable value and an impairment of long-lived assets amounting to \$45,186 within "Other operating expenses, net".

During the fiscal year 2014, the Company has participated in 64 SICAD II auctions and successfully executed transactions amounting to VEF 113.6 million, pursuant to which it acquired \$2,174. The Company recognized foreign currency exchange losses amounting to \$1,358 for transactions carried out before the currency exchange rate change to SICAD II.

During fiscal years 2013 and 2012, the Company performed, through its subsidiaries in the Netherlands and USA, several transactions in promissory notes amounting to VEF 41.0 million and VEF 119.7 million, respectively, pursuant to which it acquired \$1,955 and \$13,189, respectively. As a result of these transactions, the Company recognized exchange losses amounting to \$4,553 and \$9,382 during fiscal years 2013 and 2012, respectively.

In addition to exchange controls, the Venezuelan market is subject to price controls which limits the Company's ability, to increase prices to offset the impact of continuing high inflation on product, labor and other operating costs. The Venezuelan government issued a regulation establishing a maximum profit margin for companies and maximum prices for certain goods and services. Although these regulations caused a delay in the pricing plan, the Company was able to increase prices during fiscal year 2014.

The Company's business in Venezuela, and the Company's ability to repatriate its earnings, continue to be negatively affected by these difficult conditions and would be further negatively affected by additional devaluations or the imposition of additional or more stringent controls on foreign currency exchange, pricing, payments, profits or imports or other governmental actions or continued or increased labor unrest. The Company continues to closely monitor developments in this dynamic environment, to assess evolving business risks and actively manage its operations in Venezuela.

22. Shareholders' equity

Authorized capital

The Company is authorized to issue to 500,000,000 shares, consisting of 420,000,000 Class A shares and 80,000,000 Class B shares of no par value each.

Issued and outstanding capital

At December 31, 2011 and 2012, the Company had 209,529,412 shares issued and outstanding with no par value, consisting of 129,529,412 class A shares and 80,000,000 class B shares.

During fiscal years 2014 and 2013, the Company issued 348,617 and 338,014 Class A shares, respectively, in connection with the partial vesting of restricted share units under the 2011 Equity Incentive Plan. Therefore, at December 31, 2014 and 2013 the Company had 210,216,043 and 209,867,426 shares issued and outstanding with no par value, consisting of 130,216,043 and 129,867,426 Class A shares, respectively, and 80,000,000 for both years Class B shares.

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22. Shareholders' equity (continued)

Rights, privileges and obligations

Holders of Class A shares are entitled to one vote per share and holders of Class B shares are entitled to five votes per share. Except with respect to voting, the rights, privileges and obligations of the Class A shares and Class B shares are *pari passu* in all respects, including with respect to dividends and rights upon liquidation of the Company.

Distribution of dividends

The Company can only make distributions to the extent that immediately following the distribution, its assets exceed its liabilities and the Company is able to pay its debts as they become due.

During fiscal years 2014, 2013 and 2012, the Company declared dividend distributions totaling \$50,036, per year. One installment of the 2014 and 2013 distributions amounting to \$12,509 was pending of payment at each year-end.

During April and May, 2014, the Company paid dividends on restricted share units under the 2011 Equity Incentive Plan amounting to \$382.

Accumulated Other Comprehensive Loss, net of tax

The following table sets forth information with respect to the components of "Accumulated other comprehensive loss" as of December 31, 2014 and their related activity during the three-years in the period then ended:

	Foreign currency translation	Cash flow hedges	Defined benefit pension plan (i)	Total Accumulated other comprehensive income (loss)
Balances at December 31, 2011	\$ (148,342)	\$ (47)	\$ —	\$ (148,389)
Other comprehensive loss before reclassifications	(8,125)	(4,195)	(1,213)	(13,533)
Net loss reclassified from accumulated other comprehensive loss to net income	—	3,101	—	3,101
Net current-period other comprehensive (loss) income	(8,125)	(1,094)	(1,213)	(10,432)
Balances at December 31, 2012	(156,467)	(1,141)	(1,213)	(158,821)
Other comprehensive (loss) gain before reclassifications	(60,669)	537	—	(60,132)
Net (gain) loss reclassified from accumulated other comprehensive loss to net income	—	(164)	382	218
Net current-period other comprehensive (loss) income	(60,669)	373	382	(59,914)
Balances at December 31, 2013	(217,136)	(768)	(831)	(218,735)
Other comprehensive (loss) gain before reclassifications	(85,753)	5,158	(544)	(81,139)
Net gain reclassified from accumulated other comprehensive loss to net income	—	(2,792)	199	(2,593)
Net current-period other comprehensive (loss) income	(85,753)	2,366	(345)	(83,732)
Balances at December 31, 2014	\$ (302,889)	\$ 1,598	\$ (1,176)	\$ (302,467)

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22. Shareholders' equity (continued)

Accumulated Other Comprehensive Loss, net of tax

- (i) Related to a post-employment benefit in Venezuela established by the Organic Law of Labor and Workers (known as "LOTTT", its Spanish acronym) in 2012. This benefit provides a payment of 30 days of salary per year of employment tenure based on the last wage earned to all workers who leave the job for any reason. The term of service to calculate the post-employment payment of active workers run retroactively since June 19, 1997. The Company obtains an actuarial valuation to measure the post-employment benefit obligation, using the projected unit credit actuarial method and measures this benefit in accordance with ASC 715-30, similar to pension benefit.

23. (Loss) earnings per share

The Company is required to present basic earnings per share and diluted earnings per share in accordance with ASC 260. Earnings per share are based on the weighted average number of shares outstanding during the period after consideration of the dilutive effect, if any, for common stock equivalents, including stock options and restricted share units. Basic earnings per common share are computed by dividing net income available to common shareholders by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per common share are computed by dividing net income by the weighted average number of shares of common stock outstanding and dilutive securities outstanding during the period under the treasury method.

The following table sets forth the computation of basic and diluted net income per common share attributable to Arcos Dorados Holdings Inc. for all years presented:

	For the fiscal year ended December 31,		
	2014	2013	2012
Net (loss) income attributable to Arcos Dorados Holdings Inc. available to common shareholders	\$ (109,333)	\$ 53,854	\$ 114,332
Weighted-average number of common shares outstanding - Basic	210,105,059	209,754,176	209,529,412
Incremental shares from assumed exercise of stock options (a)	—	—	—
Incremental shares from vesting of restricted share units	239,171	344,968	248,646
Weighted-average number of common shares outstanding - Diluted	210,344,230	210,099,144	209,778,058
Basic net (loss) income per common share attributable to Arcos Dorados Holdings Inc.	\$ (0.52)	\$ 0.26	\$ 0.55
Diluted net (loss) income per common share attributable to Arcos Dorados Holdings Inc.	\$ (0.52)	\$ 0.26	\$ 0.55

- (a) Options to purchase shares of common stock were outstanding during fiscal years 2014, 2013 and 2012. See Note 16 for details. These options were not included in the computation of diluted earnings per share because their inclusion would have been anti-dilutive.

24. Related party transactions

The Company has entered into a master commercial agreement on arm's length terms with Axionlog, a company under common control that operates the distribution centers in Argentina, Chile, Colombia, Mexico, Venezuela and Uruguay (the "Axionlog Business"). Pursuant to this agreement Axionlog provides the Company distribution services in the countries in which it operates. On November 9, 2011 the Company entered into a revolving loan agreement as a creditor with Axis Distribution B.V. (currently Axionlog B.V.), a holding company of the Axionlog Business, for a total amount of \$12 million at an interest rate of LIBOR plus 6%, maturing on November 7, 2016. As of December 31, 2014 and 2013, Axionlog B.V. had borrowed \$11,500 and \$9,000, respectively, from the Company in connection with this revolving loan agreement. The related receivable is included within "Miscellaneous" in the Company's consolidated balance sheets.

