MERCADOLIBRE INC
Form 10-Q
May 03, 2019
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2019

-OR-

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission file number 001-33647

MercadoLibre, Inc.

(Exact name of Registrant as specified in its Charter)

| | |
|---|---|
| Delaware | 98-0212790 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification Number) |

Arias 3751, 7th Floor

Buenos Aires, Argentina, C1430CRG

(Address of registrant's principal executive offices)

(+5411) 4640-8000

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files. Yes No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See definition of "large accelerated filer", "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act:

| | |
|---|---|
| Large accelerated filer | Accelerated filer |
| Non-accelerated filer | Smaller reporting company |
| | Emerging growth company |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

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

| Title of Class | Trading Symbol(s) | Name of each exchange on which registered |
|---|---|---|
| Common Stock, $0.001 par value per share | MELI | Nasdaq Global Select Market |

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

49,318,513 shares of the issuer's common stock, $0.001 par value, outstanding as of May 1, 2019.

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Interim Condensed Consolidated Financial Statements

as of March 31, 2019 and December 31, 2018

and for the three-month periods

ended March 31, 2019 and 2018

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MercadoLibre, Inc.

Interim Condensed Consolidated Balance Sheets

As of March 31, 2019 and December 31, 2018

(In thousands of U.S. dollars, except par value)

(Unaudited)

| | March 31, 2019 | | December 31, 2018 | |
|---|---|---|---|---|
| Assets | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | $ | 1,295,886 | $ | 440,332 |
| Restricted cash and cash equivalents | 10,375 | | 24,363 | |
| Short-term investments (238,029 and 284,317 held in guarantee) | 1,648,457 | | 461,541 | |
| Accounts receivable, net | 34,524 | | 35,153 | |
| Credit cards receivable, net | 308,468 | | 360,298 | |
| Loans receivable, net | 134,640 | | 95,778 | |
| Prepaid expenses | 24,132 | | 27,477 | |
| Inventory | 3,003 | | 4,612 | |
| Other assets | 60,968 | | 61,569 | |
| Total current assets | 3,520,453 | | 1,511,123 | |
| Non-current assets: | | | | |
| Long-term investments | 275,432 | | 276,136 | |
| Property and equipment, net | 188,956 | | 165,614 | |
| Operating lease right-of-use assets | 153,499 | | — | |
| Goodwill | 89,827 | | 88,883 | |
| Intangible assets, net | 17,683 | | 18,581 | |
| Deferred tax assets | 160,846 | | 141,438 | |
| Other assets | 41,464 | | 37,744 | |
| Total non-current assets | 927,707 | | 728,396 | |
| Total assets | $ | 4,448,160 | $ | 2,239,519 |
| Liabilities | | | | |
| Current liabilities: | | | | |
| Accounts payable and accrued expenses | $ | 246,767 | $ | 266,759 |
| Funds payable to customers | 680,746 | | 640,954 | |
| Salaries and social security payable | 76,123 | | 60,406 | |
| Taxes payable | 34,414 | | 31,058 | |
| Loans payable and other financial liabilities | 141,162 | | 132,949 | |
| Operating lease liabilities | 12,585 | | — | |

| | | | | |
|---|---|---|---|---|
| Other liabilities | 56,418 | | 34,098 | |
| Total current liabilities | 1,248,215 | | 1,166,224 | |
| Non-current liabilities: | | | | |
| Salaries and social security payable | 31,827 | | 23,161 | |
| Loans payable and other financial liabilities | 602,061 | | 602,228 | |
| Operating lease liabilities | 143,047 | | — | |
| Deferred tax liabilities | 97,006 | | 91,698 | |
| Other liabilities | 13,258 | | 19,508 | |
| Total non-current liabilities | 887,199 | | 736,595 | |
| Total liabilities | $ | 2,135,414 | $ | 1,902,819 |
| Redeemable convertible preferred stock, $0.001 par value, 40,000,000 shares authorized, 100,000 shares issued and outstanding at March 31, 2019 (Note 10) | $ | 98,688 | $ | — |
| Equity | | | | |
| Common stock, $0.001 par value, 110,000,000 shares authorized, 49,318,498 and 45,202,859 shares issued and outstanding at March 31, 2019 and December 31, 2018 | $ | 49 | $ | 45 |
| Additional paid-in capital | 2,097,142 | | 224,800 | |
| Retained earnings | 509,455 | | 503,432 | |
| Accumulated other comprehensive loss | (392,588) | | (391,577) | |
| Total Equity | 2,214,058 | | 336,700 | |
| Total Liabilities, Redeemable convertible preferred stock and Equity | $ | 4,448,160 | $ | 2,239,519 |

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

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MercadoLibre, Inc.

Interim Condensed Consolidated Statements of Income

For the three-month periods ended March 31, 2019 and 2018

(In thousands of U.S. dollars, except for share data)

(Unaudited)

| | Three Months Ended March 31, | | | |
|---|---|---|---|---|
| | 2019 | | 2018 | |
| Net revenues | $ | 473,770 | $ | 320,976 |
| Cost of net revenues | (236,766) | | (158,218) | |
| Gross profit | 237,004 | | 162,758 | |
| Operating expenses: | | | | |
| Product and technology development | (52,369) | | (38,396) | |
| Sales and marketing | (130,676) | | (110,723) | |
| General and administrative | (43,820) | | (43,058) | |
| Total operating expenses | (226,865) | | (192,177) | |
| Income (loss) from operations | 10,139 | | (29,419) | |
| Other income (expenses): | | | | |
| Interest income and other financial gains | 24,444 | | 9,195 | |
| Interest expense and other financial losses | (15,559) | | (10,734) | |
| Foreign currency (losses) gains | (3,669) | | 5,601 | |
| Net income (loss) before income tax (expense) gain | 15,355 | | (25,357) | |
| Income tax (expense) gain | (3,491) | | 12,438 | |
| Net income (loss) | $ | 11,864 | $ | (12,919) |

| | Three Months Ended March 31, | | | |
|---|---|---|---|---|
| | 2019 | | 2018 | |
| Basic EPS | | | | |
| Basic net income (loss) | | | | |
| Available to shareholders per common share | $ | 0.13 | $ | (0.29) |

| | | | | |
|---|---|---|---|---|
| Weighted average of outstanding common shares | 45,980,255 | | 44,157,364 | |
| Diluted EPS | | | | |
| Diluted net income (loss) | | | | |
| Available to shareholders per common share | $ | 0.13 | $ | (0.29) |
| Weighted average of outstanding common shares | 45,980,255 | | 44,157,364 | |

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

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MercadoLibre, Inc.

Interim Condensed Consolidated Statements of Comprehensive Income

For the three-month periods ended March 31, 2019 and 2018

(In thousands of U.S. dollars)

(Unaudited)

| | Three Months Ended March 31, | | | |
|---|---|---|---|---|
| | 2019 | | 2018 | |
| Net income (loss) | $ | 11,864 | $ | (12,919) |
| Other comprehensive income (loss), net of income tax: | | | | |
| Currency translation adjustment | (294) | | (15,573) | |
| Unrealized net gains (losses) on available for sale investments | 2,012 | | (24) | |
| Less: Reclassification adjustment for gains from accumulated other comprehensive income | 2,729 | | 796 | |
| Net change in accumulated other comprehensive loss, net of income tax | (1,011) | | (16,393) | |
| Total Comprehensive income (loss) | $ | 10,853 | $ | (29,312) |

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

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MercadoLibre, Inc.

Interim Condensed Consolidated Statements of Equity

For the three-month periods ended March 31, 2019 and 2018

(In thousands of U.S. dollars)

(Unaudited)

| | Common stock Shares | Amount | Additional paid-in capital | Retained Earnings | Accumulated other comprehensive loss | Total Equity |
|---|---|---|---|---|---|---|
| Balance as of December 31, 2018 | 45,203 | $ 45 | $ 224,800 | $ 503,432 | $ (391,577) | $ 336,700 |
| Common Stock issued | 4,116 | 4 | 1,866,496 | — | — | 1,866,500 |
| Exercise of convertible notes | — | — | 2 | — | — | 2 |
| Unwind Capped Call | — | — | 3 | — | — | 3 |
| Net income | — | — | — | 11,864 | — | 11,864 |
| Amortization of Preferred Stock discount | — | — | 5,841 | (5,841) | — | — |
| Other comprehensive loss | — | — | — | — | (1,011) | (1,011) |
| Balance as of March 31, 2019 | 49,319 | $ 49 | $ 2,097,142 | $ 509,455 | $ (392,588) | $ 2,214,058 |

| | Common stock Shares | Amount | Additional paid-in capital | Retained Earnings | Accumulated other comprehensive loss | Total Equity |
|---|---|---|---|---|---|---|
| Balance as of December 31, 2017 | 44,157 | $ 44 | $ 70,661 | $ 537,925 | $ (282,851) | $ 325,779 |
| Capped Call | — | — | (45,692) | — | — | (45,692) |

| | | | | | | |
|---|---|---|---|---|---|---|
| Changes in accounting Standards | — | — | — | 2,092 | — | 2,092 |
| Net loss | — | — | — | (12,919) | — | (12,919) |
| Other comprehensive loss | — | — | — | — | (16,393) | (16,393) |
| Balance as of March 31, 2018 | 44,157 | $ 44 | $ 24,969 | $ 527,098 | $ (299,244) | $ 252,867 |

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

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MercadoLibre, Inc.

Interim Condensed Consolidated Statements of Cash Flow

For the three-month periods ended March 31, 2019 and 2018

(In thousands of U.S. dollars)

(Unaudited)

| | Three Months Ended March 31, 2019 | 2018 |
|---|---|---|
| Cash flows from operations: | | |
| Net income (loss) | $ 11,864 | $ (12,919) |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | |
| Unrealized devaluation loss, net | 1,886 | — |
| Depreciation and amortization | 15,694 | 11,084 |
| Accrued interest | (8,699) | (4,447) |
| Non cash interest and convertible notes amortization of debt discount and amortization of debt issuance costs | 3,018 | 7,063 |
| LTRP accrued compensation | 13,441 | 15,737 |
| Deferred income taxes | (14,456) | (30,601) |
| Changes in assets and liabilities: | | |
| Accounts receivable | 337 | (9,347) |
| Credit card receivables | 35,893 | (33,870) |
| Prepaid expenses | 3,316 | (16,164) |
| Inventory | 1,652 | (872) |
| Other assets | (5,085) | (13,009) |
| Accounts payable and accrued expenses | (491) | 22,773 |
| Funds payable to customers | 63,730 | 20,613 |
| Other liabilities | 12,735 | 3,041 |
| Interest received from investments | 3,536 | 3,912 |
| Net cash provided by (used in) operating activities | 138,371 | (37,006) |
| Cash flows from investing activities: | | |
| Purchase of investments | (1,624,226) | (632,734) |
| Proceeds from sale and maturity of investments | 439,712 | 683,909 |
| Purchases of intangible assets | (34) | (97) |
| Advance for property and equipment | — | (3,390) |
| Changes in principal of loans receivable, net | (42,609) | (52,243) |
| Purchases of property and equipment | (32,928) | (19,542) |

| | | |
|---|---|---|
| Net cash used in investing activities | (1,260,085) | (24,097) |
| Cash flows from financing activities: | | |
| Purchase of convertible note capped call | — | (45,692) |
| Proceeds from loans payable and other financial liabilities | 33,977 | 80,925 |
| Payments on loans payable and other financing liabilities | (23,816) | (4,583) |
| Payment of finance lease obligations | (662) | — |
| Dividends paid | — | (6,624) |
| Proceeds from issuance of convertible redeemable preferred stock, net | 98,688 | — |
| Proceeds from issuance of common stock, net | 1,866,500 | — |
| Net cash provided by financing activities | 1,974,687 | 24,026 |
| Effect of exchange rate changes on cash, cash equivalents, restricted cash and cash equivalents | (11,407) | (772) |
| Net increase (decrease) in cash, cash equivalents, restricted cash and cash equivalents | 841,566 | (37,849) |
| Cash, cash equivalents, restricted cash and cash equivalents, beginning of the period | $ 464,695 | $ 388,260 |
| Cash, cash equivalents, restricted cash and cash equivalents, end of the period | $ 1,306,261 | $ 350,411 |

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

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## 1. Nature of Business

MercadoLibre, Inc. (“MercadoLibre” or the “Company”) was incorporated in the state of Delaware, in the United States of America in October 1999. MercadoLibre is the largest online commerce ecosystem in Latin America, serving as an integrated regional platform and as a provider of the necessary online and technology-based tools that allow businesses and individuals to trade products and services in the region. The Company enables commerce through its marketplace platform (including online classifieds for motor vehicles, vessels, aircraft, services and real estate), which allows users to buy and sell in most of Latin America.

Through Mercado Pago, the Company’s FinTech solution, MercadoLibre enables individuals and businesses to send and receive online payments; through Mercado Envios, MercadoLibre facilitates the shipping of goods from sellers to buyers; through our advertising products, MercadoLibre facilitates advertising services for large retailers and brands to promote their product and services on the web; through MercadoShops, MercadoLibre allows users to set-up, manage, and promote their own on-line web-stores under a subscription-based business model; through MercadoCredito, MercadoLibre extends loans to certain merchants and consumers; and through MercadoFondo, MercadoLibre allows users to invest funds deposited in their Mercado Pago accounts. In addition, MercadoLibre develops and sells software enterprise solutions to e-commerce business clients in Brazil.

As of March 31, 2019, MercadoLibre, through its wholly-owned subsidiaries, operated online ecommerce platforms directed towards Argentina, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Peru, Mexico, Panama, Honduras, Nicaragua, El Salvador, Uruguay, Bolivia, Guatemala, Paraguay and Venezuela. Additionally, MercadoLibre operates an online payments solution in Argentina, Brazil, Mexico, Colombia, Chile, Peru and Uruguay. It also offers a shipping solution directed towards Argentina, Brazil, Mexico, Colombia, Chile and Uruguay. In addition, the Company operates a real estate classified platform that covers some areas of State of Florida, in the United States of America.

## 2. Summary of significant accounting policies

### Basis of presentation

The accompanying unaudited interim condensed consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) and include the accounts of the Company, its wholly-owned subsidiaries and consolidated Variable Interest Entities (“VIE”). These interim condensed consolidated financial statements are stated in U.S. dollars, except where otherwise indicated. Intercompany transactions and balances with subsidiaries have been eliminated for consolidation purposes.

