

# ARCOS DORADOS HOLDINGS INC.

## **FORM 6-K** (Report of Foreign Issuer)

Filed 05/13/20 for the Period Ending 05/13/20

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Industry	Restaurants & Bars
Sector	Consumer Cyclical
Fiscal Year	12/31

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

**FORM 6-K**

**REPORT OF FOREIGN PRIVATE ISSUER PURSUANT TO RULE 13a-16 OR 15d-16 UNDER THE SECURITIES  
EXCHANGE ACT OF 1934**

For the month of May, 2020

Commission File Number: 001-35129

**Arcos Dorados Holdings Inc.**

(Exact name of registrant as specified in its charter)

**Dr. Luis Bonavita 1294, Office 501  
Montevideo, Uruguay, 11300 WTC Free Zone**  
(Address of principal executive office)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F:

Form 20-F                      X                      Form 40-F                      \_\_\_\_\_

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Yes                      \_\_\_\_\_                      No                      X

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

Yes                      \_\_\_\_\_                      No                      X

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**ARCOS DORADOS HOLDINGS INC.**

**INCORPORATION BY REFERENCE**

This report on Form 6-K shall be deemed to be incorporated by reference into the registration statements on Form S-8 (Registration Number: 333-173496) of Arcos Dorados Holdings Inc. and to be a part thereof from the date on which this report is filed, to the extent not superseded by documents or reports subsequently filed or furnished.

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**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**Arcos Dorados Holdings Inc.**

By: /s/ Juan David Bastidas

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Name: Juan David Bastidas

Title: Chief Legal Counsel

Date: May 13, 2020

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## **Arcos Dorados Holdings Inc.**

### **Condensed Consolidated Financial Statements**

As of March 31, 2020 and December 31, 2019 and for the three-month periods ended March 31, 2020 and 2019 (Unaudited)

# Arcos Dorados Holdings Inc.

## Consolidated Statements of (Loss) Income

For the three-month periods ended March 31, 2020 and 2019 (Unaudited)

Amounts in thousands of US dollars, except for share data and as otherwise indicated

	<u>2020</u>	<u>2019</u>
<b>REVENUES</b>		
Sales by Company-operated restaurants	\$ 587,537	\$ 695,384
Revenues from franchised restaurants	29,967	35,615
<b>Total revenues</b>	<b>617,504</b>	<b>730,999</b>
<b>OPERATING COSTS AND EXPENSES</b>		
Company-operated restaurant expenses:		
Food and paper	(211,857)	(247,035)
Payroll and employee benefits	(134,199)	(142,056)
Occupancy and other operating expenses	(188,104)	(199,904)
Royalty fees	(34,124)	(39,329)
Franchised restaurants – occupancy expenses	(9,780)	(17,874)
General and administrative expenses	(48,798)	(52,359)
Other operating income (expenses), net	2,223	(1,118)
<b>Total operating costs and expenses</b>	<b>(624,639)</b>	<b>(699,675)</b>
<b>Operating (loss) income</b>	<b>(7,135)</b>	<b>31,324</b>
Net interest expense	(14,396)	(12,446)
(Loss) gain from derivative instruments	(491)	769
Foreign currency exchange results	(28,387)	1,538
Other non-operating expenses, net	(46)	(85)
<b>(Loss) income before income taxes</b>	<b>(50,455)</b>	<b>21,100</b>
Income tax expense	(1,869)	(8,876)
<b>Net (loss) income</b>	<b>(52,324)</b>	<b>12,224</b>
Less: Net income attributable to non-controlling interests	(8)	(59)
<b>Net (loss) income attributable to Arcos Dorados Holdings Inc.</b>	<b>\$ (52,332)</b>	<b>\$ 12,165</b>
<b>(Loss) earnings per share information:</b>		
Basic net (loss) income per common share attributable to Arcos Dorados Holdings Inc.	\$ (0.26)	\$ 0.06
Diluted net (loss) income per common share attributable to Arcos Dorados Holdings Inc.	(0.26)	0.06

See Notes to the Condensed Consolidated Financial Statements.

## Arcos Dorados Holdings Inc.

### Consolidated Statements of Comprehensive (Loss) Income

For the three-month periods ended March 31, 2020 and 2019 (Unaudited)

Amounts in thousands of US dollars

	2020	2019
<b>Net (loss) income</b>	<b>\$ (52,324)</b>	<b>\$ 12,224</b>
<b>Other comprehensive income, net of tax:</b>		
Foreign currency translation	(100,622)	(2,483)
Post-employment benefits:		
Reclassification of net loss to consolidated statement of income	59	216
Post-employment benefits (net of deferred income taxes of \$30 and \$111)	59	216
Cash flow hedges:		
Net loss recognized in accumulated other comprehensive loss	62,519	(1,377)
Reclassification of net gain to consolidated statement of income	(47,628)	(326)
Cash flow hedges (net of deferred income taxes of \$1,824 and \$762)	14,891	(1,703)
<b>Total other comprehensive loss</b>	<b>(85,672)</b>	<b>(3,970)</b>
<b>Comprehensive (loss) income</b>	<b>(137,996)</b>	<b>8,254</b>
Less: Comprehensive income attributable to non-controlling interests	37	(49)
<b>Comprehensive (loss) income attributable to Arcos Dorados Holdings Inc.</b>	<b>\$ (137,959)</b>	<b>\$ 8,205</b>

See Notes to the Condensed Consolidated Financial Statements.

# Arcos Dorados Holdings Inc.

## Consolidated Balance Sheet

As of March 31, 2020 and December 31, 2019

Amounts in thousands of US dollars, except for share data and as otherwise indicated

	As of March 31, 2020 (Unaudited)	As of December 31, 2019
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 142,043	\$ 121,880
Short-term investment	24	25
Accounts and notes receivable, net	53,955	99,862
Other receivables	22,472	28,174
Inventories	31,125	37,815
Prepaid expenses and other current assets	101,554	117,612
Derivative instruments	233	—
<b>Total current assets</b>	<b>351,406</b>	<b>405,368</b>
<b>Non-current assets</b>		
Miscellaneous	72,089	95,814
Collateral deposits	2,500	2,500
Property and equipment, net	813,284	960,986
Net intangible assets and goodwill	37,230	43,044
Deferred income taxes	50,269	68,368
Derivative instruments	113,534	57,828
McDonald's Corporation's indemnification for contingencies	1,274	1,612
Lease right of use asset, net	774,957	922,165
<b>Total non-current assets</b>	<b>1,865,137</b>	<b>2,152,317</b>
<b>Total assets</b>	<b>\$ 2,216,543</b>	<b>\$ 2,557,685</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 165,179	\$ 259,577
Royalties payable to McDonald's Corporation	12,124	17,132
Income taxes payable	31,333	61,982
Other taxes payable	42,671	61,823
Accrued payroll and other liabilities	98,279	86,379
Provision for contingencies	1,908	2,035
Interest payable	8,328	9,936
Short-term debt	135,768	13,296
Current portion of long-term debt	2,503	3,233
Derivative instruments	3,503	9,907
Operating lease liabilities	55,663	70,147
<b>Total current liabilities</b>	<b>557,259</b>	<b>595,447</b>
<b>Non-current liabilities</b>		
Accrued payroll and other liabilities	18,445	23,497
Provision for contingencies	20,301	24,123
Long-term debt, excluding current portion	619,959	623,575
Derivative instruments	—	3,598
Deferred income taxes	4,068	4,297
Operating lease liabilities	735,085	861,582
<b>Total non-current liabilities</b>	<b>1,397,858</b>	<b>1,540,672</b>
<b>Total liabilities</b>	<b>1,955,117</b>	<b>2,136,119</b>
<b>Equity</b>		
Class A shares of common stock	383,204	383,204
Class B shares of common stock	132,915	132,915
Additional paid-in capital	13,965	13,375
Retained earnings	396,083	471,149
Accumulated other comprehensive loss	(605,132)	(519,505)
Common stock in treasury	(60,000)	(60,000)
<b>Total Arcos Dorados Holdings Inc. shareholders' equity</b>	<b>261,035</b>	<b>421,138</b>
Non-controlling interests in subsidiaries	391	428
<b>Total equity</b>	<b>261,426</b>	<b>421,566</b>
<b>Total liabilities and equity</b>	<b>\$ 2,216,543</b>	<b>\$ 2,557,685</b>

See Notes to the Condensed Consolidated Financial Statements.