Arcos Dorados Holdings Inc.

Notes to the Consolidated Financial Statements

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24. Related party transactions (continued)

The following table summarizes the outstanding balances between the Company and the Axionlog Business as of December 31, 2014 and 2013:

	As of December 31,	
	2014	2013
Accounts and notes receivables	\$ —	\$ 2,754
Other receivables (i)	1,796	16,773
Miscellaneous	14,901	9,664
Accounts payable	7,742	17,694

- (i) As of December 31, 2013 includes receivables amounting to \$13.7 million originally nominated in US dollar and later converted into Venezuelan *Bolívars Fuertes* during February 2014 as mutually agreed upon by the parties. During 2014, the Company recognized a currency exchange loss of \$13.3 million, as a result of the currency exchange rate changes. These receivables were canceled as of December 31, 2014.

The following table summarizes the transactions between the Company and the Axionlog Business for the fiscal years ended December 31, 2014, 2013 and 2012:

	Fiscal years ended December 31,		
	2014	2013	2012
Food and paper (i)	\$ (199,801)	\$ (319,456)	\$ (321,413)
Occupancy and other operating expenses	(2,251)	(10,327)	(9,795)
Other operating expenses, net (ii)	16,986	—	—
Net interest income	1,387	583	81

- (i) Includes \$45,143 of logistics service fees and \$154,658 of suppliers purchases managed through Axionlog for the fiscal year ended December 31, 2014; \$48,340 and \$271,116, respectively, for the fiscal year ended December 31, 2013; and \$41,853 and \$279,560, respectively, for the fiscal year ended December 31, 2012.
- (ii) Related to inventory sales with a cost of \$16,986 for the fiscal year 2014 (the net effect on such income statement line was nil). No such transaction took place in the fiscal years 2013 and 2012.

As of December 31, 2014 and 2013, the Company had notes receivable totaling \$224 and \$4,696, respectively, other receivables totaling \$2,580 and \$2,404, respectively and accounts payable with Lacoop, A.C. and Lacoop II, S.C. totaling \$1,565 and \$1,155, respectively.

25. Valuation and qualifying accounts

The following table presents the information required by Rule 12-09 of Regulation S-X in regards to valuation and qualifying accounts for each of the periods presented:

Arcos Dorados Holdings Inc.

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25. Valuation and qualifying accounts (continued)

Description	Balance at beginning of period	Additions (i)	Deductions (ii)	Translation	Balance at end of period
Year ended December 31, 2014:					
Deducted from assets accounts:					
Allowance for doubtful accounts	\$ 5,098	\$ 6,567	\$ (800)	\$ (1,492)	\$ 9,373
Valuation allowance on deferred tax assets	270,057	76,085	(4,389)	(40,741)	301,012
Reported as liabilities:					
Provision for contingencies	14,822	26,360	(25,530)	(3,448)	12,204
Total	\$ 289,977	\$ 109,012	\$ (30,719)	\$ (45,681)	\$ 322,589
Year ended December 31, 2013:					
Deducted from assets accounts:					
Allowance for doubtful accounts	\$ 4,023	\$ 2,687	\$ (1,473)	\$ (139)	\$ 5,098
Valuation allowance on deferred tax assets	236,563	43,563	(3,942)	(6,127)	270,057
Reported as liabilities:					
Provision for contingencies	20,599	17,273	(19,833)	(3,217)	14,822
Total	\$ 261,185	\$ 63,523	\$ (25,248)	\$ (9,483)	\$ 289,977
Year ended December 31, 2012:					
Deducted from assets accounts:					
Allowance for doubtful accounts	\$ 6,390	\$ 2,065	\$ (4,682)	\$ 250	\$ 4,023
Valuation allowance on deferred tax assets	223,775	—	(3,378)	16,166	236,563
Reported as liabilities:					
Provision for contingencies	65,036	16,355	(57,011)	(3,781)	20,599
Total	\$ 295,201	\$ 18,420	\$ (65,071)	\$ 12,635	\$ 261,185

- (i) Additions in valuation allowance on deferred tax assets are charged to income tax expense.

Additions in provision for contingencies are explained as follows:

Fiscal year 2014 and 2013 – Relate to the accrual of \$26,360 and \$17,273, respectively. See Note 17 for details.

Fiscal year 2012 – Relate to the accrual of \$15,897 and to certain balance sheet reclassifications amounting to \$458. See Note 17 for details.

- (ii) Deductions in valuation allowance on deferred tax assets are charged to income tax expense.

Deductions in provision for contingencies are explained as follows:

Fiscal year 2014 – Correspond to the settlements and reclassifications amounting to \$25,413 and \$117, respectively, as discussed in Note 17.

Fiscal year 2013 – Correspond to the settlements and reclassifications amounting to \$18,876 and \$957, respectively, as discussed in Note 17.

Fiscal year 2012 – Correspond to the decrease in the provision as a result of entering into an amnesty program for \$28,428, to settlements totaling \$27,420 and to reclassifications amounting to \$1,163, as discussed in Note 17.

Arcos Dorados Holdings Inc.

Notes to the Consolidated Financial Statements

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26. Subsequent events

During February 2015, the Venezuelan government announced the unification of SICAD and SICAD II into a sole foreign exchange mechanism called SICAD, an auction system controlled by Venezuelan government with an initial exchange rate of 12 VEF per US dollars. Furthermore, on February 10, 2015, the Exchange Agreement N°33 established a new open market foreign exchange system called SIMADI (Sistema Marginal de Divisas), with a free-floating exchange rate. The SIMADI's initial exchange rate published was 170 VEF per US dollars.

There are still uncertainties about the liquidity of the foreign exchange systems recently announced and the Company's access to U.S. dollars through these mechanisms. The Company will reassess the exchange rate used for remeasurement purposes at the date of the 2015 first quarter financial statements based on any new available information. At December 31, 2014 the Company's local currency denominated net monetary asset position, which would be subject to remeasurement in the event of further currency exchange rate changes, was \$14.6 million (including \$18.9 million of cash and cash equivalents). Venezuela's non-monetary assets were \$73.5 million at December 31, 2014 and included approximately \$63.0 million of fixed assets could be subject to impairment in case of further devaluations.

McDonald's Latin America, LLC

July 31, 2014

LatAm, LLC
c/o Forrestal Capital Limited Company
1450 Brickell Avenue #2530
Miami, Florida 33131
Attention: Carlos Hernandez

Ladies and Gentlemen:

Reference is made to the Amended and Restated Master Franchise Agreement, dated as of November 10, 2008, among McDonald's Latin America, LLC ("MLA"), LatAm, LLC ("Master Franchisee") and the other parties named therein (as amended, the "MFA"). Capitalized terms used in this letter agreement and not defined herein have the meanings ascribed to them in the MFA.