Substantially all net revenues, cost of net revenues and operating expenses are generated in the Company’s foreign operations. Long-lived assets, intangible assets and goodwill located in the foreign jurisdictions totaled $294,120 thousands and $270,073 thousands as of March 31, 2019 and December 31, 2018, respectively.

These interim condensed consolidated financial statements reflect the Company’s consolidated financial position as of March 31, 2019 and December 31, 2018. These financial statements include the Company’s consolidated statements of income, comprehensive income, equity and of cash flows for the three-month periods ended March 31, 2019 and

2018. These interim condensed consolidated financial statements include all normal recurring adjustments that Management believes are necessary to fairly state the Company's financial position, operating results and cash flows.

Because all of the disclosures required by U.S. GAAP for annual consolidated financial statements are not included herein, these unaudited interim condensed financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto for the year ended December 31, 2018, contained in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission ("SEC"). The condensed consolidated statements of income, comprehensive income, equity and cash flows for the periods presented herein are not necessarily indicative of results expected for any future period. For a more detailed discussion of the Company's significant accounting policies, see note 2 to the financial statements in the Company's Form 10-K for the year ended December 31, 2018. During the three-month period ended March 31, 2019, there were no material updates made to the Company's significant accounting policies, except for the adoption of ASC 842 and the investments fair value option as of January 1, 2019. See Note 2 to these interim condensed consolidated financial statements for more details.

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Cash and cash equivalents

Cash, cash equivalents and restricted cash and cash equivalents of $1,306,261 thousands and $464,695 thousands as reported in the consolidated statements of cash flow as of March 31, 2019 and December 31, 2018, respectively, is the sum of $1,295,886 thousands and $10,375 thousands as of March 31, 2019 and the sum of $440,332 thousands and $24,363 thousands as of December 31, 2018 shown in lines Cash and cash equivalents and Restricted cash and cash equivalents of the consolidated balance sheet.

Revenue recognition

Revenue recognition criteria for the services mentioned above are described in note 2 to the consolidated financial statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2018.

Contract Balances

Timing of revenue recognition may differ from the timing of invoicing to customers. Receivables represent amounts invoiced and revenue recognized prior to invoicing when the Company has satisfied the performance obligation and has the unconditional right to payment. The allowance for doubtful accounts, loans receivable and chargebacks is estimated based upon our assessment of various factors including historical experience, the age of the accounts receivable balances, current economic conditions and other factors that may affect our customers' ability to pay. The allowance for doubtful accounts, loans receivable and chargebacks was $26,783 thousands and $23,411 thousands as of March 31, 2019 and December 31, 2018, respectively.

Deferred revenue consists of fees received related to unsatisfied performance obligations at the end of the period in accordance with ASC 606. Due to the generally short-term duration of contracts, the majority of the performance obligations are satisfied in the following reporting period. Deferred revenue as of December 31, 2018 and 2017 was $5,918 thousands and $6,116 thousands, respectively, of which $3,188 thousands and $4,316 thousands were recognized as revenue during the three-month periods ended March 31, 2019 and 2018, respectively.

As of March 31, 2019, total deferred revenue was $5,958 thousands, mainly due to fees related to listing and optional feature services billed and loyalty programs that are expected to be recognized as revenue in the coming months.

Leases

The Company determines if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use ("ROU") assets and operating lease liabilities in the consolidated balance sheets. ROU assets represent the Company's right to use an underlying asset for the lease term, which is a non-monetary asset, and lease liabilities represent the Company's obligation to make lease payments arising from the lease, which is a monetary liability. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As most of the leases do not provide an implicit rate, the Company uses incremental borrowing rates based on the information available at commencement date in determining the present value of lease payments. The operating lease ROU asset also includes any lease prepaid payments made. Lease expense for operating lease payments is recognized on a straight-line basis over the lease term.

According to transition guidance, finance leases that existed at December 31, 2018 are included in property and equipment, and loans payable and other financial liabilities in the consolidated balance sheets.

Foreign currency translation

All of the Company's consolidated foreign operations use the local currency as their functional currency, except for Argentina, which has used the U.S. dollar as its functional currency since July 1, 2018, as described below. Accordingly, the foreign subsidiaries with local currency as functional currency translate assets and liabilities from their local currencies into U.S. dollars by using year-end exchange rates while income and expense accounts are translated at the average monthly rates in effect during the year, unless exchange rates fluctuate significantly during the period, in which case the exchange rates at the date of the transaction are used. The resulting translation adjustment is recorded as a component of other comprehensive income (loss).

Argentine currency status

As of July 1, 2018, the Company transitioned its Argentinian operations to highly inflationary status in accordance with U.S. GAAP, and changed the functional currency for Argentine subsidiaries from Argentine Pesos to U.S. dollars, which is the functional currency of their immediate parent company.

Pursuant to the change in the functional currency, monetary assets and liabilities are remeasured at closing exchange rate, and non-monetary assets, revenues and expenses are remeasured at the rate prevailing on the date of the respective transaction. The effect of the re measurement is recognized as foreign currency (losses) gains.

Argentina is the second largest principal market of the Company's business, as measured by net revenue (see Note 5 – Segment Reporting). The economic environment in Argentina has been volatile with weak economic conditions, devaluation of local currency, high interest rates, high level of inflation and a large public deficit which led Argentina to request financial assistance from the International Monetary Fund.

Income tax

The Company is subject to U.S. and foreign income taxes. The Company accounts for income taxes following the liability method of accounting which requires the recognition of deferred tax liabilities and assets for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred tax assets are also recognized for tax loss carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets or liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is recorded when, based on the available evidence, it is more likely than not that all or a portion of the Company's deferred tax assets will not be realized. The Company's income tax expense consists of taxes currently payable, if any, plus the change during the period in the Company's deferred tax assets and liabilities.

On August 17, 2011, the Argentine government issued a new software development law and on September 9, 2013 the Argentine government issued a regulatory decree establishing the requirements to become a beneficiary of the new software development law, including a requirement to comply with annual incremental ratios related to exports of services and research and development. The new law will expire on December 31, 2019.

The Argentine Industry Secretary approved the Company's application for eligibility under the law for the Company's Argentine subsidiary, Mercadolibre S.R.L. As a result, the Company's Argentine subsidiary has been granted a tax holiday retroactive from September 18, 2014. A portion of the benefits obtained is a 60% relief of total income tax related to software development activities and a 70% relief of payroll taxes related to software development activities.

As a result of the Company's eligibility under the new law, it recorded an income tax benefit of $3,319 thousands and $7,299 thousands during the three-month periods ended March 31, 2019 and 2018, respectively. Aggregate per share effect of the Argentine tax holiday amounted to $0.07 and $0.17 for the three-month periods ended March 31, 2019 and 2018, respectively. Furthermore, the Company recorded a labor cost benefit of $2,396 thousands and $2,016 thousands during the three-month periods ended March 31, 2019 and 2018, respectively. Additionally, $400 thousands and $652 thousands were accrued to pay software development law audit fees during the first quarter of 2019 and 2018, respectively.

Redeemable Convertible Preferred Stock

On March 29, 2019 an affiliate of Dragoneer Investment Group purchased, in a private placement, 100,000 shares of perpetual convertible preferred stock designated as Series A Preferred Stock, par value $0.001 per share (the "Preferred Stock"), of the Company for $100 million in the aggregate.

The Company determined that the shares of Preferred Stock should be classified as mezzanine equity upon their issuance since they are contingently redeemable as explained in Note 10. The Company also determined that there is a beneficial conversion feature of $5,841 thousands attributable to the Preferred Stock because the initial conversion price was lower than the fair value of MercadoLibre’s common stock on March 29, 2019 (the commitment date). The beneficial conversion feature was fully amortized at issuance, increasing the Preferred Stock’s carrying amount, since the shares of Preferred Stock are perpetual and the holders of Preferred Stock have the right to convert immediately.

In addition, the Company determined that there were no embedded derivatives requiring bifurcation.

Fair value option applied to certain financial instruments

Under ASC 825, U.S. GAAP provides an option to elect fair value with impact on the statement of income as an alternative measurement for certain financial instruments and other items on the balance sheet.

The Company has elected to measure certain financial assets at fair value with impact on the statement of income from January 1, 2019 for several reasons including to avoid the mismatch generated by the recognition of certain linked instruments / transactions, separately, in consolidated statement of income and consolidated statement of other comprehensive income and to better reflect the financial model applied for selected instruments.

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The Company's election of the fair value option applies to the: i) Brazilian federal government bonds and ii) U.S. treasury notes. As result of the election of the fair value option, the Company recognized gains in interest income and other financial gains of $3,048 thousands for the period ended March 31, 2019.

Accumulated other comprehensive loss

The following table sets forth the Company's accumulated other comprehensive loss as of March 31, 2019 and December 31, 2018:

| | March 31, 2019 (In thousands) | | December 31, 2018 | |
|---|---|---|---|---|
| Accumulated other comprehensive loss: | | | | |
| Foreign currency translation | $ | (394,600) | $ | (394,306) |
| Unrealized gains on investments | 2,025 | | 3,345 | |
| Estimated tax loss on unrealized gains on investments | (13) | | (616) | |
| | $ | (392,588) | $ | (391,577) |

The following tables summarize the changes in accumulated balances of other comprehensive loss for the three-month period ended March 31, 2019:

| | Unrealized (Losses) Gains on Investments (In thousands) | | Foreign Currency Translation | | Estimated tax (expense) benefit | | Total | |
|---|---|---|---|---|---|---|---|---|
| Balances as of December 31, 2018 | $ | 3,345 | $ | (394,306) | $ | (616) | $ | (391,577) |
| Other comprehensive income (loss) before reclassifications | 2,025 | | (294) | | (13) | | 1,718 | |
| Amount of loss (gain) reclassified from accumulated other comprehensive loss | (3,345) | | — | | 616 | | (2,729) | |
| Net current period other comprehensive income | (1,320) | | (294) | | 603 | | (1,011) | |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| (loss) | | | | | | | | |
| Ending balance | $ | 2,025 | $ | (394,600) | $ | (13) | $ | (392,588) |

| Details about Accumulated Other Comprehensive Loss Components | Amount of (Loss) Gain Reclassified from Accumulated Other Comprehensive Loss (In thousands) | | Affected Line Item in the Statement of Income |
|---|---|---|---|
| Unrealized gains on investments | $ | 3,345 | Interest income and other financial gains |
| Estimated tax gain on unrealized losses on investments | (616) | | Income tax loss |
| Total reclassifications for the period | $ | 2,729 | Total, net of income taxes |

Use of estimates

The preparation of interim condensed consolidated financial statements in conformity with U.S. GAAP 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 period. Estimates are used for, but not limited to, accounting for allowances for doubtful accounts and chargeback provisions, allowance for loans receivables, recoverability of goodwill, intangible assets with indefinite useful lives and tax loss carryforwards, impairment of short-term and long-term investments, impairment of long-lived assets, compensation costs relating to the Company’s long term retention plan, fair value of convertible debt, fair value of investments, recognition of income taxes and contingencies and determination of the incremental borrowing rate at commencement date of lease operating agreements. Actual results could differ from those estimates.

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Recently Adopted Accounting Standards

In February 2016, the FASB issued a new standard related to leases to increase transparency and comparability among organizations by requiring the recognition of right-of-use (ROU) assets and lease liabilities on the balance sheet. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases under current U.S. GAAP. Leases are classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. Under the new standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

The guidance permits the use of a modified retrospective approach, which requires an entity to recognize and measure leases existing at, or entered into after, the beginning of the earliest comparative period presented. Alternatively, the guidance permits a “Comparatives Under 840 Option” that changes the date of initial application to the beginning of the period of adoption. The Company elected the Comparatives Under 840 Option in which it must apply ASC 840 to all comparative periods, including disclosures, and there were no effects of applying ASC 842 as a cumulative-effect adjustment to retained earnings as of January 1, 2019. The Company elected the package of practical expedients permitted under the transition guidance within the new standard, which among other things, allows to carryforward the historical lease classification. In addition, the Company elected certain practical expedients and accounting policies including the lessee practical expedient to not separate lease components. The Company also made an accounting policy election to keep leases with an initial term of 12 months or less off of the balance sheet. The Company recognizes those lease payments in the Consolidated Statements of Income on a straight-line basis over the lease term.

The standard had a material impact on the Company’s consolidated balance sheets. The most significant impact was the recognition of ROU assets and lease liabilities for operating leases, while the accounting for existing finance leases remains substantially unchanged.

Recently issued accounting pronouncements not yet adopted

On June 16, 2016 the FASB issued the ASU 2016-13 “Financial Instruments-Credit Losses (Topic 326): Measurement of credit losses on financial instruments”. This update amends guidance on reporting credit losses for assets held at amortized cost basis and available for sale debt securities. For assets held at amortized cost basis, this update eliminates the probable initial recognition threshold in current GAAP and, instead, requires an entity to reflect its current estimate of all expected credit losses. For available for sale debt securities, credit losses should be measured in a manner similar to current GAAP, however this topic will require that credit losses be presented as an allowance rather than as a write-down. The new standard is effective for fiscal years beginning after December 15, 2019. The Company is assessing the effects that the adoption of this accounting pronouncement may have on its financial statements.

On August 28, 2018 the FASB issued the ASU 2018-13 “Fair value measurement (Topic 820): Disclosure Framework—Changes to the disclosure requirements for fair value measurement”. This update modified the disclosure requirements on fair value measurements based on concepts in the FASB Concepts Statement. The amendments in this update are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The adoption of this standard is not expected to have a material impact on the Company’s financial statements.

On August 29, 2018 the FASB issued the ASU 2018-15 "Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40)". The amendments in this update align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The amendments require an entity (customer) in a hosting arrangement that is a service contract to follow the guidance in Subtopic 350-40 to determine which implementation costs to capitalize as an asset related to the service contract and which costs to expense. The amendments in this update are effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. The Company is assessing the effects that the adoption of this accounting pronouncement may have on its financial statements.

3. Net income (loss) per share

Basic earnings per share for the Company's common stock is computed by dividing, net income (loss) available to common shareholders attributable to common stock for the period by the weighted average number of common shares outstanding during the period.