**Arcos Dorados Holdings Inc.**  
**Condensed Consolidated Statements of Cash Flows**  
For the three-month periods ended March 31, 2020 and 2019 (Unaudited)  
Amounts in thousands of US dollars

	<u>2020</u>	<u>2019</u>
<b>Operating activities</b>		
Net (loss) income attributable to Arcos Dorados Holdings Inc.	\$ (52,332)	\$ 12,165
Adjustments to reconcile net (loss) income attributable to Arcos Dorados Holdings Inc. to cash provided by operating activities:		
Non-cash charges and credits:		
Depreciation and amortization	35,348	28,948
Gain of property and equipment sales	(62)	(168)
Deferred income taxes	2,674	231
Foreign currency exchange results	26,651	(2,270)
Gain on Sales of restaurants businesses	—	(504)
Others, net	(2,833)	(257)
Changes in assets and liabilities	(65,541)	(10,148)
<b>Net cash (used in) provided by operating activities</b>	<b>(56,095)</b>	<b>27,997</b>
<b>Investing activities</b>		
Property and equipment expenditures	(41,190)	(35,995)
Purchases of restaurant businesses paid at acquisition date	(247)	(1,345)
Proceeds from sales of property and equipment and related advances	293	175
Other investing activity	(56)	569
<b>Net cash used in investing activities</b>	<b>(41,200)</b>	<b>(36,596)</b>
<b>Financing activities</b>		
Dividend payments to Arcos Dorados Holdings Inc.'s shareholders	28	—
Net short-term borrowings	128,311	—
Treasury stock purchases	—	(13,965)
Other financing activities	(1,296)	(1,860)
<b>Net cash provided by (used in) financing activities</b>	<b>127,043</b>	<b>(15,825)</b>
Effect of exchange rate changes on cash and cash equivalents	(9,585)	(234)
<b>Increase (decrease) in cash and cash equivalents</b>	<b>20,163</b>	<b>(24,658)</b>
Cash and cash equivalents at the beginning of the year	\$ 121,880	\$ 197,282
<b>Cash and cash equivalents at the end of the period</b>	<b>\$ 142,043</b>	<b>\$ 172,624</b>
<b>Supplemental cash flow information:</b>		
Cash paid during the period for:		
Interest	\$ 15,520	\$ 17,888
Income tax	13,621	10,924
Non-cash investing and financing activities:		
Dividend declared pending of payment	22,448	22,397
Seller financing pending of payment and settlement of franchise receivables related to purchases of restaurant businesses	—	905

See Notes to the Condensed Consolidated Financial Statements.

# Arcos Dorados Holdings Inc.

## Consolidated Statement of Changes in Equity

For the three-month period ended March 31, 2020 (Unaudited)

Amounts in thousands of US dollars, except for share data and as otherwise indicated

<b>Arcos Dorados Holdings Inc. Shareholders</b>												
	<u>Class A shares of common stock</u>		<u>Class B shares of common stock</u>		Additional paid-in capital	Retained earnings	Accumulated other comprehensive loss	<u>Common stock in treasury</u>		Total	Non- controlling interests	Total
	Number	Amount	Number	Amount				Number	Amount			
<b>Balances at beginning of fiscal year</b>	<b>132,063,631</b>	<b>\$383,204</b>	<b>80,000,000</b>	<b>\$132,915</b>	<b>\$ 13,375</b>	<b>\$471,149</b>	<b>\$ (519,505)</b>	<b>(7,993,602)</b>	<b>\$ (60,000)</b>	<b>\$421,138</b>	<b>\$ 428</b>	<b>\$421,566</b>
Net loss for the period (Unaudited)	—	—	—	—	—	(52,332)	—	—	—	(52,332)	8	(52,324)
Other comprehensive loss (Unaudited)	—	—	—	—	—	—	(85,627)	—	—	(85,627)	(45)	(85,672)
Dividends to Arcos Dorados Holdings Inc.'s shareholders (\$0.11 per share) (Unaudited)	—	—	—	—	—	(22,448)	—	—	—	(22,448)	—	(22,448)
Dividends on restricted share units under the 2011 Equity Incentive Plan (Unaudited)	—	—	—	—	—	(286)	—	—	—	(286)	—	(286)
Stock-based compensation related to the 2011 Equity Incentive Plan (Unaudited)	—	—	—	—	590	—	—	—	—	590	—	590
<b>Balances at end of period (Unaudited)</b>	<b>132,063,631</b>	<b>\$383,204</b>	<b>80,000,000</b>	<b>\$132,915</b>	<b>\$ 13,965</b>	<b>\$396,083</b>	<b>\$ (605,132)</b>	<b>(7,993,602)</b>	<b>\$ (60,000)</b>	<b>\$261,035</b>	<b>\$ 391</b>	<b>\$261,426</b>

See Notes to the Condensed Consolidated Financial Statements.

# Arcos Dorados Holdings Inc.

## Consolidated Statement of Changes in Equity

For the three-month period ended March 31, 2019 (Unaudited)

Amounts in thousands of US dollars, except for share data and as otherwise indicated

<b>Arcos Dorados Holdings Inc. Shareholders</b>												
	<b>Class A shares of common stock</b>		<b>Class B shares of common stock</b>		<b>Additional paid-in capital</b>	<b>Retained earnings</b>	<b>Accumulated other comprehensive losses</b>	<b>Common stock in treasury</b>			<b>Non- controlling interests</b>	
	<b>Number</b>	<b>Amount</b>	<b>Number</b>	<b>Amount</b>				<b>Number</b>	<b>Amount</b>	<b>Total</b>	<b>Number</b>	<b>Amount</b>
<b>Balances at beginning of fiscal year</b>	<b>131,593,073</b>	<b>\$379,845</b>	<b>80,000,000</b>	<b>\$132,915</b>	<b>\$ 14,850</b>	<b>\$413,074</b>	<b>\$ (502,266)</b>	<b>(6,360,826)</b>	<b>(46,035)</b>	<b>\$392,383</b>	<b>\$ 376</b>	<b>\$392,759</b>
Net income for the period (Unaudited)	—	—	—	—	—	12,165	—	—	—	12,165	59	12,224
Other comprehensive loss (Unaudited)	—	—	—	—	—	—	(3,960)	—	—	(3,960)	(10)	(3,970)
Dividends to Arcos Dorados Holdings Inc.'s shareholders (\$0.11 per share) (Unaudited)	—	—	—	—	—	(22,397)	—	—	—	(22,397)	—	(22,397)
Dividends on restricted share units under the 2011 Equity Incentive Plan (Unaudited)	—	—	—	—	—	(176)	—	—	—	(176)	—	(176)
Issuance of shares in connection with the partial vesting of outstanding restricted share units under the 2011 Equity Incentive Plan (Unaudited)	9,528	76	—	—	(76)	—	—	—	—	—	—	—
Stock-based compensation related to the 2011 Equity Incentive Plan (Unaudited)	—	—	—	—	908	—	—	—	—	908	—	908
Treasury stock purchases (Unaudited)	—	—	—	—	—	—	—	(1,632,776)	(13,965)	(13,965)	—	(13,965)
<b>Balances at end of period (Unaudited)</b>	<b>131,602,601</b>	<b>\$379,921</b>	<b>80,000,000</b>	<b>\$132,915</b>	<b>\$ 15,682</b>	<b>\$402,666</b>	<b>\$ (506,226)</b>	<b>(7,993,602)</b>	<b>\$(60,000)</b>	<b>\$364,958</b>	<b>\$ 425</b>	<b>\$365,383</b>

See Notes to the Condensed Consolidated Financial Statements.

# Arcos Dorados Holdings Inc.

## Notes to the Condensed Consolidated Financial Statements

For the three-month periods ended March 31, 2020 and 2019 (Unaudited)

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 through its wholly-owned Company Arcos Dorados Group B.V., 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”). Prior to this acquisition, the Company did not carry out operations. The Company’s rights to operate and franchise McDonald’s-branded restaurants in the Territories, and therefore the ability to conduct the business, derive exclusively from the rights granted by McDonald’s Corporation in the MFAs through 2027. The initial term of the MFA for French Guyana, Guadeloupe and Martinique was ten years through August 2, 2017 with an option to extend the agreement for these territories for an additional period of ten years, through August 2, 2027. On July 20, 2016, the Company has exercised its option to extend the MFA for these three territories.

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 (USVI) and Venezuela. All restaurants are operated either by the Company’s subsidiaries or by independent entrepreneurs under the terms of sub-franchisee agreements (franchisees).

#### COVID-19

On March 11, 2020, a novel virus known as COVID-19 was declared by the World Health Organization’s (WHO) as a pandemic, resulting in federal, state and local governments mandating various restrictions, including travel restrictions, restrictions on public gatherings, stay at home orders and advisories, curfews and quarantining of people who may have been exposed to the virus. These limitations significantly disrupted the Company’s business operations and had a material negative impact on the Company’s financial results, including a decline in revenues as well as cash from operations. In addition, Latin American and Caribbean economies may continue to experience adverse conditions, which could impact the Company’s business, results of operations, financial conditions and outlook. The Company has implemented several cash preservation measures intended to mitigate the potential effects of the pandemic. These measures include, but are not limited to, reducing costs and expenses, limiting capital expenditures and renegotiating terms and conditions with lessors and other suppliers of goods and services.