1. Background. Pursuant to Section 7.13 of the MFA, Master Franchisee is required to maintain a Fixed Charge Ratio of at least equal to 1.50 and a Leverage Ratio of no more than 4.25 (the "Financial Covenants"). The difficult economic environment in Venezuela and the recent decision of Arcos Dorados to transition to a new exchange rate, referred to as the SICAD II floating exchange rate, for the remeasurement of its bolivar-denominated assets and liabilities in Venezuela, will result in a one-time write-off of approximately \$100 million dollars and negatively impact the EBITDAR of Master Franchisee during the second quarter of 2014. Accordingly, Master Franchisee anticipates that it will be unable to comply with the Financial Covenants for the second, third and fourth fiscal quarters of 2014.
 2. Relief Requested. You have requested that the obligation to comply with the Financial Covenants be modified on a temporary basis as set forth in clause 3 below.
 3. Grant of Waiver. We hereby agree that the Financial Covenants sets forth in 7.13 of the MFA are waived, from and as of June 30, 2014, until and including December 31, 2014. Except as expressly stated herein, this letter agreement does not modify or amend, or constitute a waiver by MLA of any rights or remedies under, the MFA and the MFA shall remain in full force and effect.
 4. Informational Conference Calls. Master Franchisee hereby agrees that, between the date hereof and until December 31, 2014, at the request of MLA, to provide an update regarding its financial situation in Venezuela and provide MLA with any information it may reasonably request with respect thereto.
 5. Term; Future Waivers. The limited waiver included herein will expire in accordance with its terms on December 31, 2014. MLA will consider any subsequent requests for waiver on a quarter-by-quarter basis in light of the circumstances existing at the time. Master Franchisee acknowledges that MLA shall have no obligation to extend the grant of waiver contemplated hereunder.
-

6. Miscellaneous.

A. Survival. The obligations in this Section 6 of this letter agreement shall survive termination of this letter agreement.

B. Representations and Warranties. Each party hereby represents, warrants and acknowledges to the other party as of the date hereof that the execution, delivery and performance of this letter agreement have been duly authorized by all necessary action on the part of such party.

C. Notices. Any notices to be given hereunder shall be provided in the manner set forth in the MFA.

D. Governing Law; Dispute Resolution. This letter agreement shall be governed by and construed in accordance with the substantive laws of the State of Illinois, United States of America, without giving effect to principles of conflicts of laws. Any dispute, controversy or claim arising out of, relating to or in connection with this letter agreement, including any dispute regarding its validity or termination, or the performance or breach thereof, shall be finally settled pursuant to the dispute resolution mechanism set forth in the MFA.

E. Counterparts. This letter agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

F. Assignment. This letter agreement may not be assigned by either party without the prior written consent of the other party. Any such assignment made without such consent shall be null and void for all purposes.

G. Entire Agreement. This letter agreement contains the entire agreement between the parties hereto with respect to the subject matter hereof and supersedes all prior agreements and understandings, oral or written, with respect to such matters.

H. Amendment and Waivers. No interpretation, change, termination or waiver of any of the provisions of this letter agreement shall be binding upon either party unless in writing and duly executed by both parties, and any such interpretation, change, termination or waiver made without such a writing shall be null and void for all purposes. No modification, waiver, termination, rescission, discharge or cancellation of this letter agreement shall affect the right of any party to enforce any claim or right under this letter agreement, whether or not liquidated, which occurred prior to the date of such modification, waiver, termination, rescission, discharge or cancellation.

* * *

(Signature page follows)

If the foregoing is consistent with your understanding, please indicate your agreement by executing the enclosed counterpart and returning it to my attention.

Regards,

McDonald's Latin America, LLC

By: /s/ Edgardo A. Navarro

Name: Edgardo A. Navarro

Title: President, McDonald's Latin America

Date: July 31, 2014

Accepted and agreed as of the date first written above:

LatAm, LLC

By: /s/ Woods Staton

Name: Woods Staton

Title: Director

Date: July 31, 2014

Goldman Sachs International | Peterborough Court | 133 Fleet Street | London EC4A 2BB | Tel: 020-7774-1000 | Telex: 887902 | Cable: GOLDSACHS LONDON | Registered in England No. 2263951 | Registered Office as Above | Authorised and Regulated by the Financial Services Authority

**To: Arcos Dorados B.V.
Prins Bernhardplein 200 1097 JB
Amsterdam, The Netherlands**

From: Goldman Sachs International

Re: Amendment No. 5 to Share Swap Transaction

Ref. No: SDB4174646513

Date: September 12, 2014

Reference is made to the Share Swap Transaction Confirmation dated as of August 13, 2012, among Goldman Sachs International (“**Dealer**”), Arcos Dorados B.V., a *besloten vennootschap met beperkte aansprakelijkheid* duly organized and validly existing under the laws of the Netherlands and having its corporate seat in Amsterdam, the Netherlands (“**Counterparty**”), and Arcos Dorados Holdings Inc. (“**Holdings**”), as amended by the Amendment to Share Swap Transaction dated as of October 22, 2012, Amendment No. 2 to Share Swap Transaction dated as of November 28, 2012, Amendment No. 3 to Share Swap Transaction dated as of April 4, 2013 and Amendment No. 4 to Share Swap Transaction dated as of August 15, 2013 (such amendments, collectively, the “**Amendments**”), in each case, among Dealer, Counterparty and Holdings (as so amended, the “**Confirmation**”). The purpose of this letter agreement (this “**Amendment Agreement**”) is to amend certain terms set forth in the Confirmation as described below. All capitalized terms used, but not defined herein, shall have the meanings assigned thereto in the Confirmation. Except as expressly modified herein, the Confirmation shall remain in full force and effect. Notwithstanding anything in the Confirmation to the contrary, each of Dealer, Holdings and Counterparty hereby agrees as follows:

1. Amendments.

(a) *Amendments to the Confirmation.* The following amendments to the Confirmation shall be deemed to be effective as of the date of this Amendment Agreement:

(i) The dates “August 12, 2014” and “September 12, 2014” in the fourth line of the provision opposite the caption “Valuation Period” in Section 2 of the Confirmation are hereby deleted and replaced with the dates “August 26, 2014” and “September 26, 2014”, respectively.

(ii) The provision opposite the caption “Valuation Date(s)” in Section 2 of the Confirmation is hereby deleted in its entirety and replaced with “(i) November 20, 2012, February 20, 2013, May 20, 2013, August 15, 2013, November 20, 2013, February 20, 2014, May 20, 2014 and September 12, 2014 (each, a “**Quarterly Valuation Date**”) and (ii) each Equity Valuation Date”.

(b) *Counterparty Guaranty.*

(i) Counterparty shall deliver to Dealer on or before September 19, 2014 a counterparty guaranty (the “**Counterparty Guaranty**”), to be dated as of a date no later than September 19, 2014, by each of the subsidiary guarantors set forth in Annex B to the Confirmation in favor of Dealer as beneficiary thereof and substantially in the form of Annex B to the Confirmation; *provided* that the Counterparty Guaranty shall reference the obligations and liabilities of Counterparty under the Confirmation as amended by each of the Amendments; *provided, further*, that Counterparty shall use its commercially reasonable best efforts to ensure that the Counterparty Guaranty becomes enforceable in accordance with its terms against

each of the subsidiary guarantors set forth in Annex B to the Confirmation in each of their respective jurisdictions to the satisfaction of Dealer as promptly as possible. The parties hereto agree and acknowledge that the failure by Counterparty to so deliver the Counterparty Guaranty shall constitute an Additional Termination Event, with Counterparty as the sole Affected Party and the Transaction as the sole Affected Transaction.

(c) *Additional Termination Events*. An Additional Termination Event (with the Transaction being the Affected Transaction and Counterparty being the sole Affected Party) shall be deemed to have occurred if none of the following occurs on or before September 19, 2014:

(i) the Counterparty Guaranty shall have become effective and enforceable in accordance with its terms against each of the subsidiary guarantors set forth in Annex B to the Confirmation in each of their respective jurisdictions to the satisfaction of Dealer;

(ii) Counterparty shall have delivered to Dealer the "Delivery Amount" as determined by Dealer, as if Dealer and Counterparty had entered into a Form CSA with: (A) Dealer as the sole "Secured Party", (B) Counterparty as the sole "Pledgor", (C) "Cash" as the sole "Eligible Collateral" and (D) a "Threshold" with respect to Counterparty of USD3,000,000.00 (in each case as defined in the Form CSA); or

(iii) Dealer and Counterparty shall have entered into a letter agreement incorporating the 1994 ISDA Credit Support Annex (Bilateral Form – New York Law) (the "**Form CSA**") and including the parties' elections with respect to Paragraph 13 of the Form CSA to the reasonable satisfaction of Dealer, which shall constitute a Credit Support Document in relation to Counterparty with respect to the Transaction for purposes of the Agreement.