On June 30, 2014, the Company issued $330 million of 2.25% Convertible Senior Notes due 2019 and on August 24, 2018 and August 31, 2018 the Company issued an aggregate principal amount of $880 million of 2.00% Convertible Senior Notes due 2028 (see Note 9 to these interim condensed consolidated financial statements). Additionally, on March 29, 2019 the Company issued Preferred Stock (see Note 2 and Note 10 to these interim condensed consolidated financial statements). The conversion of these notes and the Preferred Stock are included in the calculation for diluted earnings per share utilizing the "if converted" method. Accordingly, conversion of these Notes and the redeemable convertible preferred stock are not assumed for purposes of computing diluted earnings per share if the effect is antidilutive.

The denominator for diluted net income (loss) per share for the three-month periods ended March 31, 2019 and 2018 does not include any effect from the 2019 Notes Capped Call Transactions (as defined in Note 9) or the 2028 Notes Capped Call Transactions because it would be antidilutive. In the event of conversion of any or all of the 2019 Notes or the 2028 Notes, the shares that would be delivered to the Company under the Capped Call Transactions (as defined in Note 9) are designed to partially neutralize the dilutive effect of the shares that the Company would issue under the Notes. See Note 9 to these interim condensed consolidated financial statements and Note 17 of the financial statements as of December 31, 2018 on Form 10-K for more details. For the three-month periods ended March 31, 2019 and 2018, the effects of the Capped Call Transactions would have been antidilutive and, as a consequence, they were not factored into the calculation of diluted earnings per share.

Net income (loss) per share of common stock is as follows for the three-month periods ended March 31, 2019 and 2018:

| | Three Months Ended March 2019, | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2019 | | | | 2018 | | | |
| | (In thousands) | | | | | | | |
| | Basic | | Diluted | | Basic | | Diluted | |
| Net income (loss) per common share | $ | 0.13 | $ | 0.13 | $ | (0.29) | $ | (0.29) |

| | | | | |
|---|---|---|---|---|
| Numerator: | | | | |
| Net income (loss) | $ 11,864 | $ 11,864 | $ (12,919) | $ (12,919) |
| Amortization of redeemable convertible preferred stock | (5,841) | (5,841) | — | — |
| Net income (loss) corresponding to common stock | $ 6,023 | $ 6,023 | $ (12,919) | $ (12,919) |
| Denominator: | | | | |
| Weighted average of common stock outstanding for Basic earnings per share | 45,980,255 | — | 44,157,364 | — |
| Adjusted weighted average of common stock outstanding for Diluted earnings per share | — | 45,980,255 | — | 44,157,364 |

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4. Goodwill and intangible assets

The composition of goodwill and intangible assets is as follows:

| | March 31, 2019 (In thousands) | | December 31, 2018 | |
|---|---|---|---|---|
| Goodwill | $ | 89,827 | $ | 88,883 |
| Intangible assets with indefinite lives | | | | |
| - Trademarks | 8,733 | | 8,584 | |
| Amortizable intangible assets | | | | |
| - Licenses and others | 5,445 | | 5,406 | |
| - Non-compete agreement | 2,786 | | 3,028 | |
| - Customer list | 14,844 | | 14,897 | |
| - Trademarks | 4,676 | | 4,565 | |
| Total intangible assets | $ | 36,484 | $ | 36,480 |
| Accumulated amortization | (18,801) | | (17,899) | |
| Total intangible assets, net | $ | 17,683 | $ | 18,581 |

Goodwill

The changes in the carrying amount of goodwill for the three-month period ended March 31, 2019 and the year ended December 31, 2018 are as follows:

| | Period ended March 31, 2019 Brazil (In thousands) | | Argentina | | Mexico | | Chile | | C |
|---|---|---|---|---|---|---|---|---|---|
| Balance, beginning of the period | $ | 30,069 | $ | 6,946 | $ | 31,340 | $ | 16,014 | $ |
| Purchase price allocation adjustments | — | | 45 | | — | | — | | - |

| | | | | | |
|---|---|---|---|---|---|
| Effect of exchange rates changes | (145) | — | 567 | 392 | 7 |
| Balance, end of the period | $ 29,924 | $ 6,991 | $ 31,907 | $ 16,406 | $ |

| | Year ended December 31, 2018 | | | | |
|---|---|---|---|---|---|
| | Brazil | Argentina | Mexico | Chile | C |
| | (In thousands) | | | | |
| Balance, beginning of the year | $ 32,492 | $ 5,761 | $ 30,396 | $ 18,805 | $ |
| - Business acquisitions | 3,110 | 3,175 | 543 | 61 | 8 |
| - Effect of exchange rates changes | (5,533) | (1,990) | 401 | (2,852) | ( |
| Balance, end of the year | $ 30,069 | $ 6,946 | $ 31,340 | $ 16,014 | $ |

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Intangible assets with definite useful life

Intangible assets with definite useful life are comprised of customer lists, non-compete and non-solicitation agreements, acquired software licenses, and other acquired intangible assets including developed technologies and trademarks. Aggregate amortization expense for intangible assets totaled $1,230 thousands and $1,672 thousands for the three-month periods ended March 31, 2019 and 2018, respectively.

The following table summarizes the remaining amortization of intangible assets (in thousands of U.S. dollars) with definite useful life as of March 31, 2019:

| | | |
|---|---|---|
| For year ended 12/31/2019 | $ | 2,720 |
| For year ended 12/31/2020 | 2,383 | |
| For year ended 12/31/2021 | 1,815 | |
| For year ended 12/31/2022 | 1,083 | |
| Thereafter | 949 | |
| | $ | 8,950 |

5. Segment reporting

Reporting segments are based upon the Company's internal organizational structure, the manner in which the Company's operations are managed and resources are assigned, the criteria used by Management to evaluate the Company's performance, the availability of separate financial information and overall materiality considerations.

Segment reporting is based on geography as the main basis of segment breakdown in accordance with the criteria used for evaluation of the Company's performance as determined by Management. The Company's segments include Brazil, Argentina, Mexico and other countries (which includes Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Honduras, Nicaragua, El Salvador, Bolivia, Guatemala, Panama, Paraguay, Peru, Uruguay and the United States of America).

Direct contribution consists of net revenues from external customers less direct costs, which include costs of net revenues, product and technology development expenses, sales and marketing expenses and general and administrative expenses over which segment managers have direct discretionary control, such as advertising and marketing programs, customer support expenses, allowances for doubtful accounts, payroll and third-party fees. All corporate related costs have been excluded from the Company's direct contribution.

Expenses over which segment managers do not currently have discretionary control, such as certain technology and general and administrative costs are monitored by Management through shared cost centers and are not evaluated in the measurement of segment performance.

The following tables summarize the financial performance of the Company's reporting segments:

| | Three Months Ended March 31, 2019 | | | | |
|---|---|---|---|---|---|
| | Brazil | Argentina | Mexico | Other Countries | Total |
| | (In thousands) | | | | |
| Net revenues | $ 302,384 | $ 93,776 | $ 54,561 | $ 23,049 | $ 47 |
| Direct costs | (225,343) | (67,492) | (65,585) | (20,447) | (378,867) |
| Direct contribution | 77,041 | 26,284 | (11,024) | 2,602 | 94,903 |
| Operating expenses and indirect costs of net revenues | | | | | (84,764) |
| Income from operations | | | | | 10,139 |
| Other income (expenses): | | | | | |
| Interest income and other financial gains | | | | | 24,444 |
| Interest expense and other financial losses | | | | | (15,559) |
| Foreign currency losses | | | | | (3,669) |
| Net income before income tax expense | | | | | $ 1 |

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| | Three Months Ended March 31, 2018 | | | | |
|---|---|---|---|---|---|
| | Brazil | Argentina | Mexico | Other Countries | Total |
| | (In thousands) | | | | |
| Net revenues | $ 184,155 | $ 101,939 | $ 17,065 | $ 17,817 | $ |
| Direct costs | (176,980) | (57,295) | (26,323) | (17,272) | (277,870) |
| Direct contribution | 7,175 | 44,644 | (9,258) | 545 | 43,106 |
| Operating expenses and indirect costs of net revenues | | | | | (72,525) |
| Loss from operations | | | | | (29,419) |
| Other income (expenses): | | | | | |
| Interest income and other financial gains | | | | | 9,195 |
| Interest expense and other financial losses | | | | | (10,734) |
| Foreign currency gains | | | | | 5,601 |
| Net loss before income tax gains | | | | | $ |

The following table summarizes the allocation of property and equipment, net based on geography:

| | March 31, 2019 (In thousands) | | December 31, 2018 | |
|---|---|---|---|---|
| US property and equipment, net | $ | 2,313 | $ | 2,959 |
| Other countries | | | | |
| Argentina | 74,070 | | 58,358 | |
| Brazil | 83,717 | | 78,227 | |
| Mexico | 19,372 | | 16,497 | |
| Other countries | 9,484 | | 9,573 | |
| | $ | 186,643 | $ | 162,655 |
| Total property and equipment, net | $ | 188,956 | $ | 165,614 |

The following table summarizes the allocation of the goodwill and intangible assets based on geography:

| | March 31, 2019 (In thousands) | | December 31, 2018 | |
|---|---|---|---|---|
| US intangible assets | $ | 33 | $ | 46 |
| Other countries goodwill and intangible assets | | | | |
| Argentina | 8,607 | | 9,050 | |
| Brazil | 31,746 | | 32,955 | |
| Mexico | 36,222 | | 35,993 | |
| Chile | 25,678 | | 24,638 | |
| Other countries | 5,224 | | 4,782 | |
| | $ | 107,477 | $ | 107,418 |
| Total goodwill and intangible assets | $ | 107,510 | $ | 107,464 |

Consolidated net revenues by similar products and services for the three-month periods ended March 31, 2019 and 2018 were as follows:

| | Three months Ended March 31, | | | |
|---|---|---|---|---|
| Consolidated Net Revenues | 2019 (In thousands) | | 2018 | |
| Enhanced Marketplace (*) | $ | 253,035 | $ | 140,695 |
| Non-marketplace (**) (***) | 220,735 | | 180,281 | |
| Total | $ | 473,770 | $ | 320,976 |

(*) Includes Final Value Fees and Shipping fees.

(**) Includes, among other things, Ad Sales, Classified Fees, Payment Fees and other ancillary services.

(***) Includes $186,965 thousands and $144,763 thousands of Payment Fees for the three-month periods ended March 31, 2019 and 2018, respectively.

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6. Fair value measurement of assets and liabilities

The following table summarizes the Company’s financial assets and liabilities measured at fair value on a recurring basis as of March 31, 2019 and December 31, 2018:

| Description | Balances as of March 31, 2019 (In thousands) | Quoted Prices in active markets for identical Assets (Level 1) | Significant other observable inputs (Level 2) | Unobservable inputs (Level 3) |
|---|---|---|---|---|
| Assets | | | | |
| Cash and Cash Equivalents: | | | | |
| Money Market Funds | $ 239,269 | $ 239,269 | $ — | $ |
| Restricted Cash and cash equivalents: | | | | |
| Money Market Funds | 9,556 | 9,556 | — | |
| Investments: | | | | |
| Sovereign Debt Securities (Central Bank of Brazil mandatory guarantee) | 238,029 | 238,029 | — | — |
| Sovereign Debt Securities | 1,344,778 | 1,344,778 | — | — |
| Corporate Debt Securities | 255 | 245 | 10 | — |
| Total Financial Assets | $ 1,831,887 | $ 1,831,877 | $ 10 | $ |
| Liabilities: | | | | |
| | $ 2,170 | $ — | $ — | $ |

| | | | | |
|---|---|---|---|---|
| Contingent considerations | | | | |
| Long-term retention plan | 53,422 | — | 53,422 | — |
| Total Financial Liabilities | $ 55,592 | $ — | $ 53,422 | $ |

As of March 31, 2019 and December 31, 2018, the Company’s financial assets valued at fair value consisted of assets valued using i) Level 1 inputs: unadjusted quoted prices in active markets (Level 1 instrument valuations are obtained from observable inputs that reflect quoted prices (unadjusted) for identical assets in active markets); and ii) Level 2 inputs: obtained from readily-available pricing sources for comparable instruments as well as instruments with inactive markets at the measurement date.

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As of March 31, 2019 and December 31, 2018, the Company's liabilities were valued at fair value using Level 2 inputs and level 3 inputs (valuations based on unobservable inputs reflecting Company assumptions). Fair value of contingent considerations are determined based on the probability of achievement of the performance targets arising from each acquisition, as well as the Company's historical experience with similar arrangements. During the three-month period ended March 31, 2019, the Company assumed contingent considerations for an amount of $2,170 thousands.

The unrealized net gains or losses on short-term and long-term investments are reported as a component of other comprehensive income. The Company does not anticipate any significant realized losses associated with those investments in excess of the Company's historical cost.

As of March 31, 2019 and December 31, 2018, the carrying value of the Company's financial assets and liabilities measured at amortized cost approximated their fair value mainly because of their short-term maturity. These assets and liabilities included cash, cash equivalents, restricted cash and cash equivalents and short-term investments (excluding money markets funds and corporate debt security), accounts receivable, credit cards receivable, loans receivable, funds payable to customers, other assets, accounts payable, 2019 Notes (liability component), salaries and social security payable (excluding variable LTRP), taxes payable, provisions and other liabilities (excluding contingent considerations). The estimated fair value of the 2028 Notes (liability component), which is based on Level 2 inputs, is $593,905 thousands and was determined based on market interest rates. The rest of the loans payable and other financial liabilities and operating lease liabilities approximate their fair value because the effective interest rates are not materially different from market interest rates.