As of March 31, 2020, the Company had drawn \$136 million in short-term debt to maintain liquidity and is expected to continue relying on short-term funding at least until the COVID-19 pandemic is brought under control. See Note 4 for further information. The Company was in compliance with its financial ratio covenants related to its revolving credit facilities and Master Franchise Agreements as of March 31, 2020, however due to the effects of the COVID-19 pandemic, the Company may not remain in compliance with those ratio covenants in the future.

Moreover, if the temporary impacts of the COVID-19 pandemic become permanent, the Company may also need to consider the pandemic as an indicator of impairment. The significance and duration of the disruption will continue to be closely monitored as it cannot be predicted as of the date of these financial statements. See Note 3 for further information.

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

# Arcos Dorados Holdings Inc.

## Notes to the Condensed Consolidated Financial Statements

For the three-month periods ended March 31, 2020 and 2019 (Unaudited)

Amounts in thousands of US dollars, except for share data and as otherwise indicated

### 2. Basis of presentation and principles of consolidation

The accompanying condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America (“US GAAP”) for interim financial information 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”).

The accompanying condensed consolidated financial statements do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted for purposes of this presentation. The accompanying condensed consolidated financial statements should be read in conjunction with the consolidated annual financial statements of the Company as of December 31, 2019.

The accompanying condensed consolidated financial statements are unaudited and include, in the opinion of management, all adjustments, consisting only of normal recurring adjustments, which are considered necessary for the fair presentation of the information in the consolidated financial statements.

Operating results for the three-month period ended March 31, 2020 are not necessarily indicative of results that may be expected for any future periods.

### 3. Summary of significant accounting policies

There have been no material changes in the Company’s accounting policies disclosed in the notes to the consolidated annual financial statements as of December 31, 2019.

#### 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 matters

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 and Argentinian 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 sheet date exchange rates, and revenues, expenses and cash flow are translated at average rates prevailing during the periods. Translation adjustments are included in the “Accumulated other comprehensive loss” component of shareholders’ equity. The Company includes foreign currency exchange results related to monetary assets and liabilities transactions, including intercompany transactions, denominated in currencies other than its functional currencies in its statements of (loss) income.

Since January 1, 2010 and July 1, 2018, Venezuela and Argentina, respectively, were considered to be highly inflationary, and as such, the financial statements of these subsidiaries are remeasured as if its functional currency was the reporting currency of the immediate parent company (US dollars for Venezuelan operation and Brazilian reais (“BRL”) for Argentinian operation). As a result, remeasurement gains and losses are recognized in earnings rather than in the cumulative translation adjustment, component of “Accumulated other comprehensive loss” within shareholders’ equity. See Note 13 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.

# Arcos Dorados Holdings Inc.

## Notes to the Condensed Consolidated Financial Statements

For the three-month periods ended March 31, 2020 and 2019 (Unaudited)

Amounts in thousands of US dollars, except for share data and as otherwise indicated

### 3. Summary of significant accounting policies (continued)

#### 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.

Although the spread of COVID-19 disrupted operations in several territories of the Company, the duration and scope of the outbreak cannot be predicted as of March 31, 2020. Consequently, the Company did not have sufficient evidence to evaluate the disruption as an indicator of impairment. The Company will be monitoring the situation closely.

#### Recent accounting pronouncements

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments", which modifies the measurement and recognition of expected credit losses on financial assets. The Company adopted this guidance effective January 1, 2020, prospectively. The adoption of the new standard did not have a material impact on the Company's consolidated financial statements.

No other new accounting pronouncement issued or effective during the period had or is expected to have a material impact on the Company's consolidated financial statements.

### 4. Short-term debt

Short-term debt consists of the following:

	<b>As of March 31, 2020 (Unaudited)</b>	<b>As of December 31, 2019</b>
Short-term bank loans (i)	\$ 99,463	\$ 10,794
Revolving credit facilities (ii)	35,000	2,500
Bank overdrafts	1,305	2
	<b>\$ 135,768</b>	<b>\$ 13,296</b>

#### (i) Short-term bank loans

As of March 31, 2020, the Company had drawn short term bank loans in several territories. Most of them, in Brazil, Argentina and Uruguay, amounting to \$85,990. As of December 31, 2019, short term bank loans were comprised of two loans in Brazil and Argentina.

# Arcos Dorados Holdings Inc.

## Notes to the Condensed Consolidated Financial Statements

For the three-month periods ended March 31, 2020 and 2019 (Unaudited)

Amounts in thousands of US dollars, except for share data and as otherwise indicated

### 4. Short-term debt (continued)

The following table presents additional information related to short term debt:

Territories	Annual interest rate (*)	Currency	Bank	Principal as of		Maturity
				March 31, 2020 (Unaudited)	December 31, 2019	
Brazil	CDI+0.67%	BRL	Banco Bradesco S.A	\$ —	\$ 7,454	February, 2020
	CDI+1.16%			5,763	—	April, 2020
	CDI+1.25%		Banco Santander (Brasil) S.A.	9,606	—	June, 2020
	CDI+4.8%			9,606	—	
	CDI+1.39%		Banco do Brasil S.A.	4,803	—	
	CDI+0.99%			5,763	—	
	CDI+5%		Banco Safra S.A.	9,606	—	
	CDI+0.65%		Banco Citibank S.A.	5,763	—	
		6,724	—			
<b>Subtotal</b>			<b>57,634</b>	<b>7,454</b>		
Argentina	54%	ARS	Banco de la Ciudad de Buenos Aires	—	3,340	January, 2020
	40%			3,882	—	June, 2020
	40.5%		Banco BBVA Argentina S.A.	1,553	—	
	45%			2,329	—	
	41%		Citibank N.A.	2,329	—	
	BADLAR + 9%		Banco Santander Rio S.A.	3,882	—	September, 2020
<b>Subtotal</b>			<b>13,975</b>	<b>3,340</b>		
Uruguay	2.4%	USD	Citibank N.A. (Sucursal Uruguay)	1,700	—	June, 2020
	3.5%			1,000	—	
	3.54%			5,000	—	
	3%		Banco Bilbao Vizcaya Uruguay S.A.	750	—	
	3.5%		Banco Santander S.A.	5,000	—	September, 2020
<b>Subtotal</b>			<b>13,450</b>	—		
Rest of territories			<b>14,404</b>	—		
<b>Total</b>			<b>\$ 99,463</b>	<b>\$10,794</b>		

#### (ii) Revolving credit facilities

The Company entered into revolving credit facilities in order to borrow money from time to time to cover its working capital needs and for other general corporate purposes.

On August 2, 2019, ADBV renewed its committed revolving credit facility with Bank of America, N.A. (BOFA), as lender, for up to \$25 million maturing on August 2, 2020. Each loan made to ADBV under this agreement will bear interest at an annual rate equal to LIBOR plus 2.40%.

In addition, on December 11, 2019, the Company entered into a revolving credit facility with JPMorgan Chase Bank, N.A. (JPMorgan), for up to \$25 million maturing on December 11, 2020, with an annual interest rate equal to LIBOR plus 2.25%.

Interest on each loan will be payable at maturity and on a quarterly basis, beginning with the date that is three calendar months following the date the loan is made. Principal is due upon maturity.

# Arcos Dorados Holdings Inc.

## Notes to the Condensed Consolidated Financial Statements

For the three-month periods ended March 31, 2020 and 2019 (Unaudited)

Amounts in thousands of US dollars, except for share data and as otherwise indicated

### 4. Short-term debt (continued)

#### Revolving credit facilities (continued)

The obligations of the Company and ADBV under the revolving credit facilities are jointly and severally guaranteed by certain of the Company's subsidiaries on an unconditional basis. Furthermore, the agreements include customary covenants including, among others, restrictions on the ability of the Company, 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) is required to comply with a consolidated net indebtedness to EBITDA ratio lower than 3.0 as of any last day of the fiscal quarter of the borrower. The revolving credit facilities provide 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 facilities and/or to declare all sums outstanding under the loan documents immediately due and payable.

As of March 31, 2020, the Company and ADBV had drawn \$25,000 and \$10,000, respectively, in connection with these revolving credit facilities. Additionally, the aforementioned ratios were 1.98 and 1.19, for the Company and ADBV, respectively, and thus the Company and ADBV are currently in compliance with the ratio requirements under each revolving credit facility.