2. *Representations and Warranties*. Each party hereto represents to the other parties hereto, as of the date hereof, as to the matters set forth in Section 3(a) of the Agreement; *provided* that references in such Section to the Agreement shall be to this Amendment Agreement. Counterparty hereby repeats, as of the date of this Amendment Agreement, all the representations, warranties and acknowledgments contained in Sections 3 and 4 of the Confirmation (other than Sections 4(d), 4(l) and 4(m) of the Confirmation), as if such representations, warranties and acknowledgments were made with respect to the Confirmation and the Transaction as amended by this Amendment Agreement and the Amendments. Counterparty hereby represents and warrants to Dealer that, as of the date hereof, the copies of resolutions provided by Counterparty and Holdings, as adopted by their respective boards of directors and, in the case of Counterparty, its sole shareholder, to Dealer on the Trade Date authorize the Transaction as amended by this Amendment Agreement and the Amendments, and such resolutions have been duly adopted and remain in effect on the date hereof.

3. *Governing Law and Jurisdiction*. This Amendment Agreement and all matters and all non-contractual obligations arising out of in connection with the Amendment Agreement, shall be governed by, and construed and enforced in accordance with, the laws of the State of New York (without reference to its choice of law doctrine other than Title 14 of Article 5 of the General Obligations Law of New York). This Amendment Agreement is also subject to, and incorporates, the jurisdiction provisions contained in Section 13(b) of the Agreement; *provided* that in the first line of Section 13(b) the following shall be inserted after the word, "Agreement", "including, without limitation, disputes relating to any non-contractual obligations arising out of or in connection with this Agreement".

5. *Counterparts*. This Amendment Agreement may be executed in any number of counterparts, all of which shall constitute one and the same instrument, and any party hereto may execute this Amendment Agreement by signing and delivering one or more counterparts.

[*Signature page follows* .]

Counterparty and Holdings hereby agree (i) to check this Amendment Agreement carefully and promptly upon receipt so that errors or discrepancies can be promptly identified and rectified and (ii) to confirm that the foregoing (in the exact form provided by Dealer) correctly sets forth the terms of the Amendment Agreement, by manually signing this Amendment Agreement or this page hereof as evidence of agreement to such terms and providing the other information requested herein and immediately returning an executed copy to Goldman, Sachs & Co., Equity Derivatives Documentation Department, Facsimile No. 212-428-1980/83.

Yours faithfully,

GOLDMAN SACHS INTERNATIONAL

By: /s/ Celine Assouline

Authorized Signatory

Celine Assouline
Managing Director

Agreed and Accepted By:

ARCOS DORADOS B.V.

By: /s/ Miguel Sanchez de Bustamante

Name: Miguel Sanchez de Bustamante

Title: Attorney-in-fact

ARCOS DORADOS HOLDINGS INC.

By: /s/ Miguel Sanchez de Bustamante

Name: Miguel Sanchez de Bustamante

Title: Attorney-in-fact

Signature Page to Share Swap Transaction Confirmation Amendment No. 5

Goldman Sachs International | Peterborough Court | 133 Fleet Street | London EC4A 2BB | Tel: 020-7774-1000 | Telex: 887902 | Cable: GOLDSACHS LONDON | Registered in England No. 2263951 | Registered Office as Above | Authorised and Regulated by the Financial Services Authority

To: Arcos Dorados B.V.
Barbara Strozziilaan 101
1083 HN Amsterdam
The Netherlands

From: Goldman Sachs International

Re: Amendment No. 6 to Share Swap Transaction

Ref. No: SDB4174646513

Date: September 23, 2014

Reference is made to the Share Swap Transaction Confirmation dated as of August 13, 2012, among Goldman Sachs International (“**Dealer**”), Arcos Dorados B.V., a *besloten vennootschap met beperkte aansprakelijkheid* duly organized and validly existing under the laws of the Netherlands and having its corporate seat in Amsterdam, the Netherlands (“**Counterparty**”), and Arcos Dorados Holdings Inc. (“**Holdings**”), as amended by the Amendment to Share Swap Transaction dated as of October 22, 2012, Amendment No. 2 to Share Swap Transaction dated as of November 28, 2012, Amendment No. 3 to Share Swap Transaction dated as of April 4, 2013, Amendment No. 4 to Share Swap Transaction dated as of August 15, 2013 and Amendment No. 5 to Share Swap Transaction dated as of September 12, 2014 (such amendments, collectively, the “**Amendments**”), in each case, among Dealer, Counterparty and Holdings (as so amended, the “**Confirmation**”). Reference is also made to the Registration Agreement dated as of March 26, 2013, among Dealer and Holdings (the “**Registration Agreement**”). The purpose of this letter agreement (this “**Amendment Agreement**”) is to amend certain terms set forth in the Confirmation and the Registration Agreement as described below. All capitalized terms used, but not defined herein, shall have the meanings assigned thereto in the Confirmation or the Registration Agreement, as applicable. Except as expressly modified herein, the Confirmation and the Registration Agreement shall remain in full force and effect. Notwithstanding anything in the Confirmation or the Registration Agreement to the contrary, each of Dealer, Holdings and Counterparty hereby agrees as follows:

1. Amendments.

(a) *Amendments to the Confirmation*. The following amendments to the Confirmation shall be deemed to be effective as of the date of this Amendment Agreement:

(i) The term “2.0%” in the tenth line of the provision opposite the caption “Payments in respect of Share Reduction” in Section 2 of the Confirmation is hereby deleted and replaced with “2.7%”.

(ii) The dates “August 26, 2014” and “September 26, 2014” in the fourth line of the provision opposite the caption “Valuation Period” in Section 2 of the Confirmation are hereby deleted and replaced with the dates “August 12, 2015” and “September 12, 2015”, respectively.

(iii) The provision opposite the caption “Valuation Date(s)” in Section 2 of the Confirmation is hereby deleted in its entirety and replaced with “(i) November 20, 2012, February 20, 2013, May 20, 2013, August 15, 2013, November 20, 2013, February 20, 2014, May 20, 2014, September 12, 2014, September 26, 2014, November 20, 2014, February 20, 2015, and May 20, 2015 (each, a “**Quarterly Valuation Date**”) and (ii) each Equity Valuation Date”.

(iv) The term “3.80%” opposite the caption “Spread” in Section 2 of the Confirmation is hereby deleted and replaced with “4.50%”.

(v) The term “55%” in the fourth line of the definition of “Price Trigger Event” in the provision opposite the caption “Additional Termination Event(s)” in Section 2 of the Confirmation is hereby deleted and replaced with “37.40”.

(vi) The term “2.5:1” in the last line of the definition of “Leverage Ratio Event” in the provision opposite the caption “Additional Termination Event(s)” in Section 2 of the Confirmation is hereby deleted and replaced with “3:1”.

(vii) A new clause “(iii)” is hereby added to Section 14(d) of the Confirmation:

“(iii) In relation to Counterparty: the provisions of the letter agreement (the “**Letter Agreement**”) between Dealer and Counterparty, dated as of September 19, 2014, incorporating the 1994 ISDA Credit Support Annex (Bilateral Form – New York Law) (the “**Form CSA**”) and including the parties’ elections with respect to Paragraph 13 of the Form CSA shall constitute a Credit Support Document with respect to this Transaction for purposes of the Agreement”.