The following table summarizes the fair value level for those financial assets and liabilities of the Company measured at amortized cost as of March 31, 2019 and December 31, 2018:

| | Balances as of March 31, 2019 (In thousands) | Significant other observable inputs (Level 2) | Balances as of December 31, 2018 | Significant other observable inputs (Level 2) |
|---|---|---|---|---|
| Assets | | | | |
| Time Deposits | $ 337,637 | $ 337,637 | $ 20,056 | $ 20,056 |
| Accounts receivable | 34,524 | 34,524 | 35,153 | 35,153 |
| Credit Cards receivable | 308,468 | 308,468 | 360,298 | 360,298 |
| Loans receivable, net | 134,640 | 134,640 | 95,778 | 95,778 |
| Other assets | 105,622 | 105,622 | 102,753 | 102,753 |
| Total Assets | $ 920,891 | $ 920,891 | $ 614,038 | $ 614,038 |
| Liabilities | | | | |
| | $ 246,767 | $ 246,767 | $ 266,759 | $ 266,759 |

| | | | | |
|---|---|---|---|---|
| Accounts payable and accrued expenses | | | | |
| Funds payable to customers | 680,746 | 680,746 | 640,954 | 640,954 |
| Salaries and social security payable | 54,528 | 54,528 | 40,942 | 40,942 |
| Taxes payable | 34,414 | 34,414 | 31,058 | 31,058 |
| Operating lease liabilities | 155,632 | 155,632 | — | — |
| Loans payable and other financial liabilities (*) | 743,223 | 784,182 | 735,177 | 735,177 |
| Other liabilities | 67,506 | 67,506 | 51,509 | 51,509 |
| Total Liabilities | $ 1,982,816 | $ 2,023,775 | $ 1,766,399 | $ 1,766,399 |

(*) The fair value of the 2019 Notes and the 2028 Notes (including the equity component) are disclosed in Note 9.

As of March 31, 2019 and December 31, 2018, the Company held no direct investments in auction rate securities and does not have any non-financial assets or liabilities measured at fair value.

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As of March 31, 2019 and December 31, 2018, the fair value of money market funds, short and long-term investments classified as available for sale securities are as follows:

| | March 31, 2019 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Cost | | Gross Unrealized Gains (1) | | Gross Unrealized Losses (1) | | Financial Gains | | Estima |
| | (In thousands) | | | | | | | | |
| Cash and cash equivalents | | | | | | | | | |
| Money Market Funds | $ | 239,269 | $ | — | $ | — | $ | — | $ |
| Total Cash and cash equivalents | $ | 239,269 | $ | — | $ | — | $ | — | $ |
| Restricted cash and cash equivalents | | | | | | | | | |
| Money Market Funds | $ | 9,556 | $ | — | $ | — | $ | — | $ |
| Total Restricted cash and cash equivalents | $ | 9,556 | $ | — | $ | — | $ | — | $ |
| Short-term investments | | | | | | | | | |
| Sovereign Debt Securities (Central Bank of Brazil mandatory guarantee) | $ | 236,309 | $ | — | $ | — | $ | 1,720 | $ |

| | | | | | |
|---|---|---|---|---|---|
| (*) | | | | | |
| Sovereign Debt Securities (**) | 1,071,309 | 98 | — | 1,327 | 1,072,7 |
| Corporate Debt Securities | 57 | — | — | — | 57 |
| Total Short-term investments | $ 1,307,675 | $ 98 | $ — | $ 3,047 | $ |
| Long-term investments | | | | | |
| Sovereign Debt Securities | $ 270,206 | $ 1,837 | $ — | $ 1 | $ |
| Corporate Debt Securities | 197 | 2 | (1) | — | 198 |
| Total Long-term investments | $ 270,403 | $ 1,839 | $ (1) | $ 1 | $ |
| Total | $ 1,826,903 | $ 1,937 | $ (1) | $ 3,048 | $ |

(1) Unrealized gains (losses) from securities are attributable to market price movements, net foreign exchange losses and foreign currency translation. Management does not believe any remaining significant unrealized losses represent other-than-temporary impairments based on the evaluation of available evidence including the credit rating of the investments, as of March 31, 2019 and December 31, 2018.

(*) Brazilian government bonds measured at fair value with impact on the consolidated statement of income for the application of the fair value option. (See Note 2 – Investments fair value option)

(**) Includes $806,087 thousands of U.S treasury notes measured at fair value with impact on the consolidated statement of income for the application of the fair value option. (See Note 2 – Investments fair value option)

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| | December 31, 2018 | | | |
|---|---|---|---|---|
| | Cost | Gross Unrealized Gains (1) | Gross Unrealized Losses (1) | Estimated Fair Value |
| | (In thousands) | | | |
| Cash and cash equivalents | | | | |
| Money Market Funds | $ 179,252 | $ — | $ — | $ 179,252 |
| Total Cash and cash equivalents | $ 179,252 | $ — | $ — | $ 179,252 |
| | | | | |
| Restricted Cash and cash equivalents | | | | |
| Money Market Funds | $ 24,363 | $ — | $ — | $ 24,363 |
| Total Restricted Cash and cash equivalents | $ 24,363 | $ — | $ — | $ 24,363 |
| | | | | |
| Short-term investments | | | | |
| Sovereign Debt Securities (Central Bank of Brazil mandatory guarantee) | $ 282,752 | $ 1,565 | $ — | $ 284,317 |
| Sovereign Debt Securities | 156,910 | 237 | — | 157,147 |
| Corporate Debt Securities | 21 | — | — | 21 |
| Total Short-term investments | $ 439,683 | $ 1,802 | $ — | $ 441,485 |
| | | | | |
| Long-term investments | | | | |
| Sovereign Debt Securities | $ 271,024 | $ 1,431 | $ — | $ 272,455 |
| Corporate Debt Securities | 244 | — | (3) | 241 |
| Total Long-term investments | $ 271,268 | $ 1,431 | $ (3) | $ 272,696 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Total | $ | 914,566 | $ | 3,233 | $ | (3) | $ | 917,796 |

(1) Unrealized gains (losses) from securities are attributable to market price movements, net foreign exchange losses and foreign currency translation. Management does not believe any remaining significant unrealized losses represent other-than-temporary impairments based on the evaluation of available evidence including the credit rating of the investments, as of March 31, 2019 and December 31, 2018.

The material portion of the Sovereign Debt Securities consists of U.S. Treasury Notes, which carry no significant risk.

Sovereign Debt Securities (Central Bank of Brazil mandatory guarantee)

On November 1, 2018, the Company obtained the approval from the Central Bank of Brazil to operate as an authorized payment institution. With the authorization, MercadoPago in Brazil is subject to the supervision of the Central Bank of Brazil and must fully comply with all the obligations established in the current regulation. Among other obligations, the regulation requires authorized payment institutions to hold the balance available in the payment institution account in either in a specific account of Central Bank of Brazil that does not pay interest or in Brazilian federal government bonds registered with the "Sistema Especial de Liquidacao e Custodia". The percentage of the electronic currency that must be deposited was 100% and 80% as of March 31, 2019 and December 31, 2018, respectively. As of March 31, 2019 and December 31, 2018 and in accordance with the regulation, the Company held $238,029 thousands and $284,317 thousands deposited in Brazilian federal government bonds, respectively, as mandatory guarantee.

As of March 31, 2019, the estimated fair values (in thousands of U.S. dollars) of money market funds and short-term and long-term investments classified by their effective maturities are as follows:

| | | |
|---|---|---|
| One year or less | 1,559,645 | |
| One year to two years | 272,020 | |
| Two years to three years | 133 | |
| Three years to four years | 43 | |
| Four years to five years | 46 | |
| Total | $ | 1,831,887 |

7. Commitments and Contingencies

Litigation and Other Legal Matters

The Company is subject to certain contingent liabilities with respect to existing or potential claims, lawsuits and other proceedings. The Company accrues liabilities when it considers probable that future costs will be incurred and such costs can be reasonably estimated. Proceeding-related liabilities are based on developments to date and historical information related to actions filed against the Company. As of March 31, 2019, the Company had accounted for estimated liabilities involving proceeding-related contingencies and other estimated contingencies of $4,782 thousands to cover legal actions against the Company in which its Management has assessed the likelihood of a final adverse outcome as probable. Expected legal costs related to litigations are accrued when the legal service is actually provided.

In addition, as of March 31, 2019 the Company and its subsidiaries are subject to certain legal actions considered by the Company's Management and its legal counsels to be reasonably possible for an estimated aggregate amount up to $12,561 thousands. No loss amounts have been accrued for such reasonably possible legal actions.

Other third parties have from time to time claimed, and others may claim in the future, that the Company was responsible for fraud committed against them, or that the Company has infringed their intellectual property rights. The underlying laws with respect to the potential liability of online intermediaries like the Company are unclear in the jurisdictions where the Company operates. Management believes that additional lawsuits alleging that the Company has violated copyright or trademark laws will be filed against the Company in the future.

Intellectual property and regulatory claims, whether meritorious or not, are time consuming and costly to resolve, require significant amounts of management time, could require expensive changes in the Company's methods of doing business, or could require the Company to enter into costly royalty or licensing agreements. The Company may be subject to patent disputes, and be subject to patent infringement claims as the Company's services expand in scope and complexity. In particular, the Company may face additional patent infringement claims involving various aspects of the payments businesses.

From time to time, the Company is involved in other disputes or regulatory inquiries that arise in the ordinary course of business. The number and significance of these disputes and inquiries are increasing as the Company's business expands and the Company grows larger.

Buyer protection program

The Company provides consumers with a buyer protection program ("BPP") for all transactions completed through the Company's online payment solution ("Mercado Pago"). This program is designed to protect buyers in the Marketplace from losses due primarily to fraud or counterparty non-performance. The Company's BPP provides protection to consumers by reimbursing them for the total value of a purchased item and the value of any shipping service paid if it does not arrive or does not match the seller's description. The Company is entitled to recover from the third-party carrier companies performing the shipping service certain amounts paid under the BPP. Furthermore, in some specific circumstances (i.e. Black Friday, Hot Sale), the Company enters into insurance contracts with third-party insurance companies in order to cover contingencies that may arise from the BPP.

The maximum potential exposure under this program is estimated to be the volume of payments on the Marketplace, for which claims may be made under the terms and conditions of the Company's BPP. Based on historical losses to date, the Company does not believe that the maximum potential exposure is representative of the actual potential exposure. The Company records a liability with respect to losses under this program when they are probable and the amount can be reasonably estimated.

As of March 31, 2019 and December 31, 2018, Management's estimate of the maximum potential exposure related to the Company's buyer protection program is $993,500 thousands and $988,664 thousands, respectively, for which the Company recorded an allowance of $4,670 thousands and $4,146 thousands, respectively.

Loans payable and other financial liabilities

During the last quarter of 2018, the Company, through its Chilean subsidiary, obtained two lines of credit from Scotiabank Chile denominated in Chilean Pesos, to be applied to working capital needs. As of March 31, 2019, the amount outstanding under these lines of credit is $4,424 thousands and $2,949 thousands with maturity in April 2019 (renewed upon maturity) and both bear interest at a fixed rate of 3.72%. In addition, the Chilean subsidiary, obtained two lines of credit from Banco de Chile denominated in Chilean pesos, to be applied to working capital needs. As of March 31, 2019, the amount outstanding under these lines of credit is $8,869 thousands and $7,376 thousands with maturity in April 2019 (renewed upon maturity) and both bear interest at a fixed rate of 3.60% per annum. Lastly, the Chilean subsidiary obtained an unsecured line of credit from Banco de Chile denominated in local currency for an amount of $1,494 thousands which bears interest at a fixed rate of 3.65% per annum.

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During the first quarter of 2019, the Company, through its Argentine subsidiary obtained two lines of credit from Citibank, N.A, denominated in local currency, to be applied to working capital needs. As of March 31, 2019, the amount outstanding under these lines of credit is $12,066 thousands and $12,053 thousands with maturity in April 2019 and bears interest at a fixed rate of 37.75% and 40.50% per annum, respectively. These lines of credit were fully paid off upon maturity. In addition, the Argentine subsidiary obtained an unsecured line of credit denominated in local currency for an amount of $3,121 thousands which bears interest at a fixed rate of 55.50% per annum. This line of credit was fully paid off as of May 3, 2019.

As of March 31, 2019 the Company, through its Mexican subsidiary, had three finance leases contracts related to facilities for its fulfillment center. The outstanding amount is $5,458 thousands which bears interest at a fixed rate of 6.39% per annum with maturity within the next 5.25 years, $1,089 thousands which bears interest at a fixed rate of 9.00% per annum with maturity within the next 4.0 years and $177 thousands which bears interest at a fixed rate of 9.90% per annum with maturity within the next year.

During the first quarter of 2019, the Company, through its Uruguayan subsidiary obtained a line of credit from Citibank, N.A, denominated in local currency, to be applied to working capital needs. As of March 31, 2019, the amount outstanding under this line of credit is $898 thousands with maturity in April, 2019 and bears interest at a fixed rate of 9.11% per annum. In addition, the Uruguayan subsidiary obtained an unsecured line of credit denominated in local currency for an amount of $10,195 thousands which bears interest at a fixed rate of 9.11% per annum.

See Notes 9 and 11 to these interim condensed consolidated financial statements for details regarding the Company’s 2019 Notes and 2028 Notes and collateralized debt securitization transactions, respectively.

## 8. Long term retention plan (“LTRP”)

The following table summarizes the 2010, 2011, 2012, 2013, 2014, 2015, 2016, 2017, 2018 and 2019 long term retention plan accrued compensation expense for the three-month periods ended March 31, 2019 and 2018, which are payable in cash according to the decisions made by the Board of Directors:

| | Three Months Ended March 31, | |
|---|---|---|
| | 2019 | 2018 |
| | (In thousands) | |

| | | |
|---|---|---|
| LTRP 2010 | — | 53 |
| LTRP 2011 | 55 | 663 |
| LTRP 2012 | 559 | 1,125 |
| LTRP 2013 | 193 | 1,749 |
| LTRP 2014 | 1,220 | 2,084 |
| LTRP 2015 | 1,982 | 2,815 |
| LTRP 2016 | 3,038 | 3,908 |
| LTRP 2017 | 2,813 | 3,340 |
| LTRP 2018 | 1,455 | — |
| LTRP 2019 | 2,126 | — |
| Total LTRP | $ 13,441 | $ 15,737 |

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9. Convertible Senior Notes

2.00% Convertible Senior Notes Due 2028

On August 24, 2018, the Company issued $800,000 thousands of 2.00% Convertible Senior Notes due 2028 and issued an additional $80,000 thousand of notes on August 31, 2018 pursuant to the partial exercise of the initial purchasers' option to purchase such additional notes, for an aggregate principal amount of $880,000 thousands of 2.00% Convertible Senior Notes due 2028 (collectively, the "2028 Notes"). The 2028 Notes are unsecured, unsubordinated obligations of the Company, which pay interest in cash semi-annually, on February 15 and August 15 of each year, at a rate of 2.00% per annum. The 2028 Notes will mature on August 15, 2028 unless earlier redeemed, repurchased or converted in accordance with their terms prior to such date. The 2028 Notes may be converted, under specific conditions, based on an initial conversion rate of 2.2553 shares of common stock per $1,000 principal amount of the 2028 Notes (equivalent to an initial conversion price of $443.40 per share of common stock), subject to adjustment as described in the indenture governing the 2028 Notes. For additional information regarding the 2028 Notes please refer to Note 2 and Note 17 to the audited consolidated financial statements for the year ended December 31, 2018, contained in the Company's Annual Report on Form 10-K filed with the SEC.