### 5. Long-term debt

Long-term debt consists of the following:

	As of March 31, 2020 (Unaudited)	As of December 31, 2019
2027 Notes	\$ 265,000	\$ 265,000
2023 Notes	348,069	348,069
Finance lease obligations	4,366	5,419
Other long-term borrowings	9,736	13,284
<b>Subtotal</b>	<b>627,171</b>	<b>631,772</b>
Discount on 2023 Notes	(2,340)	(2,504)
Premium on 2023 Notes	874	937
Deferred financing costs	(3,243)	(3,397)
<b>Total</b>	<b>\$ 622,462</b>	<b>\$ 626,808</b>
Current portion of long-term debt	2,503	3,233
<b>Long-term debt, excluding current portion</b>	<b>\$ 619,959</b>	<b>\$ 623,575</b>

# Arcos Dorados Holdings Inc.

## Notes to the Condensed Consolidated Financial Statements

For the three-month periods ended March 31, 2020 and 2019 (Unaudited)

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### 5. Long-term debt (continued)

#### 2027 and 2023 Notes

The following table presents additional information related to the 2027 and 2023 Notes (the "Notes"):

	Annual interest rate	Currency	Principal as of		Maturity
			March 31, 2020 (Unaudited)	December 31, 2019	
2027 Notes	5.875 %	USD	\$ 265,000	\$ 265,000	April 4, 2027
2023 Notes	6.625 %	USD	348,069	348,069	September 27, 2023

  

	Interest Expense (i)		DFC Amortization (i)		Amortization of Discount, net (i)	
	2020 (Unaudited)	2019 (Unaudited)	2020 (Unaudited)	2019 (Unaudited)	2020 (Unaudited)	2019 (Unaudited)
2027 Notes	\$ 3,892	\$ 3,892	\$ 74	\$ 74	\$ —	\$ —
2023 Notes	5,765	5,765	80	80	101	97

(i) These charges are included within "Net interest expense" in the consolidated statements of (loss) income.

On September 27, 2013, the Company issued senior notes for an aggregate principal amount of \$473.8 million, 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 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 June 1, 2016, the Company launched a cash tender offer to purchase \$80,000 of its outstanding 2023 Notes, at a redemption price equal to 98%, which expired on June 28, 2016. The holders who tendered their 2023 Notes prior to June 14, received a redemption price equal to 101%. As a consequence of this transaction, the Company redeemed 16.90% of the outstanding principal. The total payment was \$80,800 (including \$800 of early tender payment) plus accrued and unpaid interest.

The results related to the cash tender offer and the accelerated amortization of the related DFC were recognized as interest expense within the consolidated statement of income.

Furthermore, on March 16, 2017, the Company launched a second cash tender offer to purchase \$80,000 of its outstanding 2023 Notes, at a redemption price equal to 104%, which expired on April 12, 2017. The holders who tendered their 2023 Notes prior to March 29, 2017, received a redemption price equal to 107%. As a consequence of this transaction, the Company redeemed 11.6% of the outstanding principal. The total payment was \$48,885 (including \$3,187 of early tender payment) plus accrued and unpaid interest. The results related to the second cash tender offer and the accelerated amortization of the related DFC were recognized as interest expense within the consolidated statement of income.

In April 2017, the Company issued senior notes for an aggregate principal amount of \$265 million, which are due in 2027 (the "2027 Notes"). Periodic payments of principal are not required and interest is paid semi-annually commencing on October 4, 2017. The proceeds from the issuance of the 2027 Notes were used to repay the Secured Loan Agreement, unwind the related derivative instruments, pay the principal and premium on the 2023 Notes (in connection with the aforementioned second tender offer) and for general purposes. The Company incurred \$3,001 of financing costs related to the issuance of 2027 Notes, which were capitalized as DFC and are being amortized over the life of the 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;

# Arcos Dorados Holdings Inc.

## Notes to the Condensed Consolidated Financial Statements

For the three-month periods ended March 31, 2020 and 2019 (Unaudited)

Amounts in thousands of US dollars, except for share data and as otherwise indicated

### 5. Long-term debt (continued)

#### 2023 and 2027 Notes (continued)

(ii) will be effectively junior to all of the 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.

The indenture governing the Notes limits the Company's and its subsidiaries' ability to, among other things, (i) create certain liens; (ii) enter into sale and lease-back transactions; and (iii) consolidate, merge or transfer assets. In addition, the indenture governing the 2027 Notes, limits the Company's and its subsidiaries' ability to: incur in additional indebtedness and make certain restricted payments, including dividends. 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 Notes to be due and payable immediately.

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

### 6. Derivative instruments

The following table presents the fair values of derivative instruments included in the consolidated balance sheets as of March 31, 2020 and December 31, 2019:

Type of Derivative	Balance Sheets Location	Assets		Balance Sheets Location	Liabilities	
		As of March 31, 2020 (Unaudited)	As of December 31, 2019		As of March 31, 2020 (Unaudited)	As of December 31, 2019
<b><i>Derivatives designated as hedging instruments</i></b>						
<b><i>Cash Flow hedge</i></b>						
Forward contracts	Other receivables	\$ 2,612	\$ 259	Accrued payroll and other liabilities	\$ —	\$ (532)
Cross-currency interest rate swap	Derivative instruments	88,493	37,219	Derivative instruments	(3,503)	(8,179)
Call spread	Derivative instruments	20,605	20,609	Derivative instruments	—	—
Coupon-only swap	Derivative instruments	4,669	—	Derivative instruments	—	(5,326)
<b>Subtotal</b>		<b>\$ 116,379</b>	<b>\$ 58,087</b>		<b>\$ (3,503)</b>	<b>\$ (14,037)</b>
<b><i>Derivatives not designated as hedging instruments</i></b>						
Forward contracts	Other receivables	—	\$ 20	Accrued payroll and other liabilities	—	\$ —
<b>Subtotal</b>		<b>\$ —</b>	<b>\$ 20</b>		<b>\$ —</b>	<b>\$ —</b>
<b>Total derivative instruments</b>		<b>\$ 116,379</b>	<b>\$ 58,107</b>		<b>\$ (3,503)</b>	<b>\$ (14,037)</b>

# Arcos Dorados Holdings Inc.

## Notes to the Condensed Consolidated Financial Statements

For the three-month periods ended March 31, 2020 and 2019 (Unaudited)

Amounts in thousands of US dollars, except for share data and as otherwise indicated

### 6. Derivative instruments (continued)

#### Derivatives designated as hedging instruments

##### Cash flow hedge

##### Forward contracts

The Company has entered into various forward contracts in a few territories to hedge a portion of the foreign exchange risk associated with forecasted imports of goods. The effect of the hedges results in fixing the cost of goods acquired (i.e. the net settlement or collection adjusts the cost of inventory paid to the suppliers). As of March 31, 2020, the Company had forward contracts outstanding with a notional amount of \$18,866 that mature during 2020. Although the spread of COVID-19 has disrupted operations in several of its territories, the Company does not expect changes in the designation of cash flow hedge accounting of these forward contracts because it considers that the forecasted imports of goods will occur within the expected timeframe. However, the Company will be monitoring the evolution of the COVID-19 outbreak and the potential impacts on the outstanding forward contracts closely.

The Company made net collections totaling \$545 and \$167 during the three-month periods ended March 31, 2020 and 2019, respectively, as a result of the net settlements of these derivatives.

##### Cross-currency interest rate swap

The Company entered into three cross-currency interest rate swap agreements to hedge all the variability in a portion (73%) of the principal and interest collections of its BRL intercompany loan receivables with ADBV. The agreements were signed during November 2013 (amended in February 2017), June and July 2017. The following table presents information related to the terms of the agreements:

Bank	Payable			Receivable			Interest payment dates	Maturity
	Currency	Amount	Interest rate	Currency	Amount	Interest rate		
JP Morgan Chase Bank, N.A.	BRL	108,000	13 %	\$	35,400	4.38 %	March 31/ September 30	September 2023
JP Morgan Chase Bank, N.A.	BRL	98,670	13 %	\$	30,000	6.02 %	March 31/ September 30	September 2023
Citibank N.A.	BRL	94,200	13 %	\$	30,000	6.29 %	March 31/ September 30	September 2023

During April 2017, the Company's Brazilian subsidiary entered into similar agreements in order to hedge all the variability in a portion (50%) of the principal and interest payable of intercompany loan payables nominated in US dollar.

The following table presents information related to the terms of the agreements:

Bank	Payable			Receivable			Interest payment dates	Maturity
	Currency	Amount	Interest rate	Currency	Amount	Interest rate		
BAML (i)	BRL	156,250	13.64 %	\$	50,000	6.91 %	March 31/ September 30	April 2027
Banco Santander S.A.	BRL	155,500	13.77 %	\$	50,000	6.91 %	June 30/ December 31	September 2023

(i) Bank of America Merrill Lynch Banco Múltiplo S.A.

The Company paid \$2,615 and \$4,615 of net interest during the three-month periods ended March 31, 2020 and 2019, respectively.