(b) *Amendments to the Registration Agreement* . The following amendment to the Registration Agreement shall be deemed to be effective as of the date of this Amendment Agreement:

(i) The last sentence of the second paragraph of the Registration Agreement is hereby deleted in its entirety and replaced with: “The Underwriter shall deliver written notice to the Company specifying the first day of the Valuation Period and the related Applicable Time no later than the fifth Exchange Business Day immediately preceding such date; *provided* , for the avoidance of doubt, that Underwriter’s obligation to provide such notice shall only apply to a sale of Shares (A) in connection with Counterparty’s election to effect a Share Reduction or (B) at maturity of the Transaction”.

(c) *Counterparty Guaranty* .

(i) Counterparty shall deliver to Dealer on or before September 26, 2014 a counterparty guaranty (the “**Counterparty Guaranty**”), to be dated as of a date no later than September 26, 2014, by each of the subsidiary guarantors set forth in Annex B to the Confirmation in favor of Dealer as beneficiary thereof and substantially in the form of Annex B to the Confirmation; *provided* that the Counterparty Guaranty shall reference the obligations and liabilities of Counterparty under the Confirmation as amended by each of the Amendments; *provided, further*, that Counterparty shall use its commercially reasonable best efforts to ensure that the Counterparty Guaranty becomes enforceable in accordance with its terms against each of the subsidiary guarantors set forth in Annex B to the Confirmation in each of their respective jurisdictions to the satisfaction of Dealer as promptly as possible. The parties hereto agree and acknowledge that the failure by Counterparty to so deliver the Counterparty Guaranty shall constitute an Additional Termination Event, with Counterparty as the sole Affected Party and the Transaction as the sole Affected Transaction.

(d) *Conditions to Effectiveness* . As conditions to the effectiveness of this Amendment Agreement:

(i) Dealer and Counterparty shall enter into the Letter Agreement.

(ii) The Company shall provide to Dealer all the information requested by Dealer in connection with its due diligence investigation of the Company’s business, results of operations and financial condition, including, without limitation (A) an update on the evolution of its business and its results since the most recent filing of the Company’s Form 20-F, (B) the updated views of the Company’s senior management on trends and estimates that affect relevant business drivers, and (C) any other relevant information deemed relevant to analyze the credit of the Company, including but not limited to information regarding off-balance sheet obligations, legal claims, or changes in corporate governance, all such information to Dealer’s sole satisfaction.

(e) Additional Termination Events . An Additional Termination Event (with the Transaction being the sole Affected Transaction and Counterparty being the sole Affected Party) shall be deemed to have occurred if:

(i) Counterparty does not deliver collateral on or before September 24, 2014 to Dealer in accordance with Counterparty's obligations under the terms of the Letter Agreement; or

(ii) the Counterparty Guaranty does not become effective and enforceable in accordance with its terms against each of the subsidiary guarantors set forth in Annex B to the Confirmation in each of their respective jurisdictions, to the satisfaction of Dealer, on or before October 10, 2014.

2. Representations and Warranties . Each party hereto represents to the other parties hereto, as of the date hereof, as to the matters set forth in Section 3(a) of the Agreement; *provided* that references in such Section to the Agreement shall be to this Amendment Agreement and the Letter Agreement. Counterparty hereby repeats, as of the date of this Amendment Agreement, all the representations, warranties and acknowledgments contained in Sections 3 and 4 of the Confirmation (other than Sections 4(d), 4(l) and 4(m) of the Confirmation), as if such representations, warranties and acknowledgments were made with respect to the Letter Agreement and the Confirmation and the Transaction as amended by this Amendment Agreement and the Amendments. Counterparty hereby represents and warrants to Dealer that, as of the date hereof, the copies of resolutions provided by Counterparty and Holdings, as adopted by their respective boards of directors and, in the case of Counterparty, its sole shareholder, to Dealer on the Trade Date authorize the Letter Agreement and the Transaction as amended by this Amendment Agreement and the Amendments, and such resolutions have been duly adopted and remain in effect on the date hereof.

3. Governing Law and Jurisdiction . This Amendment Agreement and all matters and all non-contractual obligations arising out of in connection with the Amendment Agreement, shall be governed by, and construed and enforced in accordance with, the laws of the State of New York (without reference to its choice of law doctrine other than Title 14 of Article 5 of the General Obligations Law of New York). This Amendment Agreement is also subject to, and incorporates, the jurisdiction provisions contained in Section 13(b) of the Agreement; *provided* that in the first line of Section 13(b) the following shall be inserted after the word, "Agreement", "including, without limitation, disputes relating to any non-contractual obligations arising out of or in connection with this Agreement".

5. Counterparts . This Amendment Agreement may be executed in any number of counterparts, all of which shall constitute one and the same instrument, and any party hereto may execute this Amendment Agreement by signing and delivering one or more counterparts.

[Signature page follows .]

Counterparty and Holdings hereby agree (i) to check this Amendment Agreement carefully and promptly upon receipt so that errors or discrepancies can be promptly identified and rectified and (ii) to confirm that the foregoing (in the exact form provided by Dealer) correctly sets forth the terms of the Amendment Agreement, by manually signing this Amendment Agreement or this page hereof as evidence of agreement to such terms and providing the other information requested herein and immediately returning an executed copy to Goldman, Sachs & Co., Equity Derivatives Documentation Department, Facsimile No. 212-428-1980/83.

Yours faithfully,

GOLDMAN SACHS INTERNATIONAL

By: /s/ Celine Assouline

Authorized Signatory

Celine Assouline
Managing Director

Agreed and Accepted By:

ARCOS DORADOS B.V.

By: /s/ Miguel Sanchez de Bustamante

Name: Miguel Sanchez de Bustamante

Title: Attorney-in-fact

ARCOS DORADOS HOLDINGS INC.

By: /s/ Miguel Sanchez de Bustamante

Name: Miguel Sanchez de Bustamante

Title: Attorney-in-fact

Signature Page to Share Swap Transaction Confirmation Amendment No. 6

**Goldman Sachs International | Peterborough Court | 133 Fleet Street | London EC4A 2BB | Tel: 020-7774-1000 |
 Telex: 887902 | Cable: GOLDSACHS LONDON | Registered in England No. 2263951 | Registered
 Office as Above | Authorised and Regulated by the Financial Services Authority**

To: Arcos Dorados B.V.
 Barbara Strozilaan 101
 The Netherlands Amsterdam, Netherlands

From: Goldman Sachs International

Re: Amendment No. 7 to Share Swap Transaction

Ref. No: SDB4174646513

Date: April 20, 2015

Reference is made to the Share Swap Transaction Confirmation dated as of August 13, 2012, among Goldman Sachs International (“**Dealer**”), Arcos Dorados B.V., a *besloten vennootschap met beperkte aansprakelijkheid* duly organized and validly existing under the laws of the Netherlands and having its corporate seat in Amsterdam, the Netherlands (“**Counterparty**”), and Arcos Dorados Holdings Inc. (“**Holdings**”), as amended by the Amendment to Share Swap Transaction dated as of October 22, 2012, Amendment No. 2 to Share Swap Transaction dated as of November 28, 2012, Amendment No. 3 to Share Swap Transaction dated as of April 4, 2013, Amendment No. 4 to Share Swap Transaction dated as of August 15, 2013, Amendment No. 5 to Share Swap Transaction dated as of September 12, 2014 and Amendment No. 6 to the Share Swap Transaction dated as of September 23, 2014 (such amendments, collectively, the “**Amendments**”), in each case, among Dealer, Counterparty and Holdings (as so amended, the “**Confirmation**”). Reference is also made to the Letter Agreement dated as of September 19, 2014, among Dealer and Counterparty incorporating the Form CSA (the “**Letter Agreement**”). The purpose of this letter agreement (this “**Amendment Agreement**”) is to amend certain terms set forth in the Confirmation and the Letter Agreement as described below. All capitalized terms used, but not defined herein, shall have the meanings assigned thereto in the Confirmation or the Letter Agreement, as applicable. Except as expressly modified herein, the Confirmation and the Letter Agreement shall remain in full force and effect. Notwithstanding anything in the Confirmation or the Letter Agreement to the contrary, each of Dealer, Holdings and Counterparty hereby agrees as follows:

1. Amendments.

(a) *Amendments to the Confirmation*. The following amendments to the Confirmation shall be deemed to be effective as of the date of this Amendment Agreement:

(i) The third paragraph in the provision opposite the caption “Additional Termination Event(s)” in Section 2 of the Confirmation is hereby amended by deleting the words “55% of the Initial Price” and replacing them with:

“the Multi-Day Price Trigger applicable to the last such Exchange Business Day”

(ii) The following new paragraph and table are hereby added to the end of the provision opposite the caption “Additional Termination Event(s)” in Section 2 of the Confirmation:

“The “**Multi-Day Price Trigger**” means, for any Exchange Business Day, the price in column (II) immediately below corresponding to the range in column (I) immediately below that includes the Highest Reference Price applicable to such Exchange Business Day. “**Highest Reference Price**” means, for any Exchange Business Day, the highest price per Share reported for any sale on the Exchange

on any Exchange Business Day from, and including, the date of this Amendment Agreement to, and including, such Exchange Business Day.

(I) Highest Reference Price range	(II) Multi-Day Price Trigger
USD0.01 to USD 5.49	USD4.00
USD5.50 to USD 5.99	USD4.50
USD6.00 to USD 6.99	USD5.00
USD7.00 to USD 7.99	USD5.50
USD8.00 to USD 9.99	USD6.00
USD10.00 and above	USD7.00

(b) *Amendments to the Letter Agreement* . The following amendment to the Letter Agreement shall be deemed to be effective as of the date of this Amendment Agreement:

(i) The “Threshold” with respect to Counterparty of “USD3,000,000.00” is hereby deleted and replaced with “USD0”.

(c) *Counterparty Guaranty* .

(i) Counterparty shall deliver to Dealer on or before April 30, 2015 a counterparty guaranty (the “**Counterparty Guaranty**”), to be dated as of a date no later than April 30, 2015, by each of the subsidiary guarantors set forth in Annex B to the Confirmation in favor of Dealer as beneficiary thereof and substantially in the form of Annex B to the Confirmation; *provided* that the Counterparty Guaranty shall reference the obligations and liabilities of Counterparty under the Confirmation as amended by each of the Amendments; *provided, further*, that Counterparty shall use its commercially reasonable best efforts to ensure that the Counterparty Guaranty becomes enforceable in accordance with its terms against each of the subsidiary guarantors set forth in Annex B to the Confirmation in each of their respective jurisdictions to the satisfaction of Dealer as promptly as possible. The parties hereto agree and acknowledge that the failure by Counterparty to so deliver the Counterparty Guaranty shall constitute an Additional Termination Event, with Counterparty as the sole Affected Party and the Transaction as the sole Affected Transaction.

(d) *Conditions to Effectiveness* . As conditions to the effectiveness of this Amendment Agreement:

(i) The Company shall provide to Dealer all the information requested by Dealer in connection with its due diligence investigation of the Company’s business, results of operations and financial condition, including, without limitation (A) an update on the evolution of its business and its results since the most recent filing of the Company’s Form 20-F, (B) the updated views of the Company’s senior management on trends and estimates that affect relevant business drivers, and (C) any other relevant information deemed relevant to analyze the credit of the Company, including but not limited to information regarding off-balance sheet obligations, legal claims, or changes in corporate governance, all such information to Dealer’s sole satisfaction.

(e) *Additional Termination Events* . An Additional Termination Event (with the Transaction being the sole Affected Transaction and Counterparty being the sole Affected Party) shall be deemed to have occurred if:

(i) the Counterparty Guaranty does not become effective and enforceable in accordance with its terms against each of the subsidiary guarantors set forth in Annex B to the Confirmation in each of their respective jurisdictions, to the satisfaction of Dealer, on or before May 15, 2015.

(f) *Waiver of Existing Additional Termination Events* . Dealer hereby waives the occurrence of any Additional Termination Event arising under the Confirmation and the Agreement resulting from the occurrence of any Price Trigger Event (as defined prior to giving effect to this Amendment Agreement) prior to the date of this Amendment Agreement. Dealer and Counterparty agree that no action will be taken by Dealer as a result of the occurrence of any such Price Trigger Event.

2. Representations and Warranties . Each party hereto represents to the other parties hereto, as of the date hereof, as to the matters set forth in Section 3(a) of the Agreement; *provided* that references in such Section to the Agreement shall be to this Amendment Agreement and the Letter Agreement. Counterparty hereby repeats, as of the date of this Amendment Agreement, all the representations, warranties and acknowledgments contained in Sections 3 and 4 of the Confirmation (other than Sections 4(d), 4(l) and 4(m) of the Confirmation), as if such representations, warranties and acknowledgments were made with respect to the Letter Agreement and the Confirmation and the Transaction as amended by this Amendment Agreement and the Amendments. Counterparty hereby represents and warrants to Dealer that, as of the date hereof, the copies of resolutions provided by Counterparty and Holdings, as adopted by their respective boards of directors and, in the case of Counterparty, its sole shareholder, to Dealer on the Trade Date authorize the Letter Agreement and the Transaction as amended by this Amendment Agreement and the Amendments, and such resolutions have been duly adopted and remain in effect on the date hereof.

3. Governing Law and Jurisdiction . This Amendment Agreement and all matters and all non-contractual obligations arising out of in connection with the Amendment Agreement, shall be governed by, and construed and enforced in accordance with, the laws of the State of New York (without reference to its choice of law doctrine other than Title 14 of Article 5 of the General Obligations Law of New York). This Amendment Agreement is also subject to, and incorporates, the jurisdiction provisions contained in Section 13(b) of the Agreement; *provided* that in the first line of Section 13(b) the following shall be inserted after the word, "Agreement", "including, without limitation, disputes relating to any non-contractual obligations arising out of or in connection with this Agreement".

5. Counterparts . This Amendment Agreement may be executed in any number of counterparts, all of which shall constitute one and the same instrument, and any party hereto may execute this Amendment Agreement by signing and delivering one or more counterparts.

[Signature page follows .]

Counterparty and Holdings hereby agree (i) to check this Amendment Agreement carefully and promptly upon receipt so that errors or discrepancies can be promptly identified and rectified and (ii) to confirm that the foregoing (in the exact form provided by Dealer) correctly sets forth the terms of the Amendment Agreement, by manually signing this Amendment Agreement or this page hereof as evidence of agreement to such terms and providing the other information requested herein and immediately returning an executed copy to Goldman, Sachs & Co., Equity Derivatives Documentation Department, Facsimile No. 212-428-1980/83.

Yours faithfully,

GOLDMAN SACHS INTERNATIONAL

By: /s/ Celine Assouline

Authorized Signatory

Celine Assouline
Managing Director

Agreed and Accepted By:

ARCOS DORADOS B.V.