In connection with the issuance of the 2028 Notes, the Company paid $91,784 thousands and $11,472 thousands (including transaction expenses) in August 2018 and November 2018, respectively, to enter into the 2028 Notes Capped Call Transactions with certain financial institutions. The 2028 Notes Capped Call Transactions are expected generally to reduce the potential dilution upon conversion of the 2028 Notes in the event that the market price of the Company's common stock is greater than the strike price of the 2028 Notes Capped Call Transactions. The cost of the 2028 Notes Capped Call Transactions is included as a net reduction to additional paid-in capital in the stockholders' equity section of the consolidated balance sheets.

The total estimated fair value of the 2028 Notes was $1,181,391 thousands and $787,266 thousands as of March 31, 2019 and December 31, 2018, respectively. The fair value was determined based on the closing trading price per $100 principal amount of the 2028 Notes as of the last day of trading for the period. The Company considered the fair value of the 2028 Notes as of March 31, 2019 and December 31, 2018 to be a Level 2 measurement. The fair value of the 2028 Notes is primarily affected by the trading price of our common stock and market interest rates. Based on the $507.7 closing price of the Company's common stock on March 31, 2019, the if-converted value of the 2028 Notes exceeded their principal amount by $127,673 thousands.

The following table presents the carrying amounts of the liability and equity components related to the 2028 Notes as of March 31, 2019:

| | March 31, 2019 | December 31, 2018 |
|---|---|---|
| | (In thousands) | |

| | | |
|---|---|---|
| Amount of the equity component (1) | $ 327,305 | $ 327,305 |
| | | |
| 2.00% Convertible Senior Notes due 2028 | $ 880,000 | $ 880,000 |
| Unamortized debt discount (2) | (319,466) | (325,783) |
| Unamortized transaction costs related to the debt component | (9,837) | (9,958) |
| Contractual coupon interest accrual | 10,609 | 5,867 |
| Contractual coupon interest payment | (8,360) | — |
| Net carrying amount | $ 552,946 | $ 550,126 |

(1) Net of $6,163 thousands of transaction costs related to the equity component of the 2028 Notes.

(2) As of March 31, 2019, the remaining period over which the unamortized debt discount will be amortized is 9.5 years.

The following table presents the interest expense for the contractual interest, the accretion of debt discount and the amortization of debt issuance costs:

| | Three month periods ended March 31, 2019 (In thousands) |
|---|---|
| Contractual coupon interest expense | $ 4,742 |
| Amortization of debt discount | 6,317 |
| Amortization of debt issuance costs | 121 |
| Total interest expense related to the 2028 Notes | $ 11,180 |

2.25% Convertible Senior Notes Due 2019

On June 30, 2014, the Company issued $330,000 thousands of 2.25% Convertible Senior Notes due 2019 (the "2019 Notes"). The 2019 Notes are unsecured, unsubordinated obligations of the Company, which pay interest in cash semi-annually, on January 1 and July 1, at a rate of 2.25% per annum. The 2019 Notes will mature on July 1, 2019 unless earlier repurchased or converted in accordance with their terms prior to such date. The 2019 Notes may be converted, under specific conditions, based on an initial conversion rate of 7.9353 shares of common stock per $1,000 principal amount of the 2019 Notes (equivalent to an initial conversion price of $126.02 per share of common stock), subject to adjustment as described in the indenture governing the 2019 Notes. For additional information regarding the 2019 Notes please refer to Note 2 and Note 17 to the audited consolidated financial statements for the year ended December 31, 2018, contained in the Company's Annual Report on Form 10-K filed with the SEC.

In connection with the issuance of the 2019 Notes, the Company paid $19,668 thousands, $67,308 thousands and $45,692 thousands (including transaction expenses) in June 2014, September 2017 and March 2018, respectively, to enter into capped call transactions with respect to shares of the common stock (the "2019 Notes Capped Call Transactions" and together with the 2028 Notes Capped Call Transactions, the "Capped Call Transactions"), with certain financial institutions. The 2019 Notes Capped Call Transactions are expected generally to reduce the potential dilution upon conversion of the 2019 Notes in the event that the market price of the common stock is greater than the strike price of the 2019 Notes Capped Call Transactions. The cost of the 2019 Notes Capped Call Transactions is included as a net reduction to additional paid-in capital in the stockholders' equity section of the consolidated balance sheets.

On August 24, 2018, the Company used a portion of the net proceeds from the 2028 Notes to repurchase or exchange and retire $263,724 thousands principal amount of its outstanding 2019 Notes. The consideration paid included $348,123 thousands in cash and 1,044,298 shares of the Company's common stock. Additionally, the Company entered into agreements with certain financial institutions who were counterparties to the existing 2019 Notes Capped Call Transactions entered into in June 2014 and September 2017 to terminate a portion of those transactions, in each case, in a notional amount corresponding to the amount of 2019 Notes repurchased or exchanged and retired. In connection with the termination of existing 2019 Capped Call Transactions and the related unwinding of the existing hedge position, the Company received from certain financial institutions the amount of $121,703 thousands and $14,405 thousands in August 2018 and November 2018, respectively.

During the period from October 1, 2016 through March 31, 2019, 291 Notes were converted for a total amount of $291 thousands. Upon conversion, the Company will pay or deliver, as the case may be, cash, shares of the Company's common stock or a combination of cash and shares of the Company's common stock, at the Company's election. The intention of the Company is to share-settle the excess conversion value due upon conversion of the 2019 Notes.

From April 1, 2019 to the date of issuance of these interim condensed consolidated financial statements, additional conversion requests for 2 Notes were made.

The total estimated fair value of the 2019 Notes was $264,992 thousands and $150,572 thousands as of March 31, 2019 and December 31, 2018, respectively. The fair value was determined based on the closing trading price per $100 principal amount of the 2019 Notes as of the last day of trading for the period. The Company considered the fair value of the 2019 Notes as of March 31, 2019 and December 31, 2018 to be a Level 2 measurement. The fair value of the

2019 Notes is primarily affected by the trading price of our common stock and market interest rates. Based on the $507.7 closing price of the Company's common stock on March 31, 2019, the if-converted value of the 2019 Notes exceeded their principal amount by $199,868 thousands.

The following table presents the carrying amounts of the liability and equity components related to the 2019 Notes as of March 31, 2019 and December 31, 2018:

| | March 31, 2019 | December 31, 2018 |
|---|---|---|
| | (In thousands) | |
| Amount of the equity component (1) | $ 9,196 | $ 9,196 |
| | | |
| 2.25% Convertible Senior Notes due 2019 | $ 65,985 | $ 65,987 |
| Unamortized debt discount (2) | (532) | (1,063) |
| Unamortized transaction costs related to the debt component | (88) | (176) |
| Contractual coupon interest accrual | 373 | 5,447 |
| Contractual coupon interest payment | — | (5,447) |
| Net carrying amount | $ 65,738 | $ 64,748 |

(1) Net of $236 thousands of transaction costs related to the equity component of the 2019 Notes.

(2) As of March 31, 2019, the remaining period over which the unamortized debt discount will be amortized is 0.25 years.

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The following table presents the interest expense for the contractual interest, the accretion of debt discount and the amortization of debt issuance costs:

| | Three month periods ended March 31, 2019 (In thousands) | Three month periods ended March 31, 2018 (In thousands) |
|---|---|---|
| Contractual coupon interest expense | $ 373 | $ 1,856 |
| Amortization of debt discount | 531 | 2,508 |
| Amortization of debt issuance costs | 88 | 399 |
| Total interest expense related to the 2019 Notes | $ 992 | $ 4,763 |

## 10. Equity Offerings

On March 15, 2019, the Company closed a public equity offering of approximately $1,150,000 thousands of common stock at a public offering price of $480 per share (the “Offering”). Pursuant to the Offering, the Company issued 2,395,834 shares of common stock, par value $0.001 per share (the “Common Stock”) which includes the exercise in full of the underwriters’ option to purchase $150 million of additional shares of common stock.

In addition, on March 15, 2019 the Company closed its $750,000 thousands concurrent private placement of common stock to PayPal, Inc (“PayPal”). PayPal purchased 1,719,790 shares of Common Stock at a price of $436.10 per share.

On March 29, 2019, in a separate private placement, an affiliate of Dragoneer Investment Group purchased 100,000 shares of perpetual convertible preferred stock designated as Series A Perpetual Preferred Stock, par value $0.001 per share of the Company for $100,000 thousands in the aggregate. The Preferred Stock is a class of equity security that ranks senior to the Common Stock with respect to dividend rights or rights upon liquidation.

Each share of Preferred Stock has a stated value of $1,000, is entitled to a cash dividend of 4% per annum, and is convertible into shares of the Company's Common Stock at an initial conversion price of $479.71 (subject to adjustment). The Company may require the conversion of any or all of the Preferred Stock beginning on March 29, 2023 if certain conditions set forth in the Certificate of Designation are met. The Company may redeem any or all of the Preferred Stock for cash, shares of its Common Stock or a combination thereof (at its election, subject to certain conditions) at any time beginning on March 29, 2026 for a percentage of the stated value of each share of Preferred Stock, plus any accrued and unpaid dividends at such time. On March 15, 2026, September 15, 2026 and March 15, 2027, the holders of the Preferred Stock shall have the right to redeem all of the outstanding shares of Preferred Stock for cash, shares of the Company's Common Stock or a combination thereof (at the Company's election, subject to certain conditions) to be determined by the formula set forth in the Certificate of Designation. Upon the occurrence of a change of control, the holders will have the right to redeem their shares of Preferred Stock for cash at a price set forth in the Certificate of Designation. The holders of the Preferred Stock have the right to vote on matters submitted to a vote of the holders of Common Stock on an as-converted basis unless required by applicable law.

In the aggregate, the Company raised funds in the amount of $1,965,188 thousands net of issuance costs paid in the amount of $34,812 thousands.

## 11. Securitization Transactions

The process of securitization consists of the issuance of securities collateralized by a pool of assets through a special purpose entity, often under a VIE.

The Company securitizes financial assets associated with its loan receivables portfolio. The Company's securitization transactions typically involve the legal transfer of financial assets to bankruptcy remote special purpose entities ("SPEs") or the acquisition of loans receivable portfolios through SPEs. The Company generally retains economic interests in the collateralized securitization transactions, which are retained in the form of subordinated interests. For accounting purposes, the Company is precluded from recording the transfers of assets in securitization transactions as sales or is required to consolidate the SPE.

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The Company securitizes certain loan receivables through Brazilian and Argentine SPEs, formed to securitize loan receivables provided by the Company to its users or purchased from financial institutions that grant loans to the Company's users through Mercado Pago. According to the SPE contracts, the Company has determined that it has both the power to direct the activities of the entity that most significantly impact the entity's performance and the obligation to absorb losses or the right to receive benefits of the entity that could be significant because it retains the equity certificates of participation, and would therefore also be consolidated. When the Company controls the vehicle, it accounts the securitization transactions as if they were secured financing and therefore the assets, liabilities, and related results are consolidated in its financial statements.

As of March 31, 2019, the carrying value of the Brazilian collateralized debt was $46,687 thousands, composed of: 1) $15,568 thousands, which bears interest at a rate of Brazilian DI plus 3.5% per annum for a term of 36 months, due in June 2021 and 2) $31,119 thousands, which bears interest at a rate of Brazilian DI plus 3.25% per annum for a term of 30 months, due in May 2021. The carrying value of the Argentine collateralized debt was $7,582 thousands, composed of: 1) $5,593 thousands bearing interest at a variable rate equivalent to the BADLAR rate plus 200 basis points with a minimum 33% and a maximum 48% nominal rate per annum for a term of 8 months, due in October 2019 and 2) $1,989 thousands bearing interest at a variable rate equivalent to the BADLAR rate plus 200 basis points with a minimum 30% and a maximum 45% nominal rate per annum for a term of 12 months, due in July 2019. This secured debt is issued by the SPEs and includes collateralized securities used to fund MercadoCredito business. The third-party investors in the securitization transactions have legal recourse only to the assets securing the debt and do not have recourse to the Company. Additionally, the cash flows generated by the SPEs are restricted to the payment of amounts due to third-party investors, but the Company retains the right to residual cash flows.

The assets and liabilities of the SPEs are included in the Company's interim condensed consolidated financial statements as of March 31, 2019 as follows:

| | March 31, 2019 | December 31, 2018 |
|---|---|---|
| Assets | (in thousands) | (in thousands) |
| Current assets: | | |
| Restricted cash and cash equivalents | $ 10,375 | $ 24,363 |
| Loans receivable, net | 70,757 | 51,471 |
| Total current assets | 81,132 | 75,834 |
| Total assets | $ 81,132 | $ 75,834 |
| Liabilities | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | $ 103 | $ 113 |
| Loans payable and other financial liabilities | 8,089 | 7,539 |
| Total current liabilities | 8,192 | 7,652 |

| | | |
|---|---|---|
| Non-current liabilities: | | |
| Loans payable and other financial liabilities | 46,180 | 46,441 |
| Total non-current liabilities | 46,180 | 46,441 |
| Total liabilities | $ 54,372 | $ 54,093 |

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12. Leases

The Company leases certain fulfillment centers and office space in the various countries in which it operates. The lease agreements do not contain any residual value guarantees or material restrictive covenants.