## Arcos Dorados Holdings Inc.

### Notes to the Condensed Consolidated Financial Statements

For the three-month periods ended March 31, 2020 and 2019 (Unaudited)

Amounts in thousands of US dollars, except for share data and as otherwise indicated

#### 6. Derivative instruments (continued)

##### *Derivatives designated as hedging instruments (continued)*

##### *Cash flow hedge (continued)*

##### Call spread

During April 2017, the Company's Brazilian subsidiary entered into two call spread agreements in order to hedge the all variability in a portion (50%) of the principal of intercompany loan payables nominated in US dollar. Call spread agreements consist of a combination of two call options: the Company bought an option to buy US dollar at a strike price equal to the BRL exchange rate at the date of the agreements, and wrote an option to buy US dollar at a higher strike price than the previous one. Both pair of options have the same notional amount and are based on the same underlying with the same maturity date.

The following table presents information related to the terms of the agreements:

Bank	Nominal Amount		Strike price		Maturity
	Currency	Amount	Call option written	Call option bought	
Citibank S.A.	\$	50,000	4.49	3.11	September 2023
JP Morgan S.A.	\$	50,000	5.20	3.13	April 2027

##### Coupon-only swap

During April 2017, the Company's Brazilian subsidiary entered into two coupon-only swap agreements in order to hedge the all variability (50%) in the interest payable related to the intercompany loan aforementioned.

The following table presents information related to the terms of the agreements:

Bank	Payable			Receivable			Interest payment dates	Maturity
	Currency	Amount	Interest rate	Currency	Amount	Interest rate		
Citibank S.A.	BRL	155,500	11.08 %	\$	50,000	6.91 %	June 30/ December 31	September 2023
JP Morgan S.A.	BRL	156,250	11.18 %	\$	50,000	6.91 %	March 31/ September 30	April 2027

The Company paid \$459 and \$1,104 of net interest during the three-month periods ended March 31, 2020 and 2019 respectively, related to these agreements.

##### Additional disclosures

The following table present the pretax amounts affecting income and other comprehensive income for the three-month periods ended March 31, 2020 and 2019 for each type of derivative relationship:

# Arcos Dorados Holdings Inc.

## Notes to the Condensed Consolidated Financial Statements

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### 6. Derivative instruments (continued)

#### Additional disclosures (continued)

Derivatives in Cash Flow Hedging Relationships	(Loss) Gain Recognized in Accumulated OCI on Derivative (Effective Portion) (Unaudited)		Loss (Gain) Reclassified from Accumulated OCI into Income (Effective Portion) (i) (Unaudited)	
	2020	2019	2020	2019
	Forward contracts	\$ 3,430	\$ (252)	\$ (545)
Cross-currency interest rate swaps	61,466	(1,647)	(42,069)	212
Call Spread	5,576	762	(20,488)	(1,137)
Coupon-only swap	9,464	(778)	(119)	542
<b>Total</b>	<b>\$ 79,936</b>	<b>\$ (1,915)</b>	<b>\$ (63,221)</b>	<b>\$ (550)</b>

(i) The results recognized in income related to forward contracts were recorded as an adjustment to food and paper.

The net gain (loss) recognized in income, related to cross-currency interest rate swaps is presented as follows:

	For the three-month periods ended March 31,	
	2020 (Unaudited)	2019 (Unaudited)
<b>Adjustment to:</b>		
Foreign currency exchange results	\$ 42,513	\$ 2,029
Net interest expense	(444)	(2,241)
<b>Total</b>	<b>\$ 42,069</b>	<b>\$ (212)</b>

The results recognized in income related to call spread agreements and coupon-only swap agreements were recorded as an adjustment to foreign currency exchange and interest expense, respectively.

#### *Derivatives not designated as hedging instruments*

The Company enters into certain derivatives that are not designated for hedge accounting, therefore the changes in the fair value of these derivatives are recognized immediately in earnings, together with the gain or loss from the hedged balance sheet position within "Gain (loss) from derivative instruments".

The Company made net (payments) collections totaling (\$39) and \$124 during the three-month periods ended March 31, 2020 and 2019, respectively, related to those forward contracts.

### 7. Share-based compensation

#### 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 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.

# Arcos Dorados Holdings Inc.

## Notes to the Condensed Consolidated Financial Statements

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Amounts in thousands of US dollars, except for share data and as otherwise indicated

### 7. Share-based compensation (continued)

#### 2011 Equity Incentive Plan (continued)

The Company made a special grant of stock options and restricted share units in 2011 in connection with its initial public offering, which are totally vested. The Company also made recurring grants of stock options and restricted share units in each of the fiscal years from 2011 to 2019 (from 2015 to 2019 only restricted share units). From 2011 to 2018, 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. The 2019 award vests on May 10, 2020. However, in the event of death, disability or retirement of the employee, any unvested portion of the annual award will be fully vested. 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.

On June 28, 2016, 1,117,380 stock options were converted to a liability award maintaining the original conditions of the 2011 Plan. There were not incremental compensation costs resulting from the modification. The employees affected by this modification were 104. The accrued liability is remeasured on a monthly basis until settlement.

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 related to this award in the amount of \$590 and \$908 during the three-month periods ended March 31, 2020 and 2019, respectively. Stock-based compensation expense is included within "General and administrative expenses" in the consolidated statements of (loss) income.

#### Stock Options

The following table summarizes the activity of stock options units as of March 31, 2020:

	Units	Weighted-average strike price	Weighted-average grant-date fair value
<b>Outstanding at March 31, 2020 and December 31, 2019</b>	<b>274,440</b>	<b>10.62</b>	<b>2.77</b>
<b>Exercisable at March 31, 2020</b>	<b>274,440</b>	<b>10.62</b>	<b>2.77</b>

The following table provides a summary of outstanding stock options at March 31, 2020:

	Vested (i)
Number of units outstanding	274,440
Weighted-average grant-date fair market value per unit	2.77
Total grant-date fair value	760
Weighted-average accumulated percentage of service	100 %
Stock-based compensation recognized in Additional paid-in capital	760

(i) Related to exercisable awards.

## Arcos Dorados Holdings Inc.

### Notes to the Condensed Consolidated Financial Statements

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#### 7. Share-based compensation (continued)

##### Restricted Share Units

The following table summarizes the activity of restricted share units during the three-month period ended March 31, 2020:

	Units	Weighted-average grant-date fair value
<b>Outstanding at December 31, 2019</b>	<b>937,839</b>	<b>7.50</b>
Forfeitures	(77)	6.33
<b>Outstanding at March 31, 2020</b>	<b>937,762</b>	<b>7.50</b>
<b>Exercisable at March 31, 2020</b>	<b>—</b>	<b>—</b>

As of March 31, 2020 and December 31, 2019, there were 3,154 and 2,901 Class A shares, amounting to \$18 and \$20, pending of issuance in connection with the partial vestings 2019 and 2018, respectively.

The following table provides a summary of outstanding restricted share units at March 31, 2020:

Number of units outstanding (i)	937,762
Weighted-average grant-date fair market value per unit	7.50
Total grant-date fair value	7,030
Weighted-average accumulated percentage of service	75.8 %
Stock-based compensation recognized in Additional paid-in capital	5,331
Compensation expense not yet recognized (ii)	1,699

(i) Related to awards that will vest between fiscal years 2020 and 2023.

(ii) Expected to be recognized in a weighted-average period of 1.0 years.

##### Phantom RSU Award

In May 2019, the Company implemented a new long-term incentive plan (called Phantom RSU Award) to reward employees giving them the opportunity to share the success of the Company in the creation of value for its shareholders. In accordance with this plan, the Company granted units (called “Phantom RSU”) to certain employees, pursuant to which they are entitled to receive, when vested, a cash payment equal to the closing price of one Class A share on the respective day in which this benefit is due and the corresponding dividends per-share (if any) formally declared and paid during the service period. The award has two types of grant. Phantom RSU type one has 465,202 units which 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 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. Phantom RSU type two has 1,207,455 units which vest 100% at the fifth anniversary from the date of grant. The grant-date stock price of both types of grants was \$6.78.

The total compensation benefit as of March 31, 2020, amounts to \$900 which has been recorded under “General and administrative expenses” within the consolidated statement of (loss) income. The accrued liability is remeasured at the end of each reporting period until settlement.

# Arcos Dorados Holdings Inc.

## Notes to the Condensed Consolidated Financial Statements

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### 7. Share-based compensation (continued)

#### Phantom RSU Award (continued)

The following table summarizes the activity under the plan as of March 31, 2020:

	<b>Units</b>
<b>Outstanding at March 31, 2020 and December 31, 2019</b>	<b>1,661,820</b>

The following table provides a summary of the plan at March 31, 2020:

	<b>Total Non-vested (i)</b>
Number of units outstanding	1,661,820
Current share price	3.34
Total fair value of the plan	5,550
Weighted-average accumulated percentage of service	21.66 %
Accrued liability (ii)	1,202
Compensation expense not yet recognized (iii)	4,348

- (i) Related to awards that will vest between May 2021 and May 2024.
- (ii) Presented within "Accrued payroll and other liabilities" in the Company's non current liabilities balance sheet.
- (iii) Expected to be recognized in a weighted-average period of 3.73 years.