By: /s/ Mariano Tannenbaum

Name: Mariano Tannenbaum

Title: Attorney-in-fact

ARCOS DORADOS HOLDINGS INC.

By: /s/ German Lemonnier

Name: German Lemonnier

Title: Attorney-in-fact

Signature Page to Share Swap Transaction Confirmation Amendment No. 7

**THIRD AMENDMENT TO
CREDIT AGREEMENT**

THIS THIRD AMENDMENT TO CREDIT AGREEMENT is made and dated as of July 28, 2014 (the “Amendment”) among ARCOS DORADOS B.V., a private company with limited liability (*besloten vennootschap met beperkte aansprakelijkheid*) organized under the laws of The Netherlands with seat in Amsterdam (the “Borrower”), certain subsidiaries of the Borrower as guarantors (the “Guarantors”), and BANK OF AMERICA, N.A., as lender (the “Lender”) and amends that certain Credit Agreement dated as of August 3, 2011 (as the same has been amended prior to the date hereof and may be further amended or modified from time to time, the “Credit Agreement”).

RECITALS

WHEREAS, the Lender has agreed, subject to the terms and conditions hereinafter set forth, to amend the Credit Agreement in certain respects as set forth below.

NOW THEREFORE, for good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereby agree as follows:

1. Terms. All terms used herein shall have the same meanings as in the Credit Agreement unless otherwise defined herein.

2. Amendment. Upon the occurrence of the Amendment Effective Date (defined below), Section 6.6 of the Credit Agreement is hereby replaced in its entirety with the following paragraph:

“Section 6.6 Consolidated Net Indebtedness to EBITDA Ratio. Permit the Consolidated Net Indebtedness to EBITDA Ratio to be, as of the last day of any fiscal quarter of the Borrower, greater than 3.0 to 1.”

3. Representations and Warranties. As of the date hereof, the Borrower and as of the Amendment Effective Date, the Borrower and each Guarantor, hereby represents and warrants to the Lender that after giving effect to this Amendment:

3.1 Authorization; Enforceable Obligations; No Contravention. The execution, delivery and performance of this Amendment by the Loan Parties have been duly authorized by all necessary action, and this Amendment is a legal, valid and binding obligation of the Loan Parties party hereto, enforceable in accordance with its terms, except as enforceability may be limited by applicable Debtor Relief Laws. The execution, delivery and performance of this Amendment (i) are not in contravention of law or of the terms of any Loan Party’s organizational documents, and (ii) will not result in the breach of or constitute a default under, or result in the creation of a Lien or require a payment to be made under any indenture, agreement or undertaking to which the Borrower or any Guarantor is a party or by which it or its property may be bound or affected, except in the case referred to in this clause (ii), to the extent that such breach, default, Lien or payment would not reasonably be expected to have a Material Adverse Effect.

3.2 Governmental Authorization; Other Consents. No approval, consent, exemption, authorization, or other action by, or notice to, or filing with, any Governmental Authority, including the Central Bank of Brazil, or any other Person is necessary or required in connection with the execution, delivery or performance by, or enforcement against, the Borrower or any Guarantor of this Amendment, which has not been duly obtained.

3.3 Incorporation of Certain Representations. After giving effect to the terms of this Amendment, the representations and warranties of the Borrower and the Guarantors set forth in Article III of the Credit Agreement (except as to such representations and warranties made as of an earlier specified date which are true and correct as of the date made) are true and correct as of the date hereof, (A) if any such representation and warranty is qualified as to materiality or by reference to the existence of a Material Adverse Effect, in all respects (as so qualified), or (B) if any such representation and warranty is not so qualified, in all material respects; *provided*, that for purposes of this Section 3.3, the representations and warranties of the Borrower contemplated in Section 3.1 of the Credit Agreement shall be deemed to refer to the last day of the period covered by the most recent financial statements furnished to the Lender under the Credit Agreement; *provided further* that the representation and warranty set forth in Section 3.16 of the Credit Agreement is made hereby with respect to the period of four (4) fiscal quarters ended on June 30, 2014.

3.4 Default. Both before and after giving effect to this Amendment, no Default or Event of Default under the Credit Agreement has occurred and is continuing.

4. Conditions, Effectiveness. This Amendment shall become effective as of the date (the “Amendment Effective Date”) on which each of the following conditions shall have been satisfied:

(a) The Lender shall have received this Amendment duly executed and delivered on behalf of the Borrower and each Guarantor.

(b) The Borrower shall have paid on or before the Amendment Effective Date all fees and other amounts due and payable by the Borrower to the Lender (including fees and expenses of counsel to lender) in accordance with the Credit Agreement (as amended hereby) to the extent invoiced to the Borrower prior to the Amendment Effective Date.

(c) All consents, licenses and approvals required in connection with the execution, delivery and performance by the Loan Parties of this Amendment shall have been received by the Loan Parties.

5. Miscellaneous.

5.1 Effectiveness of the Credit Agreement and other Loan Documents. Except as hereby expressly amended, the Credit Agreement, the Note, the Fee Letter and each Subsidiary Joinder Agreement (if any), shall each remain in full force and effect, are hereby ratified and confirmed in all respects on and as of the date hereof, and each Loan Party hereby reaffirms its obligations thereunder.

5.2 Post Amendment Effective Date Covenants.

(a) Within fifteen calendar days after the Amendment Effective Date, Arcos Dourados Comércio de Alimentos Ltda. shall file the Minutes of the Quotaholders' Meeting (*Ata de Reunião de Quotistas*) authorizing the Amendment with the Commercial Registry of the State of São Paulo (*Junta Comercial do Estado de São Paulo*).

(b) The Loan Parties shall furnish the Lender with true and correct copies of such resolutions and powers of attorney authorizing the Amendment as the Lender may reasonably request within five calendar days of the Amendment Effective Date.

(c) Failure by any Loan Party to perform the covenants set forth in this Section 5.2 shall result in automatic termination of this Amendment and shall render this Amendment null and void and without any effect.

5.3 Waivers. This Amendment is limited solely to the matters expressly set forth herein and is specific in time and in intent and does not constitute, nor should it be construed as, a waiver or amendment of any other term or condition, right, power or privilege under the Credit Agreement or under any agreement, contract, indenture, document or instrument mentioned therein; nor does it preclude or prejudice any rights of the Lender thereunder, or any exercise thereof or the exercise of any other right, power or privilege, nor shall it require the Lender to agree to an amendment, waiver or consent for a similar transaction or on a future occasion, nor shall any future waiver of any right, power, privilege or default hereunder, or under any agreement, contract, indenture, document or instrument mentioned in the Credit Agreement, constitute a waiver of any other right, power, privilege or default of the same or of any other term or provision.

5.4 Loan Document. This Amendment is a Loan Document.

5.5 Counterparts. This Amendment may be executed in any number of counterparts, and all of such counterparts taken together shall be deemed to constitute one and the same instrument.

5.6 Governing Law. This Amendment shall be governed by and construed in accordance with the laws of the State of New York.

5.7 Jurisdiction; Process Agent. Sections 9.10 and 9.12 of the Credit Agreement shall apply *mutatis mutandis* to this Amendment.

[*Remainder of Page Intentionally Left Blank.*]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed and delivered as of the date first written above.