Supplemental balance sheet information related to leases was as follows (in thousands):

| | | March 31, 2019 |
|---|---|---|
| Operating Leases | | |
| Operating lease right-of-use assets | $ | 153,499 |
| | | |
| Operating lease liabilities | $ | 155,632 |
| | | |
| Finance Leases | | |
| Property and equipment, at cost | | 9,119 |
| Accumulated depreciation | | (284) |
| Property and equipment, net | $ | 8,835 |
| | | |
| Loans payable and other financial liabilities | $ | 6,724 |

The following table summarizes the weighted average remaining lease term and the weighted average incremental borrowing rate for operating and finance leases at March 31, 2019:

| | | |
|---|---|---|
| Weighted average remaining lease term | | |
| Operating leases | 9 | Years |
| Finance leases | 5 | Years |

| | | |
|---|---|---|
| Weighted average discount rate | | |
| Operating leases | 10.44 | % |
| Finance leases | 6.91 | % |

The components of lease expense were as follows (in thousands):

| | | March 31, 2019 |
|---|---|---|
| Operating lease cost | $ | 6,477 |
| Finance lease cost: | | |
| Depreciation of property and equipment | | 235 |
| Interest on lease liabilities | | 152 |
| Total finance lease cost | $ | 387 |

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Supplemental cash flow information related to leases was as follows (in thousands):

| | Three months ended March 31, 2019 |
|---|---|
| Cash paid for amounts included in the measurement of lease liabilities: | |
| Operating cash flows from operating leases | $ 4,124 |
| Financing cash flows from finance leases | 662 |
| | |
| Right-of-use assets obtained in exchange for lease obligations: | |
| Operating leases | $ 35,926 |
| Finance leases | 177 |

The following table summarizes the fixed, future minimum rental payments, excluding variable costs, which are discounted by the Company's incremental borrowing rates to calculate the lease liabilities for the operating and finance leases (in thousands):

| Year Ending March 31, | Operating Leases | Finance Leases |
|---|---|---|
| One year or less | $ 26,507 | $ 1,905 |
| One year to two years | 27,364 | 1,719 |
| Two years to three years | 26,469 | 1,719 |
| Three years to four years | 25,383 | 1,719 |
| Four years to five years | 23,826 | 1,399 |
| Thereafter | 112,956 | 359 |
| Total lease payments | $ 242,505 | $ 8,820 |
| Less imputed interest | (86,873) | (2,096) |
| Total | $ 155,632 | $ 6,724 |

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## Item 2 — Management's Discussion and Analysis of Financial Condition and Results of Operations

### Cautionary Statement Regarding Forward-Looking Statements

Any statements made or implied in this report that are not statements of historical fact, including statements about our beliefs and expectations, are forward-looking statements within the meaning of Section 27 A of the Securities Exchange Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and should be evaluated as such. The words "anticipate," "believe," "expect," "intend," "plan," "estimate," "target," "project," "should," " "will" and similar words and expressions are intended to identify forward-looking statements. Forward-looking statements generally relate to information concerning our possible or assumed future results of operations, business strategies, financing plans, competitive position, industry environment, potential growth opportunities, future economic, political and social conditions in the countries in which we operate and their possible impact on our business, and the effects of future regulation and the effects of competition. Such forward-looking statements reflect, among other things, our current expectations, plans, projections and strategies, anticipated financial results, future events and financial trends affecting our business, all of which are subject to known and unknown risks, uncertainties and other important factors (in addition to those discussed elsewhere in this report) that may cause our actual results to differ materially from those expressed or implied by these forward-looking statements. These risks and uncertainties include, among other things:

- our expectations regarding the continued growth of online commerce and Internet usage in Latin America;
- our ability to expand our operations and adapt to rapidly changing technologies;
- our ability to attract new customers, retain existing customers and increase revenues;
- the impact of government and central bank regulations on our business;
- litigation and legal liability;
- systems interruptions or failures;
- our ability to attract and retain qualified personnel;
- consumer trends;
- security breaches and illegal uses of our services;
- competition;
- reliance on third-party service providers;
- enforcement of intellectual property rights;
- seasonal fluctuations; and
- political, social and economic conditions in Latin America.

Many of these risks are beyond our ability to control or predict. New risk factors emerge from time to time and it is not possible for Management to predict all such risk factors, nor can it assess the impact of all such risk factors on our company's business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

These statements are based on currently available information and our current assumptions, expectations and projections about future events. While we believe that our assumptions, expectations and projections are reasonable in view of the currently available information, you are cautioned not to place undue reliance on our forward-looking statements. These statements are not guarantees of future performance. They are subject to future events, risks and uncertainties–many of which are beyond our control– as well as potentially inaccurate assumptions that could cause actual results to differ materially from our expectations and projections. Some of the material risks and uncertainties that could cause actual results to differ materially from our expectations and projections are described in "Item 1A — Risk Factors" in Part I of our Annual Report on Form 10-K for the fiscal year ended December 31, 2018 filed with the Securities and Exchange Commission ("SEC") on February 28, 2019, as updated by those in other reports we file from time to time with the SEC.

You should read that information in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 2 of Part I of this report, our unaudited interim condensed consolidated financial statements and related notes in Item 1 of Part I of this report and our audited consolidated financial statements and related notes in Item 8 of Part II of our Annual Report on Form 10-K for the year ended December 31, 2018. We note such information for investors as permitted by the Private Securities Litigation Reform Act of 1995. There also may be other factors that we cannot anticipate or that are not described in this report, generally because they are unknown to us or we do not perceive them to be material that could cause results to differ materially from our expectations.

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Forward-looking statements speak only as of the date they are made, and we do not undertake to update these forward-looking statements except as may be required by law. You are advised, however, to review any further disclosures we make on related subjects in our periodic filings with the SEC.

The discussion and analysis of our financial condition and results of operations has been organized to present the following:

- a brief overview of our company;
- a discussion of our principal trends and results of operations for the three-month periods ended March 31, 2019 and 2018;
- a review of our financial presentation and accounting policies, including our critical accounting policies;
- a discussion of the principal factors that influence our results of operations, financial condition and liquidity;
- a discussion of our liquidity and capital resources and a discussion of our capital expenditures;
- a description of our non-GAAP financial measures; and
- a discussion of the market risks that we face.

Other Information

We routinely post important information for investors on our Investor Relations website, http://investor.mercadolibre.com. We use this website as a means of disclosing material, non-public information and for complying with our disclosure obligations under SEC Regulation FD (Fair Disclosure). Accordingly, investors should monitor our Investor Relations website, in addition to following our press releases, SEC filings, public conference calls and webcasts. The information contained on, or that may be accessed through, our website is not incorporated by reference into, and is not a part of, this report.

Business Overview

MercadoLibre, Inc. (together with its subsidiaries “us”, “we”, “our” or the “Company”) is the largest online commerce ecosystem in Latin America. Our platform is designed to provide users with a complete portfolio of services to facilitate commercial transactions. We are a market leader in e-commerce in each of Argentina, Brazil, Chile, Colombia, Costa Rica, Ecuador, Mexico, Peru, Uruguay and Venezuela, based on the number of unique visitors and page views. We also operate online commerce platforms in the Dominican Republic, Honduras, Nicaragua, El Salvador, Panama, Bolivia, Guatemala and Paraguay.

Through our platform, we provide buyers and sellers with a robust environment that fosters the development of a large e-commerce community in Latin America, a region with a population of over 644 million people and with one of the fastest-growing Internet penetration rates in the world. We believe that we offer technological and commercial solutions that address the distinctive cultural and geographic challenges of operating an online commerce platform in Latin America.

We offer our users an ecosystem of six integrated e-commerce services: the MercadoLibre Marketplace, the Mercado Pago FinTech platform, the Mercado Envios logistics service, the MercadoLibre Classifieds service, the MercadoLibre advertising solution and the MercadoShops online webstores solution.

The MercadoLibre Marketplace, which we sometimes refer to as our marketplace, is a fully-automated, topically-arranged and user-friendly online commerce platform, which can be accessed through our website and mobile app. This platform enables both businesses and individuals to list merchandise and conduct sales and purchases online.

Mercado Pago is our financial technology (FinTech) solution, designed to facilitate transactions both on and off our marketplaces by providing a mechanism that allows our users to securely, easily and promptly send and receive payments online. Outside of our marketplaces, Mercado Pago allows merchants to process transactions via their websites and mobile apps, as well as in their brick-and-mortar stores through QR codes and mobile points of sale ("MPOS") devices. It also enables users to easily transfer money to each other. Through MercadoFondo, our asset management product, our users are able to invest the stored balance from their Mercado Pago account at competitive rates and in a simple way. MercadoCredito, our lending solution, allows us to finance merchants' working capital needs and consumers' purchases.

To further enhance our suite of e-commerce services, we launched the Mercado Envios shipping program in Brazil, Argentina, Mexico, Colombia, Chile and Uruguay. Through Mercado Envios, we offer a cost-efficient way to utilize our existing distribution chain to fulfill sales on our platform. Sellers that opt into the program are able to offer a uniform and seamlessly integrated shipping experience to their buyers at competitive prices. As of March 31, 2019, we also offer free shipping to buyers in Brazil, Argentina, Mexico, Chile and Colombia.

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Through MercadoLibre Classifieds, our online classified listing service, our users can also list and purchase motor vehicles, real estate and services in the countries where we operate. Classifieds listings differ from Marketplace listings as they only charge optional placement fees and not final value fees. Our classifieds pages are also a major source of traffic to our platform, benefitting both the Enhanced Marketplace and non-Marketplace businesses.

Furthermore, we developed our MercadoLibre advertising platform to enable businesses to promote their products and services on the Internet. Through this platform, MercadoLibre's sellers and large advertisers are able to display ads on our webpages.

Additionally, through MercadoShops, our online store solution, users can set-up, manage and promote their own online store. These stores are hosted by MercadoLibre and offer integration with the marketplace, and payment and advertising services we offer. Users can pay monthly subscriptions for enhanced functionality and value added services on their store.

Reporting Segments and Geographic Information

Our segment reporting is based on geography, which is the current criterion our Management uses to evaluate our segment performance. Our geographic segments are Brazil, Argentina, Mexico and Other Countries (including Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Panama, Peru, Bolivia, Honduras, Nicaragua, El Salvador, Guatemala, Paraguay, Uruguay and the United States of America (through real estate classifieds in the State of Florida only)). Although we discuss long-term trends in our business, it is our policy not to provide earnings guidance in the traditional sense. We believe that uncertain conditions make the forecasting of near-term results difficult. Further, we seek to make decisions focused primarily on the long-term welfare of our company and believe focusing on short-term earnings does not best serve the interests of our stockholders. We believe that execution of key strategic initiatives as well as our expectations for long-term growth in our markets will best create stockholder value. A long-term focus may make it more difficult for industry analysts and the market to evaluate the value of our company, which could reduce the value of our common stock or permit competitors with short-term tactics to grow more rapidly than us. We, therefore, encourage potential investors to consider this strategy before making an investment in our common stock.

The following table sets forth the percentage of our consolidated net revenues by segment for the three-month periods ended March 31, 2019 and 2018:

| | Three-month Periods Ended March 31, | |
|---|---|---|
| (% of total consolidated net revenues) (*) (**) | 2019 | 2018 |
| Brazil | 63.8 % | 57.4 % |
| Argentina | 19.8 | 31.8 |
| Mexico | 11.5 | 5.3 |
| Other Countries | 4.9 | 5.6 |

(*) Percentages have been calculated using whole-dollar amounts rather than the rounded amounts that appear in the table. The table above may not total due to rounding.

(**) The amount incurred in shipping subsidies are netted from revenues, when we act as an agent, was $74.0 million and $112.5 million for the three-month periods ended March 31, 2019 and 2018, respectively.

The following table summarizes the changes in our net revenues by segment for the three-month periods ended March 31, 2019 and 2018:

| | Three-month Periods Ended March 31, | | Change from 2018 to 2019 (*) (**) | |
|---|---|---|---|---|
| | 2019 | 2018 | in Dollars | in % |
| | (in millions, except percentages) | | | |
| Net Revenues: | | | | |
| Brazil | $ 302.4 | $ 184.2 | $ 118.2 | 64.2 % |
| Argentina | 93.8 | 101.9 | (8.2) | (8.0) |
| Mexico | 54.6 | 17.1 | 37.5 | 219.7 |
| Other Countries | 23.0 | 17.8 | 5.2 | 29.4 |
| Total Net Revenues | $ 473.8 | $ 321.0 | $ 152.8 | 47.6 % |

(*) Percentages have been calculated using whole-dollar amounts rather than the rounded amounts that appear in the table. The table above may not total due to rounding.

(**) The amount incurred in shipping subsidies are netted from revenues, when we act as an agent, was $74.0 million and $112.5 million for the three-month periods ended March 31, 2019 and 2018, respectively.

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Recent Developments

Equity offering

On March 15, 2019, we closed a public equity offering of approximately $1,150 million of common stock at a public offering price of $480 per share (the "Offering"). Pursuant to the Offering, we issued 2,395,834 shares of common stock, par value $0.001 per share (the "Common Stock") which includes the exercise in full of the underwriters' option to purchase $150 million of additional shares of Common Stock.

In addition, on March 15, 2019 we closed our $750 million concurrent private placement of common stock to PayPal, Inc. (PayPal). Based on the securities purchase agreement, PayPal purchased 1,719,790 shares of Common Stock at a price of $436.10 per share.

On March 29, 2019, in a separate private placement, an affiliate of Dragoneer Investment Group purchased 100,000 shares of perpetual convertible preferred stock designated as Series A Perpetual Preferred Stock, par value $0.001 per share (the "Preferred Stock"), for $100 million in the aggregate.

In the aggregate, we raised funds in the amount of $1,965.2 million net of issuance costs paid in the amount of $34.8 million.

Please see note 10 to our unaudited condensed consolidated financial statements for additional information regarding our equity offering.

Description of Line Items

Net revenues

We recognize revenues in each of our four geographical reporting segments. Within each of our segments, the services we provide generally fall into two distinct revenue streams: "Enhanced Marketplace" and "Non-Marketplace".

The following table summarizes our consolidated net revenues by revenue stream for the three-month periods ended March 31, 2019 and 2018:

| Consolidated net revenues by revenue stream | Three-month Periods Ended March 31, (*) 2019 | 2018 |
|---|---|---|
| | (in millions) | |
| Enhanced Marketplace (**) | $ 253.0 | $ 140.7 |
| Non-Marketplace (***) (****) | 220.7 | 180.3 |
| Total | $ 473.8 | $ 321.0 |

(*) The table above may not total due to rounding.