### 8. Commitments and contingencies

#### Commitments

The MFAs require the Company and its MF subsidiaries, among other obligations:

- (i) 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;
- (ii) to pay monthly royalties commencing at a rate of approximately 5% of gross sales of the restaurants, during the first 10 years, substantially consistent with market. This percentage increases to 6% and 7% for the subsequent two 5-year periods of the agreement. Nevertheless, on occasions McDonald's provides the Company with support in order to encourage the Company's growth plan;
- (iii) to commit to funding a specified Strategic Marketing Plan; that includes the expenditure of 5% of the Company gross sales on Advertising and Promotion activities.
- (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 defined therein) at least equal to 1.50 as well as a maximum leverage ratio (as defined therein) of 4.25.

If the Company would not be in compliance with these commitments under the MFA, it could be in material breach. A breach of the MFA would give McDonald's Corporation certain rights, including the ability to acquire all or portions of the business.

# Arcos Dorados Holdings Inc.

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### 8. Commitments and contingencies (continued)

#### Commitments (continued)

As a consequence of the negative impacts of the spread of COVID-19 on the Company's operations, McDonald's granted the Company a deferral of all the royalty payments due related to sales in March, April, May and June 2020 until 2021; a reduction in the advertising and promotion spending requirements from 5% to 4% for the annual period 2020; and agreed to the withdrawal of the previously-agreed restaurant opening and reinvestment plan until the COVID-19 outbreak is under control.

For the three-month period ended March 31, 2020, the Company was in compliance with the ratio requirements mentioned in point (v) above. The ratios for the period mentioned, were as follows:

	<b>March 31, 2020 (Unaudited)</b>
Fixed Charge Coverage Ratio	1.74
Leverage Ratio	4.15

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 letters 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 March 31, 2020 and December 31, 2019, the Company maintains a provision for contingencies, net of judicial deposits, amounting to \$22,209 and \$26,158, respectively, presented as follow: \$1,908 and \$2,035 as a current liability and \$20,301 and \$24,123 as a non-current liability, respectively. The breakdown of the provision for contingencies is as follows:

	<b>As of March 31, 2020 (Unaudited)</b>	<b>As of December 31, 2019</b>
Tax contingencies in Brazil	\$ 8,702	\$ 10,595
Labor contingencies in Brazil	13,568	16,839
Others	9,635	11,404
<b>Subtotal</b>	<b>31,905</b>	<b>38,838</b>
Judicial deposits	(9,696)	(12,680)
<b>Provision for contingencies</b>	<b>\$ 22,209</b>	<b>\$ 26,158</b>

As of March 31, 2020, there are certain matters related to the interpretation of tax, labor and civil 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 \$169 million and \$184 million.

As of March 31, 2020, there are certain matters related to the interpretation of income tax laws for which could be challenged by tax authorities in an amount of \$143 million, related to assessments for the fiscal years 2009 to 2014. No formal claim has been made for fiscal years within the statute of limitation by Tax authorities in any of the mentioned matters, however those years are still subject to audit and claims may be asserted in the future.

# Arcos Dorados Holdings Inc.

## Notes to the Condensed Consolidated Financial Statements

For the three-month periods ended March 31, 2020 and 2019 (Unaudited)

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### 8. Commitments and contingencies (continued)

#### Provision for contingencies (continued)

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. At that time, the Company filed a Motion of Non Suit. As of today, the Company has not been notified of any resolution made by the Commissioner assigned to this case. Although the Company believes that the probability of loss was remote, on December 28, 2019 and March 31, 2020, the Company reached confidential settlement agreements with Puerto Rican franchisees finalizing all controversies and disputes among the parties. As part of these agreements were reached during the COVID-19 outbreak, the Company is unable to file the final documentation to end the proceedings because the courts are closed in Puerto Rico. However, the Company will file such documentation and officially close these proceedings as soon as the courts reopen.

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 ("the PROA claim") against the Company and other third party defendants, in the amount of \$31 million. On June 9, 2014, after several motions for summary judgment duly filed and opposed by the parties, the First Instance Court entered a "Partial Summary Judgment and Resolution" in favor of PROA, before initiating the discovery phase, finding that the Company must participate and contribute funds to the association. However, the Court did not specify any amount for which the Company should be held liable, due to its preliminary and interlocutory nature, and the lack of discovery conducted regarding the amounts claimed by the plaintiffs. By means of a Motion to Reconsider, the Company opposed such determination. In December 2018, the First Instance Court confirmed his determination and the Company filed a Certiorari in the Court of Appeals.

In July 2019, the Court of Appeals issued Judgment revoking the Court of First Instance's summary judgment in favor of PROA. PROA filed in the Puerto Rico Supreme Court an appeal of such determination, which was denied by the Court and PROA filed a reconsideration which was also denied. Although our assessment of the probability of loss was remote, on December 28, 2019 and March 31, 2020 we reached confidential settlement agreements with Puerto Rican franchisees, sole members of PROA, finalizing all controversies and disputes among the parties. As part of these agreements were reached during the COVID-19 outbreak, we are unable to file the final documentation to end the proceedings because the courts are closed in Puerto Rico. However, we will file such documentation and officially close these proceedings as soon as the courts reopen.

Pursuant to Section 9.3 of the Stock Purchase Agreement, McDonald's Corporation indemnifies the Company for certain Brazilian claims. At March 31, 2020, the provision for contingencies includes \$1,274 (\$1,612 at December 31, 2019), related to these claims. As a result, the Company has recorded a non-current asset in respect of McDonald's Corporation's indemnity in the consolidated balance sheet. The asset in respect of McDonald's Corporation's indemnity represents the amount of cash to be received as a result of settling certain Brazilian labor and tax contingencies.

### 9. 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.

## Arcos Dorados Holdings Inc.

### Notes to the Condensed Consolidated Financial Statements

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#### 9. Segment and geographic information (continued)

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 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 used in the preparation of the consolidated financial statements.

The following table presents information about profit or loss and assets for each reportable segment:

	For the three-month periods ended March 31,	
	2020	2019
	(Unaudited)	(Unaudited)
<b>Revenues:</b>		
Brazil	\$ 284,382	\$ 340,764
Caribbean division	89,195	97,694
NOLAD	96,052	99,356
SLAD	147,875	193,185
<b>Total revenues</b>	<b>\$ 617,504</b>	<b>\$ 730,999</b>
	For the three-month periods ended March 31,	
	2020	2019
	(Unaudited)	(Unaudited)
<b>Adjusted EBITDA:</b>		
Brazil	\$ 29,171	\$ 46,904
Caribbean division	5,085	3,852
NOLAD	5,092	6,748
SLAD	1,416	16,153
<b>Total reportable segments</b>	<b>40,764</b>	<b>73,657</b>
Corporate and others (i)	(12,241)	(13,038)
<b>Total adjusted EBITDA</b>	<b>\$ 28,523</b>	<b>\$ 60,619</b>

# Arcos Dorados Holdings Inc.

## Notes to the Condensed Consolidated Financial Statements

For the three-month periods ended March 31, 2020 and 2019 (Unaudited)

Amounts in thousands of US dollars, except for share data and as otherwise indicated

### 9. Segment and geographic information (continued)

	For the three-month periods ended March 31,	
	2020	2019
	(Unaudited)	(Unaudited)
<b>Adjusted EBITDA reconciliation:</b>		
<b>Total adjusted EBITDA</b>	\$ 28,523	\$ 60,619
<b>(Less) Plus items excluded from computation that affect operating income:</b>		
Depreciation and amortization	(35,348)	(28,948)
Gains from sale or insurance recovery of property and equipment	52	147
Write-offs of property and equipment	(362)	(494)
<b>Operating (loss) income</b>	<b>(7,135)</b>	<b>31,324</b>
<b>(Less) Plus:</b>		
Net interest expense	(14,396)	(12,446)
(Loss) gain from derivative instruments	(491)	769
Foreign currency exchange results	(28,387)	1,538
Other non-operating expenses, net	(46)	(85)
Income tax (benefit) expense	(1,869)	(8,876)
Net income attributable to non-controlling interests	(8)	(59)
<b>Net (loss) income attributable to Arcos Dorados Holdings Inc.</b>	<b>\$ (52,332)</b>	<b>\$ 12,165</b>