ARCOS DORADOS B.V., as Borrower

By: /s/ Mariano Tannenbaum

Name: Mariano Tannenbaum

Title: Attorney-in-Fact

ARCOS SERCAL SERVICIOS, S.A. DE C.V. , as a
Guarantor

By: /s/ Mariano Tannenbaum

Name: Mariano Tannenbaum

Title: Attorney-in-Fact

ARCOS SERCAL INMOBILIARIA, S. DE R.L. DE C.V. , as
a Guarantor

By: /s/ Mariano Tannenbaum

Name: Mariano Tannenbaum

Title: Attorney-in-Fact

ARCOS DOURADOS COMERCIO DE ALIMENTOS,
LTDA. , as a Guarantor

By: /s/ Mariano Tannenbaum

Name: Mariano Tannenbaum

Title: Attorney-in-Fact

ARCOS DORADOS PUERTO RICO, LLC , as a Guarantor

By: /s/ Mariano Tannenbaum
Name: Mariano Tannenbaum
Title: Attorney-in-Fact

GOLDEN ARCH DEVELOPMENT LLC , as a Guarantor

By: /s/ Mariano Tannenbaum
Name: Mariano Tannenbaum
Title: Attorney-in-Fact

ADCR INMOBILIARIA S.A. , as a Guarantor

By: /s/ Mariano Tannenbaum
Name: Mariano Tannenbaum
Title: Attorney-in-Fact

ARCOS DORADOS URUGUAY S.A. , as a Guarantor

By: /s/ Mariano Tannenbaum
Name: Mariano Tannenbaum
Title: Attorney-in-Fact

ARCOS DEL SUR SRL , as a Guarantor

By: /s/ Mariano Tannenbaum
Name: Mariano Tannenbaum
Title: Attorney-in-Fact

ADUY S.A. , as a Guarantor

By: /s/ Mariano Tannenbaum
Name: Mariano Tannenbaum
Title: Attorney-in-Fact

ARCOS DORADOS COSTA RICA ADCR, S.A. , as a Guarantor

By: /s/ Mariano Tannenbaum
Name: Mariano Tannenbaum
Title: Attorney-in-Fact

SISTEMAS MCOPCO PANAMA, S.A. , as a Guarantor

By: /s/ Mariano Tannenbaum
Name: Mariano Tannenbaum
Title: Attorney-in-Fact

ARCOS DORADOS PANAMÁ S.A. , as a Guarantor

By: /s/ Mariano Tannenbaum
Name: Mariano Tannenbaum
Title: Attorney-in-Fact

LENDER:

BANK OF AMERICA, N.A., as Lender

By: /s/ Brendan Henley

Name: Brendan Henley

Title: Managing Director

Subsidiaries of Registrant

<u>Name</u>	<u>Place of Incorporation</u>
Adcon S.A.	Argentina
Administrative Development Company	Delaware
Aduy S.A.	Uruguay
Alimentos Arcos Dorados de Venezuela C.A.	Venezuela
Alimentos Arcos Dorados Margarita, C.A.	Venezuela
Alimentos Arcos Dorados Punto Fijo, C.A.	Venezuela
Alimentos Latinoamericanos Venezuela ALV, C.A.	Venezuela
Arcgold del Ecuador, S.A.	Ecuador
Arcos del Sur, S.R.L.	Uruguay
Arcos Dorados Argentina S.A.	Argentina
Arcos Dorados Aruba N.V.	Aruba
Arcos Dorados B.V.	Netherlands
Arcos Dorados Caribbean Development Corp.	Delaware
Arcos Dorados Colombia S.A.S	Colombia
Arcos Dorados Coöperatieve U.A.	Netherlands
Arcos Dorados Costa Rica ADCR, S.A.	Costa Rica
Arcos Dorados Costa Rica Inmobiliaria, S.A.	Costa Rica
Arcos Dorados Curacao, N.V.	Curacao
Arcos Dorados French Guiana	French Guiana
Arcos Dorados Guadeloupe	Guadeloupe
Arcos Dorados Martinique	Martinique
Arcos Dorados Panama, S.A.	Panama
Arcos Dorados Puerto Rico, LLC	Puerto Rico
Arcos Dorados Restaurantes de Chile, Ltda.	Chile
Arcos Dorados Trinidad Limited	Trinidad
Arcos Dorados USVI, Inc.(St. Croix)	USVI
Arcos Dourados Comercio de Alimentos Ltda.	Brazil
Arcos Dourados Restaurantes Ltda.	Brazil
Arcos SerCal Inmobiliaria, S. de R.L. de C.V.	Mexico
Arcos Dorados BraPa S.A.	Panama
Compañía de Inversiones Inmobiliarias (C.I.I.) S.A.	Argentina
Complejo Agropecuario Carnico (Carnicos), C.A.	Venezuela
Arcos Dorados de Uruguay S.A.	Uruguay
Gerencia Operativa ARC, C.A.	Venezuela
Compañía Operativa de Alimentos COR, C.A.	Venezuela
Golden Arch Development LLC	Delaware
LatAm, LLC	Delaware
Logistics and Manufacturing LOMA Co.	Delaware
Management Operations Company	Delaware
Operaciones Arcos Dorados de Perú, S.A.	Perú
Restaurant Realty of Mexico, Inc.	Delaware
Sistemas Central America, S.A.	Panama
Sistemas McOpCo Panama, S.A.	Panama
Arcos Dorados Latam LLC	Delaware
Arcos SEM Panama SA	Panama
Arcos Dorados Paisas Ltda.	Colombia
Arcos Dorados Paisa Ltda. & Cía SCA	Colombia

CERTIFICATION

I, Woods Staton, certify that:

1. I have reviewed this annual report on Form 20-F of Arcos Dorados Holdings Inc.;
2. Based on my knowledge, this report 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: April 29, 2015

/s/ Woods Staton

Name: Woods Staton

Title: Chief Executive Officer

CERTIFICATION

I, José Carlos Alcantara, certify that:

1. I have reviewed this annual report on Form 20-F of Arcos Dorados Holdings Inc.;
2. Based on my knowledge, this report 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: April 29, 2015

/s/ José Carlos Alcantara

Name: José Carlos Alcantara

Title: Chief Financial Officer

CERTIFICATION

The certification set forth below is being submitted in connection with the annual report of Arcos Dorados Holdings Inc. on Form 20-F for the year ended December 31, 2014 (the "Report") for the purpose of complying with Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 (the "Exchange Act") and Section 1350 of Chapter 63 of Title 18 of the United States Code. Woods Staton, the Chief Executive Officer of Arcos Dorados Holdings Inc., certifies that, to the best of his knowledge:

1. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Arcos Dorados Holdings Inc.

Date: April 29, 2015

/s/ Woods Staton

Name: Woods Staton

Title: Chief Executive Officer

CERTIFICATION

The certification set forth below is being submitted in connection with the annual report of Arcos Dorados Holdings Inc. on Form 20-F for the year ended December 31, 2014 (the "Report") for the purpose of complying with Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 (the "Exchange Act") and Section 1350 of Chapter 63 of Title 18 of the United States Code. José Carlos Alcantara, the Chief Financial Officer of Arcos Dorados Holdings Inc., certifies that, to the best of his knowledge:

1. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Arcos Dorados Holdings Inc.

Date: April 29, 2015

/s/ José Carlos Alcantara

Name: José Carlos Alcantara

Title: Chief Financial Officer

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statements:

- (1) Registration Statement (Form F-3ASR No. 333-187531) of Arcos Dorados Holdings Inc., and
- (2) Registration Statement (Form S-8 No. 333-173496) pertaining to the Equity Incentive Plan of Arcos Dorados Holdings Inc;

of our reports dated March 17, 2015, with respect to the consolidated financial statements and the effectiveness of internal control over financial reporting of Arcos Dorados Holdings Inc., included in this Annual Report (Form 20-F) for the year ended December 31, 2014.

Buenos Aires, Argentina
April 29, 2015

/s/ Pistrelli, Henry Martin y Asociados S.R.L.
PISTRELLI, HENRY MARTIN Y ASOCIADOS S.R.L.
Member of Ernst & Young Global