(**) Includes final value fees and shipping fees. The amount incurred in shipping subsidies are netted from revenues when we act as an agent, was $74.0 million and $112.5 million for the three-month periods ended March 31, 2019 and 2018, respectively.

(***) Includes, among other things, ad sales, classified fees, payment fees and other ancillary services.

(****) Includes $187.0 million and $144.8 million of Payment Fees for the three-month periods ended March 31, 2019 and 2018, respectively.

Revenues from Enhanced Marketplace transactions are mainly generated from final value fees and shipping fees net of the third-party carrier costs.

Final value fees represent a percentage of the sale value that is charged to the seller once an item is successfully sold. Shipping revenues are generated when a buyer elects to receive an item through our shipping service net of the third-party carrier costs.

Revenues for Non-Marketplace services are generated from:

- payments fees;
- classifieds fees;
- ad sales up-front fees; and
- fees from other ancillary businesses.

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Non-Marketplace revenues also come from our Mercado Pago FinTech solution, where we generate payment fees attributable to:

- commissions representing a percentage of the payment volume processed that are charged to sellers in connection with off Marketplace-platform transactions;
- commissions from additional fees we charge when a buyer elects to pay in installments through our Mercado Pago platform, for transactions that occur either on or off our Marketplace platform;
- commissions from additional fees we charge when our sellers elect to withdraw cash;
- interest, cash advances and fees from merchant and consumer credits granted under our MercadoCredito solution; and
- revenues from the sale of mobile points of sale products.

Through our classifieds offerings of motor vehicles, vessels, aircraft, real estate and services, we generate revenues from up-front fees for all classifieds offerings. We charge additional fees to sellers who opt to give their listings greater exposure throughout our websites.

Our Advertising revenues are generated by selling either display product and/or text link ads throughout our websites.

When more than one service is included in one single arrangement with the same customer, we recognize revenue according to multiple element arrangements accounting, distinguishing between each of the services provided and allocating revenues based on their respective estimated selling prices.

We have a highly fragmented customer revenue base given the large numbers of sellers and buyers who use our platforms. For the three-month periods ended March 31, 2019 and 2018, no single customer accounted for more than 5.0% of our net revenues.

Our MercadoLibre Marketplace is available in 18 countries (Argentina, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Mexico, Panama, Peru, Uruguay, Venezuela (deconsolidated as of December 1, 2017), Bolivia, Honduras, Nicaragua, Salvador, Guatemala and Paraguay), and Mercado Pago is available in 7 countries (Argentina, Brazil, Chile, Peru, Colombia, Mexico and Uruguay). Additionally, Mercado Envios is available in 6 countries (Argentina, Brazil, Mexico, Colombia, Chile and Uruguay). The functional currency for each country's operations is the country's local currency, except for Argentina where the functional currency was the U.S. dollar due to Argentina's status as highly inflationary economy. See—"Critical accounting policies and estimates—Foreign Currency Translation" included below and Note 2 to our unaudited interim condensed consolidated financial statements for highly inflationary economy details. Our net revenues are generated in multiple foreign currencies and then translated into U.S. dollars at the average monthly exchange rate.

Our subsidiaries in Brazil, Argentina and Colombia are subject to certain taxes on revenues which are classified as a cost of net revenues. These taxes represented 8.5% of net revenues for the three-month period ended March 31, 2019, as compared to 9.3% for the same period in 2018.

Cost of net revenues

Cost of net revenues primarily represents bank and credit card processing charges for transactions and fees paid with credit cards and other payment methods, fraud prevention fees, certain taxes on revenues, certain taxes on bank transactions, cost of mobile point of sale products sold, hosting and site operation fees, compensation for customer support personnel, ISP connectivity charges, depreciation and amortization, shipping operation costs (including warehousing costs) and other operating costs.

Product and technology development expenses

Our product and technology development related expenses consist primarily of compensation for our engineering and web-development staff, depreciation and amortization costs related to product and technology development, telecommunications costs and payments to third-party suppliers who provide technology maintenance services to us.

Sales and marketing expenses

Our sales and marketing expenses consist primarily of costs related to marketing our platforms through online and offline advertising and agreements with portals and search engines, charges related to our buyer protection programs, the salaries of employees involved in these activities, chargebacks related to our Mercado Pago operations, bad debt charges, public relations costs, marketing activities for our users and depreciation and amortization costs.

We carry out the majority of our marketing efforts on the Internet. We enter into agreements with portals, search engines, social networks, ad networks and other sites in order to attract Internet users to the MercadoLibre Marketplace and convert them into registered users and active traders on our platform.

We also work intensively on attracting, developing and growing our seller community through our customer support efforts. We have dedicated professionals in most of our operations that work with sellers through trade show participation, seminars and meetings to provide them with important tools and skills to become effective sellers on our platform.

General and administrative expenses

Our general and administrative expenses consist primarily of salaries for management and administrative staff, compensation of outside directors, long term retention plan compensation, expenses for legal, audit and other professional services, insurance expenses, office space rental expenses, travel and business expenses, as well as depreciation and amortization costs. Our general and administrative expenses include the costs of the following areas: general management, finance, administration, accounting, legal and human resources.

Other income (expenses), net

Other income (expenses) consists primarily of interest income derived from our investments and cash equivalents, interest expense related to financial liabilities and foreign currency gains or losses.

Income tax

We are subject to federal and state taxes in the United States, as well as foreign taxes in the multiple jurisdictions where we operate. Our tax obligations consist of current and deferred income taxes incurred in these jurisdictions. We account for income taxes following the liability method of accounting. A valuation allowance is recorded when, based on the available evidence, it is more likely than not that all or a portion of our deferred tax assets will not be realized. Therefore, our income tax expense consists of taxes currently payable, if any (given that in certain jurisdictions we still have net operating loss carry-forwards), plus the change in our deferred tax assets and liabilities during each period.

Critical Accounting Policies and Estimates

The preparation of our unaudited interim condensed consolidated financial statements and related notes requires us to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We have based our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Our Management has discussed the development, selection and disclosure of these estimates with our audit committee and our board of directors. Actual results may differ from these estimates under different assumptions or conditions.

An accounting policy is considered to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, and if different estimates that reasonably could have been used, or changes in the accounting estimates that are reasonably likely to occur periodically, could materially impact our interim condensed consolidated financial statements. We believe that the following critical accounting policies reflect the more significant estimates and assumptions used in the preparation of our interim condensed consolidated financial statements.

There have been no significant changes in our critical accounting policies, Management estimates or accounting policies since the year ended December 31, 2018 and disclosed in the Form 10-K, see Item – "Critical Accounting Policies", other than those discussed in Note 2 of our unaudited interim condensed consolidated financial statements in connection with the adoption of ASC 842 – New leasing accounting standard as of January 1, 2019 and the fair value option applied to certain financial instruments.

Results of operations for the three-month period ended March 31, 2019 compared to the three-month periods ended March 31, 2018

The selected financial data for the three-month periods ended March 31, 2019 and 2018 discussed herein is derived from our unaudited interim condensed consolidated financial statements included in Item 1 of Part I of this report. These statements include all normal recurring adjustments that Management believes are necessary to fairly state our financial position, results of operations and cash flows. The results of operations for the three-month periods ended March 31, 2019 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2019 or for any other period.

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Statement of income data

| (In millions) | Three-month Period Ended March 31, 2019 (*) | 2018 (*) |
|---|---|---|
| | (Unaudited) | |
| Net revenues (**) | $ 473.8 | $ 321.0 |
| Cost of net revenues | (236.8) | (158.2) |
| Gross profit | 237.0 | 162.8 |
| Operating expenses: | | |
| Product and technology development | (52.4) | (38.4) |
| Sales and marketing | (130.7) | (110.7) |
| General and administrative | (43.8) | (43.1) |
| Total operating expenses | (226.9) | (192.2) |
| Income/(loss) from operations | 10.1 | (29.4) |
| Other income (expenses): | | |
| Interest income and other financial gains | 24.4 | 9.2 |
| Interest expense and other financial losses | (15.6) | (10.7) |
| Foreign currency (loss)/gain | (3.7) | 5.6 |
| Net income/(loss) before income tax (expense)/gain | 15.4 | (25.4) |
| Income tax (expense)/gain | (3.5) | 12.4 |
| Net income/(loss) | $ 11.9 | $ (12.9) |

(*) The table above may not total due to rounding.

(**) The amount incurred in shipping subsidies are netted from revenues, when we act as an agent, was $74.0 million and $112.5 million for the three-month periods ended March 31, 2019 and 2018, respectively.

Principal trends in results of operations

Growth in net revenues

Since our inception, we have consistently generated revenue growth from both our Enhanced Marketplace and Non-Marketplace revenue streams, driven by the strong growth of our key operational metrics. Our net revenues grew 47.6% in the three-month period ended March 31, 2019 as compared to the same period in 2018. Our net revenues grew as a result of increases in local currency gross merchandise volume in Argentina, Brazil and Mexico of 69.6%, 17.9% and 48.0%, respectively and a 35.1% increase in our total payment volume in the three-month period ended March 31, 2019 as compared to the same period in 2018. Additionally, our growth in net revenues was boosted by the decrease in our shipping subsidies, which are netted from net revenues when we act as an agent, from $112.5 million to $74.0 million in the three-month period ended March 31, 2018 as compared to the same period in 2019, respectively and the effect of the flat fee for those transactions related to low gross merchandise volume in Brazil. Finally, our growth in net revenues were partially offset by the devaluation of the Argentine Peso and Brazilian Reais of approximately 53.5% and 14.7%, as of March 31, 2019 compared to March 31, 2018, respectively.

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We believe that our growth in net revenues should continue in the future. However, despite this positive historical trend, the current weak macro-economic environment in certain countries in Latin America, coupled with devaluations of certain local currencies in those countries versus the U.S. dollar and high interest rates in those countries could cause a decline in year-over-year net revenues, particularly as measured in U.S. dollars. Moreover, in the future, net revenues could decline if we continue offering free shipping and the costs of providing the service grow faster than our sales.

Gross profit margins

During the past two years, our business has experienced decreasing gross profit margins, defined as total net revenues minus total cost of net revenues, as a percentage of net revenues.

Our gross profit margins were 50.0% and 50.7% for the three-month periods ended March 31, 2019 and 2018, respectively. The decrease in our gross profit margins resulted primarily from increases in components of cost of net revenues, each as described below:

(i) An increase in shipping operating costs of $31.7 million for the three-month period ended March 31, 2019, as compared with the same period in 2018, mainly related to shipping operating costs, including warehousing expenses.

(ii) Higher penetration of our payments and shipping solution, particularly in our Argentine, Brazilian and Mexican marketplaces. For the three-month period ended March 31, 2019, total volume of payments on our marketplace represented 93.8% of our total GMV (excluding motor vehicles, vessels, aircraft, real estate and services); as compared to 89.9%, for the three-month period ended March 31, 2018. Additionally, for the three-month period ended March 31, 2019, the total number of items shipped through our shipping solution represented 81.3%, of our total number of successful items sold in the countries where our shipping solution is available, as compared to 71.3%, for the three-month period ended March 31, 2018. Transactions that include such services intrinsically incur incremental costs such as collection fees, which result in lower gross profit margins as compared to other services we offer. In addition, our revenues are typically disclosed net of third party provider costs while sales taxes are paid on the gross amount of revenues, thus, decreasing our gross profit margins in terms of revenues. For the three-month period ended March 31, 2019, collection fees increased $15.7 million, as compared to the same period in 2018. For the three-month period ended March 31, 2019, sales tax increased $10.2 million, as compared to the same period in 2018.

(iii) Increased other payment costs of $7.2 million for the three-month period ended March 31, 2019, as compared to the same period in 2018, mainly related to higher MercadoPago transactional expenses.

(iv) Increased cost of products sold of $4.8 million for the three-month period ended March 31, 2019, as compared to the same period in 2018, related to a higher volumes of mobile point of sale devices sold in Brazil, Argentina and Mexico. This increase generated lower profit margins.

(v) Increased customer support costs of $4.7 million for the three-month period ended March 31, 2019, as compared with the same period in 2018, mainly as a consequence of an increase in salaries and wages. The number of customer support employees was 2,943 as of March 31, 2019 as compared to 2,651 as of March 31, 2018.

(vi) Increased hosting costs of $3.7 million for the three-month period ended March 31, 2019, as compared to the same period in 2018.

In the future, gross profit margins could continue to decline if we continue to offer free shipping and the penetration of our payment solution and our shipping service grows faster than our marketplace sales.

Operating income/(loss) margins

For the three-month period ended March 31, 2019 as compared to the same period in 2018, our operating income/(loss) margin increased from a negative margin of 9.2% to a positive margin of 2.1%, mainly as a consequence of the explained increase in net revenues above and a decrease in sales and marketing expenses, calculated as a percentage of net revenues.

We anticipate that as we continue to invest in product development, sales and marketing and human resources in order to promote our services and capture the long-term business opportunity offered by the Internet in Latin America, it will be increasingly difficult to maintain our operating margins, and we may even could experience decreases in our operating margins.

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Other Data

| (in millions) | Three-month Periods Ended March 31, 2019 | 2018 |
|---|---|---|
| Number of confirmed registered users at end of period (1) | 280.1 | 223.1 |
| Number of confirmed new registered users during period (2) | 12.3 | 11.2 |
| Gross merchandise volume (3) | $ 3,087.8 | $ 3,126.4 |
| Number of successful items sold (4) | 82.8 | 80.1 |
| Number of successful items shipped (5) | 62.4 | 52.5 |
| Total payment volume (6) | $ 5,639.1 | $ 4,175.3 |
| Total volume of payments on marketplace (7) | $ 2,896.1 | $ 2,809.5 |
| Total payment transactions (8) | 143.9 | 74.3 |
| Unique buyers (9) | 18.8 | 17.0 |
| Unique sellers (10) | 4.2 | 5.0 |
| Capital expenditures | $ 33.0 | $ 23.0 |
| Depreciation and amortization | $ 15.7 | $ 11.1 |

(1) Measure of the cumulative number of users who have registered on the MercadoLibre Marketplace and confirmed their registration, excluding Classifieds users.
(2) Measure of the number of new users who have registered on the MercadoLibre Marketplace and confirmed their registration, excluding Classifieds users.
(3) Measure of the total U.S. dollar sum of all transactions completed through the MercadoLibre Marketplace, excluding Classifieds transactions.
(4) Measure of the number of items that were sold/purchased through the MercadoLibre Marketplace, excluding Classifieds items.
(5) Measure of the number of items that were shipped through our shipping service.
(6) Measure of the total U.S. dollar sum of all transactions paid for using Mercado Pago, including marketplace and non-marketplace transactions.
(7) Measure of the total U.S. dollar sum of all marketplace transactions paid for using Mercado Pago, excluding shipping and financing fees.
(8) Measure of the number of all transactions paid for using Mercado Pago.
(9) New or existing users with at least one purchase made in the period, including Classifieds users.
(10) New or existing users with at least one new listing in the period, including Classifieds users.