	For the three-month periods ended March 31,	
	2020	2019
	(Unaudited)	(Unaudited)
<b>Depreciation and amortization:</b>		
Brazil	\$ 17,990	\$ 14,508
Caribbean division	5,206	4,954
NOLAD	5,790	5,351
SLAD	5,109	4,522
<b>Total reportable segments</b>	<b>34,095</b>	<b>29,335</b>
Corporate and others (i)	1,548	1,255
Purchase price allocation (ii)	(295)	(1,642)
<b>Total depreciation and amortization</b>	<b>\$ 35,348</b>	<b>\$ 28,948</b>

# Arcos Dorados Holdings Inc.

## Notes to the Condensed Consolidated Financial Statements

For the three-month periods ended March 31, 2020 and 2019 (Unaudited)

Amounts in thousands of US dollars, except for share data and as otherwise indicated

### 9. Segment and geographic information (continued)

	For the three-month periods ended	
	March 31,	
	2020 (Unaudited)	2019 (Unaudited)
<b>Property and equipment expenditures:</b>		
Brazil	\$ 21,253	\$ 17,182
Caribbean division	2,771	2,695
NOLAD	4,431	2,735
SLAD	12,735	13,383
<b>Total property and equipment expenditures</b>	<b>\$ 41,190</b>	<b>\$ 35,995</b>
	As of	
	March 31, 2020 (Unaudited)	December 31, 2019
<b>Total assets:</b>		
Brazil	\$ 1,058,396	\$ 1,328,984
Caribbean division	408,002	429,170
NOLAD	401,049	458,235
SLAD	358,585	389,976
<b>Total reportable segments</b>	<b>2,226,032</b>	<b>2,606,365</b>
Corporate and others (i)	97,677	67,195
Purchase price allocation (ii)	(107,166)	(115,875)
<b>Total assets</b>	<b>\$ 2,216,543</b>	<b>\$ 2,557,685</b>

- (i) Primarily relates to corporate general and administrative expenses, corporate supply chain operations in 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. As of March 31, 2020 and December 31, 2019, corporate assets primarily includes corporate cash and cash equivalents, lease right of use and derivatives.
- (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. All of the Company's revenues are derived from foreign operations.

Long-lived assets consisting of property and equipment and leases right of use net totaled \$813,284 and 774,957, respectively, at March 31, 2020; and 960,986 and 922,165, respectively, at December 31, 2019. All of the Company's long-lived assets are related to foreign operations.

# Arcos Dorados Holdings Inc.

## Notes to the Condensed Consolidated Financial Statements

For the three-month periods ended March 31, 2020 and 2019 (Unaudited)

Amounts in thousands of US dollars, except for share data and as otherwise indicated

### 10. Shareholders' equity

#### Authorized capital

The Company is authorized to issue a maximum of 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 March 31, 2020 and December 31, 2019, the Company 212,063,631 shares issued with no par value, consisting of 132,063,631 Class A shares and 80,000,000 Class B shares for each period.

In addition, on May 22, 2018, the Board of Directors approved the adoption of a share repurchase program, pursuant to which the Company may repurchase from time to time up to \$60,000 of issued and outstanding Class A shares of no par value of the Company ("The Repurchase Program").

The Repurchase Program began on May 22, 2018 and would expire at the close of business on May 22, 2019. However, it could terminate prior to such date. As of February 15, 2019, the Company purchased 7,993,602 shares amounting to \$60,000. As a result the Repurchase Program concluded.

Therefore, at March 31, 2020 the Company had 204,070,029 shares outstanding, consisting of 124,070,029 Class A shares and 80,000,000 Class B shares.

#### 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.

On March 3, 2020, the Company approved a dividend distribution to all Class A and Class B shareholders of \$0.11 per share to be paid in three installments, as follows: \$0.05 per share on April 10, 2020, \$0.03 per share on August 13, 2020 and \$0.03 per share on December 10, 2020.

#### Accumulated Other Comprehensive Income (Loss)

The following table sets forth information with respect to the components of "Accumulated other comprehensive income (loss)" as of March 31, 2020 and their related activity during the three-month period then ended:

# Arcos Dorados Holdings Inc.

## Notes to the Condensed Consolidated Financial Statements

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### 10. Shareholders' equity (continued)

#### Accumulated Other Comprehensive Income (Loss) (Continued)

	Foreign currency translation	Cash flow hedges	Post-employment benefits (i)	Total Accumulated other comprehensive loss
<b>Balances at December 31, 2019</b>	\$ (511,445)	\$ (7,520)	\$ (540)	\$ (519,505)
Other comprehensive (loss) income before reclassifications (Unaudited)	(100,577)	62,519	—	(38,058)
Net (income) loss reclassified from accumulated other comprehensive loss to consolidated statement of income (Unaudited)	—	(47,628)	59	(47,569)
Net current-period other comprehensive income (loss) (Unaudited)	(100,577)	14,891	59	(85,627)
<b>Balances at March 31, 2020 (Unaudited)</b>	<b>\$ (612,022)</b>	<b>\$ 7,371</b>	<b>\$ (481)</b>	<b>\$ (605,132)</b>

The following table sets forth information with respect to the components of "Accumulated other comprehensive loss" as of March 31, 2019 and their related activity during the three-month period then ended:

	Foreign currency translation	Cash flow hedges	Post-employment benefits (i)	Total Accumulated other comprehensive loss
<b>Balances at December 31, 2018</b>	\$ (499,277)	\$ (1,640)	\$ (1,349)	\$ (502,266)
Other comprehensive loss before reclassifications (Unaudited)	(2,473)	(1,377)	—	(3,850)
Net (loss) gain reclassified from accumulated other comprehensive loss (income) to consolidated statement of income (Unaudited)	—	(326)	216	(110)
Net current-period other comprehensive (loss) income (Unaudited)	(2,473)	(1,703)	216	(3,960)
<b>Balances at March 31, 2019 (Unaudited)</b>	<b>\$ (501,750)</b>	<b>\$ (3,343)</b>	<b>\$ (1,133)</b>	<b>\$ (506,226)</b>

- (i) Mainly 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.

# Arcos Dorados Holdings Inc.

## Notes to the Condensed Consolidated Financial Statements

For the three-month periods ended March 31, 2020 and 2019 (Unaudited)

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### 11. (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 (loss) income per common share attributable to Arcos Dorados Holdings Inc. for all periods presented:

	For the three-month periods ended	
	March 31,	
	2020	2019
	(Unaudited)	(Unaudited)
Net (loss) income attributable to Arcos Dorados Holdings Inc. available to common shareholders	\$ (52,332)	\$ 12,165
Weighted-average number of common shares outstanding - Basic	204,070,029	204,035,213
Incremental shares from assumed exercise of stock options (i)	—	—
Incremental shares from vesting of restricted share units	632,673	972,066
Weighted-average number of common shares outstanding - Diluted	204,702,702	205,007,279
<b>Basic net (loss) income per common share attributable to Arcos Dorados Holdings Inc.</b>	<b>\$ (0.26)</b>	<b>\$ 0.06</b>
<b>Diluted net (loss) income per common share attributable to Arcos Dorados Holdings Inc.</b>	<b>\$ (0.26)</b>	<b>\$ 0.06</b>

- (i) Options to purchase shares of common stock were outstanding during the three-month periods ended March 31, 2020 and 2019. See Note 7 for details. These options were not included in the computation of diluted earnings per share because their inclusion would have been anti-dilutive.

### 12. 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, Ecuador, Mexico, Peru, Uruguay and Venezuela (the "Axionlog Business"). Pursuant to this agreement Axionlog provides the Company distribution inventory, storage and transportation services in the countries in which it operates.

The following table summarizes the outstanding balances between the Company and the Axionlog Business as of March 31, 2020 and December 31, 2019:

## Arcos Dorados Holdings Inc.

### Notes to the Condensed Consolidated Financial Statements

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#### 12. Related party transactions (continued)

	As of	
	March 31, 2020 (Unaudited)	December 31, 2019
Accounts and notes receivable, net	\$ 200	\$ 177
Other receivables	1,952	2,201
Miscellaneous	3,437	3,719
Accounts payable	(3,271)	(8,747)

The following table summarizes the transactions between the Company and the Axionlog Business for the three-month periods ended March 31, 2020 and 2019:

	For the three-month periods ended March 31,	
	2020 (Unaudited)	2019 (Unaudited)
Food and paper (i)	\$ (40,256)	\$ (45,015)
Occupancy and other operating expenses	(1,175)	(3,223)

- (i) Includes \$8,530 of distribution fees and \$31,713 of suppliers purchases managed through the Axionlog Business for the three-month period ended March 31, 2020; and, \$9,754 and \$35,261, respectively, for the three-month period ended March 31, 2019.

As of March 31, 2020 and December 31, 2019, the Company had other receivables totaling \$1,894 and \$2,325, respectively, and accounts payable with Lacoop, A.C. and Lacoop II, S.C. totaling \$427 and \$nil, respectively.

#### 13. 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 Venezuelan Bolívars (VEF or VES), held by its Venezuelan subsidiaries remains available for use within this jurisdiction and is not restricted. The official exchange rate is established by the Central Bank of Venezuela.

Since February 2013, the Venezuelan government has announced several changes in the currency exchange regulations. The last modification was in February 2018, when the Venezuelan government announced the unification of the formerly exchange rate systems into a sole foreign exchange mechanism called DICOM. The unified system operates through an auction mechanism.

Revenues and operating (loss) of the Venezuelan operations were \$1,597 and \$(1,843), respectively, for the three-month period ended March 31, 2020; and \$3,056 and \$(1,660), respectively, for the three-month period ended March 31, 2019.

As of March 31, 2020, the Company did not have a material monetary position, which would be subject to remeasurement in the event of further changes in the exchange rate. In addition, Venezuela's non-monetary assets were \$13.2 million (mainly fixed assets).

# Arcos Dorados Holdings Inc.

## Notes to the Condensed Consolidated Financial Statements

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### 13. Venezuela operations (continued)

In addition to exchange controls, the Venezuelan market is subject to price controls. 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 three-month period ended March 31, 2020.

The Company's Venezuelan operations, 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.

### 14. Leases

The Company leases locations through ground leases (the Company leases the land and owns the building) and through improved leases (the Company leases land and buildings). The operating leases are mainly related to restaurant and dessert center locations. The average of lease's terms is about 15 years and, in many cases, include renewal options provided by the agreement or government's regulations, as there are reasonably certain to be exercised. Typically, renewal options are considered reasonably assured of being exercised if the associated asset lives of the building or leasehold improvements exceed the initial lease term, and the sales performance of the restaurant remains strong. Therefore, its associated payments are included in the measurement of the right-of-use asset and lease liability. Although, certain leases contain purchase options, is not reasonably certain that the Company will exercise them. In addition, many agreements include escalations amounts that vary by reporting unit, for example, including fixed-rent escalations, escalations based on an inflation index, and fair value adjustments. According to rental terms, the Company pays monthly rent based on the greater of a fixed rent or a certain percentage of the Company's gross sales. The lease agreements do not contain any material residual value guarantees or material restrictive covenants. Furthermore, the Company is the lessee under non-cancelable leases covering certain offices and warehouses.

The right-of-use assets and lease liabilities were recognized at the commencement date based on the present value of the remaining future minimum lease payments, which include options that are reasonably assured of being exercised. As the interest rate implicit in the Company's leases was not readily determinable, the Company utilizes its incremental borrowing rate to discount the lease payments. The Company has elected not to separate non-lease components from lease components in its lessee portfolio. For most locations, the Company is obliged for the related occupancy costs, such as maintenance.

In addition, 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. On December 22, 2017, the Company signed an amendment, extending the term of the aircraft operating lease for an additional 10 years, with quarterly payments (retroactively effective as of December 5, 2017) of \$442.

In order to mitigate the negative impact of COVID-19 on its financial results, the Company is currently renegotiating terms and conditions with several lessors. Although as of March 31, 2020, the negotiations were not concluded, the Company does not expect to evaluate whether the potential concessions provided by the lessors are lease modifications under ASU No. 2016-02, Leases (Topic 842) according to the interpretive guidance issued by the FASB staff in April 2020.

At March 31, 2020, maturities of lease liabilities under existing operating leases are:

# Arcos Dorados Holdings Inc.

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### 14. Leases (continued)

	Restaurant	Other	Total (i)
2020 (remaining nine month)	\$ 92,192	\$ 4,812	\$ 97,004
2021	116,955	5,108	122,063
2022	111,271	3,730	115,001
2023	107,092	2,874	109,966
2024	103,617	2,736	106,353
Thereafter	846,650	10,150	856,800
<b>Total lease payments</b>	<b>\$ 1,377,777</b>	<b>\$ 29,410</b>	<b>\$ 1,407,187</b>
<b>Lease discount</b>			<b>\$ (616,439)</b>
<b>Operating lease liabilities</b>			<b>\$ 790,748</b>

- (i) The Company has certain leases subject to index adjustments. Historically, the Company has calculated and disclosed future minimum payments for these leases using the inflation index rate as of the end of the reporting period. As part of the adoption of ASC 842, the Company used the effective index rate at transition date in its disclosure and calculation of the lease liability. However, for leases entered into after January 1, 2019, the inflation index rate will be used to calculate the lease liability only when a lease modification occurs.

The Company maintains a few finance leases agreements, previously classified as capital leases. As of March 31, 2020 and December 31, 2019 the obligation amounts to \$4,366 and \$5,419, respectively, included within “Long-term debt” in the Consolidated Balance Sheet.

As a lessor, the Company subleases locations to franchisees. Individual franchisee arrangements include a continuing rent based upon a percentage of sales with minimum rent payments.

The following table is a summary of the Company’s components of lease cost for the three-month periods ended March 31, 2020 and 2019:

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### 14. Leases (continued)

Lease Expense	Statements of Income Location	For the three-month periods ended March 31,	
		2020 (Unaudited)	2019 (Unaudited)
<b>Operating lease expense - Minimum rentals:</b>			
Company-operated restaurants	Occupancy and other operating expenses	\$ (22,914)	\$ (26,700)
Franchised restaurants	Franchised restaurants - occupancy expenses	(6,895)	(8,591)
General and administrative	General and administrative expenses	(2,001)	(1,986)
<b>Subtotal</b>		<b>\$ (31,810)</b>	<b>\$ (37,277)</b>
<b>Variable lease expense - Contingent rentals based on sales:</b>			
Company-operated restaurants	Occupancy and other operating expenses	(8,932)	(7,172)
Franchised restaurants	Franchised restaurants - occupancy expenses	(4,217)	(3,161)
<b>Subtotal</b>		<b>\$ (13,149)</b>	<b>\$ (10,333)</b>
<b>Total lease expense</b>		<b>\$ (44,959)</b>	<b>\$ (47,610)</b>

Other information	As of March 31, 2020 (Unaudited)
<b>Weighted-average remaining lease term (years)</b>	
Operating leases	8
<b>Weighted-average discount rate</b>	
Operating leases	6.6%

### 15. 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:

# Arcos Dorados Holdings Inc.

## Notes to the Condensed Consolidated Financial Statements

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### 15. Disclosures about fair value of financial instruments (continued)

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.

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 March 31, 2020 and December 31, 2019:

# Arcos Dorados Holdings Inc.

## Notes to the Condensed Consolidated Financial Statements

For the three-month periods ended March 31, 2020 and 2019 (Unaudited)

Amounts in thousands of US dollars, except for share data and as otherwise indicated

### 15. Disclosures about fair value of financial instruments (continued)

	Quoted Prices in Active Markets For Identical Assets (Level 1)		Significant Other Observable Inputs (Level 2)		Significant Unobservable Inputs (Level 3)		Balance as of March 31, 2020 (Unaudited)	Balance as of December 31, 2019
	As of March 31, 2020 (Unaudited)	As of December 31, 2019	As of March 31, 2020 (Unaudited)	As of December 31, 2019	As of March 31, 2020 (Unaudited)	As of December 31, 2019		
<b>Assets</b>								
Cash equivalents	\$ 85,010	\$ 49,038	\$ —	\$ —	\$ —	\$ —	\$ 85,010	\$ 49,038
Short-term								
Investments	\$ 24	\$ 25	\$ —	\$ —	\$ —	\$ —	\$ 24	\$ 25
Derivatives	\$ —	\$ —	\$ 116,379	\$ 58,107	\$ —	\$ —	\$ 116,379	\$ 58,107
<b>Total Assets</b>	<b>\$ 85,034</b>	<b>\$ 49,063</b>	<b>\$ 116,379</b>	<b>\$ 58,107</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 201,413</b>	<b>\$ 107,170</b>
<b>Liabilities</b>								
Derivatives	\$ —	\$ —	\$ 3,503	\$ 14,037	\$ —	\$ —	\$ 3,503	\$ 14,037
<b>Total Liabilities</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 3,503</b>	<b>\$ 14,037</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 3,503</b>	<b>\$ 14,037</b>

The derivative contracts were valued using various pricing models or discounted cash flow analyses that incorporate observable market parameters, such as interest rate yield curves, option volatilities and currency rates that were observable for substantially the full term of the derivative contracts.

#### Certain financial assets and liabilities not measured at fair value

At March 31, 2020, the fair value of the Company's short-term and long-term debt was estimated at \$663,278, compared to a carrying amount of \$766,558. 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 notes receivable approximates fair value.

#### 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 March 31, 2020, no material fair value adjustments or fair value measurements were required for non-financial assets or liabilities.

### 16. Subsequent events

On April 10, 2020 the Company paid the first cash dividend installment disclosed in Note 10 amounting to \$10.2 million.