Net revenues

| | Three-month Periods Ended March 31, | | Change from 2018 to 2019 (*) | |
|---|---|---|---|---|
| | 2019 | 2018 | in Dollars | in % |
| | (in millions, except percentages) | | | |
| Total Net Revenues (**) | $ 473.8 | $ 321.0 | $ 152.8 | 47.6% |
| As a percentage of net revenues (*) | 100.0% | 100.0% | | |

(*) Percentages have been calculated using whole-dollar amounts rather than rounded amounts that appear in the table. The table above may not total due to rounding.

(**) The amount incurred in shipping subsidies are netted from revenues, when we act as an agent, was $74.0 million and $112.5 million for the three-month periods ended March 31, 2019 and 2018, respectively.

Our net revenues grew 47.6% in the three-month period ended March 31, 2019 as compared to the same period in 2018. The increase in net revenues was primarily attributable to increases in the enhanced marketplace transactions volume related to an increase in local currency gross merchandise volume in Argentina, Brazil and Mexico of 69.6%, 17.9% and 48.0%, respectively. In addition, the increase in net revenues was attributable to:

a) A decrease of $38.5 million, or a 34% decrease, in our shipping subsidies, netted from revenues, during the three month period ended March 31, 2019 as compared to the same period in 2018; and

b) An increase of $35.7 million related to flat fee in Brazilian segment for those transactions with a low gross merchandise volume value.

The 22.4% increase in our non-marketplace revenues from $180.3 million for the three-month period ended March 31, 2018 compared to $220.7 million for the three-month period ended March 31, 2019, is mainly generated by a 35.1% increase in our total payment volume, mainly associated to off-platform transactions.

The increase in our net revenues was partially offset by the devaluation of the Argentine Peso and Brazilian Reais by approximately 53.5% and 14.7%, respectively, as of March 31, 2019 as compared to March 31, 2018.

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| Consolidated Net Revenues by revenue stream | Three-month Periods Ended March 31, 2019 | 2018 | Change from 2018 to 2019 (***) in Dollars | in % |
|---|---|---|---|---|
| | (in millions, except percentages) | | | |
| Brazil | | | | |
| Enhanced Marketplace | $ 157.8 | $ 71.4 | $ 86.3 | 120.8% |
| Non-Marketplace | 144.6 | 112.7 | 31.9 | 28.3% |
| | 302.4 | 184.2 | 118.2 | 64.2% |
| Argentina | | | | |
| Enhanced Marketplace | $ 42.0 | $ 52.1 | $ (10.1) | -19.3% |
| Non-Marketplace | 51.8 | 49.8 | 1.9 | 3.8% |
| | 93.8 | 101.9 | (8.2) | -8.0% |
| Mexico | | | | |
| Enhanced Marketplace | $ 42.5 | $ 10.0 | $ 32.5 | 324.2% |
| Non-Marketplace | 12.0 | 7.0 | 5.0 | 71.0% |
| | 54.6 | 17.1 | 37.5 | 219.7% |
| Other countries | | | | |
| Enhanced Marketplace | $ 10.7 | $ 7.1 | $ 3.6 | 50.6% |
| Non-Marketplace | 12.3 | 10.7 | 1.6 | 15.2% |
| | 23.0 | 17.8 | 5.2 | 29.4% |
| Consolidated | | | | |
| Enhanced Marketplace (*) | 253.0 | 140.7 | 112.3 | 79.8% |
| Non-Marketplace (**) | 220.7 | 180.3 | 40.5 | 22.4% |
| Total | $ 473.8 | $ 321.0 | $ 152.8 | 47.6% |

(*) The amount incurred in shipping subsidies are netted from revenues, when we act as an agent, was $74.0 million and $112.5 million for the three-month periods ended March 31, 2019 and 2018, respectively.

(**) Includes, among other things, payment fees, ad sales, classified fees and other ancillary services.

(***) Percentages have been calculated using whole-dollar amounts rather than the rounded amounts that appear in the table. The table above may not total due to rounding.

Brazil

Enhanced Marketplace revenues in Brazil increased 120.8% in the three-month period ended March 31, 2019 as compared to the same period in 2018. This increase was primarily a consequence of i) a 17.9% increase in local currency gross merchandise volume; ii) a decrease of $35.9 million in shipping subsidies related to our free shipping initiative, which is presented netted from revenues when we act as an agent and iii) the implementation of a flat fee for those transactions related to low gross merchandise volume. The increase was partially offset by a 14.7% devaluation of the local currency. Non-Marketplace revenues grew 28.3%, a $31.9 million increase, during the same period, mainly driven by a 144.4% increase in the off-platform payments volume, partially offset by the devaluation of the Brazilian Reais.

Argentina

Enhanced Marketplace revenues in Argentina decreased 19.3% in the three-month period ended March 31, 2019 as compared to the same period in 2018. The decrease was primarily a consequence of i) a 53.5% devaluation of the local currency and ii) an increase of $5.1 million in shipping subsidies related to our free shipping initiative, which is presented netted from revenues when we act as an agent. This decrease was partially offset by a 69.6% increase in local currency gross merchandise volume. Non-Marketplace revenues grew 3.8%, a $1.9 million increase, during the same period, mainly driven by a 83.1% increase in the off-platform payments volume, partially offset by the devaluation of the local currency.

Mexico

Enhanced Marketplace revenues in Mexico increased 324.2% in the three-month period ended March 31, 2019, as compared to the same period in 2018, mainly due to i) the effect of not netting from revenues the shipping costs related to certain shipping services given that we started acting as principal as of November 2018 and ii) a 48.0% increase in local currency gross merchandise volume. Non-Marketplace revenues grew 71.0%, a $5.0 million increase, during the same period, mainly driven by increases in the volume of off-platform payments transactions.

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The following table sets forth our total net revenues and the sequential quarterly growth of these net revenues for the periods described below:

| | Quarter Ended | | | |
|---|---|---|---|---|
| | March 31, | June 30, | September 30, | December 31, |
| | (in millions, except percentages) (*) | | | |
| 2019 | | | | |
| Net revenues (**) | $ 473.8 | n/a | n/a | n/a |
| Percent change from prior quarter | 11% | | | |
| 2018 | | | | |
| Net revenues (**) | $ 321.0 | $ 335.4 | $ 355.3 | $ 428.0 |
| Percent change from prior quarter | -10% | 4% | 6% | 20% |

(*) Percentages have been calculated using whole-dollar amounts rather than the rounded amounts that appear in the table.

(**) The amount incurred in shipping subsidies, which are netted from revenues, when we act as an agent, was $74.0 million and $112.5 million for the three-month periods ended March 31, 2019 and 2018, respectively.

The following table sets forth the growth in net revenues in local currencies for the three-month period ended March 31, 2019 as compared to the same period in 2018:

| (% of revenue growth in Local Currency) (*) (**) | Three-month period |
|---|---|
| Brazil | 91.1% |
| Argentina | 82.6% |
| Mexico | 227.3% |
| Other Countries | 43.9% |
| Total Consolidated | 92.9% |

(*) The local currency revenue growth was calculated by using the average monthly exchange rates for each month during 2018 and applying them to the corresponding months in 2019, so as to calculate what our financial results would have been had exchange rates remained stable from one year to the next. See also “Non-GAAP Financial Measures” section below for details on FX neutral measures.

(**) The amount incurred in shipping subsidies, which are netted from revenues, when we act as an agent, was $74.0 million and $112.5 million for the three-month periods ended March 31, 2019 and 2018, respectively.

In Argentina, the increase in local currency growth is due to an increase in our Argentine transactions volume and our shipped items volume, increases in our Mercado Pago transactions and a high level of inflation.

In Mexico and Brazil, the increase in local currency growth is a consequence of an increase of our Marketplace transactions volumes and increases in our Mercado Pago transactions and shipped items volumes.

Cost of net revenues

| | Three-month Periods Ended March 31, | | Change from 2018 to 2019 (*) | |
|---|---|---|---|---|
| | 2019 | 2018 | in Dollars | in % |
| | (in millions, except percentages) | | | |
| Total cost of net revenues | $ 236.8 | $ 158.2 | $ 78.5 | 49.6% |
| As a percentage of net revenues (*) | 50.0% | 49.3% | | |

(*) Percentages have been calculated using whole-dollar amounts rather than the rounded amounts that appear in the table. The table above may not total due to rounding.

For the three-month period ended March 31, 2019 as compared to the same period of 2018, the increase of $78.5 million in cost of net revenues was primarily attributable to: i) a $31.7 million increase in shipping carrier and operating costs; ii) an increase in collection fees of $15.7 million, which was mainly attributable to our Argentine and Brazilian operations as a result of the higher transactions volume of Mercado Pago in those countries and higher off-platform transactions; iii) an increase in sales taxes of

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$10.2 million, mainly related to the growth of our Argentine and Brazilian operations; iv) an increase in cost of products sold of $4.8 million attributable to higher volumes of mobile point of sale devices sold in Brazil, Argentina and Mexico; v) a $4.7 million increase in customer support costs mainly as a consequence of higher salaries and wages due to new hirings and vi) an increase in hosting expenses of $3.7 million.

Product and technology development expenses

| | Three-month Periods Ended March 31, | | Change from 2018 to 2019 (*) | |
|---|---|---|---|---|
| | 2019 | 2018 | in Dollars | in % |
| | (in millions, except percentages) | | | |
| Product and technology development | $ 52.4 | $ 38.4 | $ 14.0 | 36.4% |
| As a percentage of net revenues (*) | 11.1% | 12.0% | | |

(*) Percentages have been calculated using whole-dollar amounts rather than the rounded amounts that appear in the table. The table above may not total due to rounding.

For the three-month period ended March 31, 2019, the increase in product and technology development expenses as compared to the same period in 2018 amounted to $14.0 million. This increase was primarily attributable to: i) an increase in other product and technology development expenses of $7.0 million primarily related to certain taxes and withholdings; ii) a $3.9 million increase in salaries and wages; iii) a $1.4 million increase in maintenance expenses; and iv) a $1.1 million increase in depreciation and amortization.

We believe product development is one of our key competitive advantages and intend to continue to invest in hiring engineers to meet the increasingly sophisticated product expectations of our customer base.

Sales and marketing expenses

| | Three-month Periods Ended | Change from 2018 |
|---|---|---|

| | March 31, | | to 2019 (*) | |
|---|---|---|---|---|
| | 2019 | 2018 | in Dollars | in % |
| | (in millions, except percentages) | | | |
| Sales and marketing | $ 130.7 | $ 110.7 | $ 20.0 | 18.0% |
| As a percentage of net revenues (*) | 27.6% | 34.5% | | |

(*) Percentages have been calculated using whole-dollar amounts rather than the rounded amounts that appear in the table. The table above may not total due to rounding.

For the three-month period ended March 31, 2019, the $20.0 million increase in sales and marketing expenses as compared to the same period in 2018 was primarily attributable to: i) an increase of $8.0 million in online and offline marketing expenses mainly in Brazil, Mexico and Argentina; ii) a $3.9 million increase in our buyer protection program expenses, mainly in Brazil; iii) a $3.9 increase in chargebacks from credit cards due to the increase in our MercadoPago transactions volume and iv) a $2.5 million increase in salaries and wages.

General and administrative expenses

| | Three-month Periods Ended | | Change from 2018 | |
|---|---|---|---|---|
| | March 31, | | to 2019 (*) | |
| | 2019 | 2018 | in Dollars | in % |
| | (in millions, except percentages) | | | |
| General and administrative | $ 43.8 | $ 43.1 | $ 0.8 | 1.8% |
| As a percentage of net revenues (*) | 9.2% | 13.4% | | |

(*) Percentages have been calculated using whole-dollar amounts rather than the rounded amounts that appear in the table. The table above may not total due to rounding.

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For the three-month period ended March 31, 2019, the $0.8 million increase in general and administrative expenses as compared to the same period in 2018 was primarily attributable to a $4.3 million increase other general and administrative expenses mainly related to certain taxes and withholdings. This increase was partially offset by a decrease of $3.6 million in salaries and wages, mainly related to devaluation of Argentine Peso and Brazilian Reais.

Other income (expense), net

| | Three-month Periods Ended March 31, | | Change from 2018 to 2019 (*) | |
|---|---|---|---|---|
| | 2019 | 2018 | in Dollars | in % |
| | (in millions, except percentages) | | | |
| Other income (expense), net | $ 5.2 | $ 4.1 | $ 1.2 | 28.4% |
| As a percentage of net revenues (*) | 1.1% | 1.3% | | |

(*) Percentages have been calculated using whole-dollar amounts rather than the rounded amounts that appear in the table. The table above may not total due to rounding.

For the three-month period ended March 31, 2019, the $1.2 million increase in other income (expense), net as compared to the same period in 2018 was primarily attributable to a $15.2 million increase in interest income from our financial investments as a result of a higher float in Argentina and Brazil and the proceeds of the 2028 Notes, which generated more invested volume and interest gain. This increase was partially offset by: i) a higher foreign exchange loss of $9.3 million and ii) an increase of $4.8 million in financial expenses, mainly attributable to financial interest related to the 2028 Notes.

Income tax

| | Three-month Periods Ended March | Change from 2018 to 2019 (*) |
|---|---|---|

| | 2019 | | 2018 | | in Dollars | | in % |
|---|---|---|---|---|---|---|---|
| | (in millions, except percentages) | | | | | | |
| Income tax (expense)/gain | $ | (3.5) | $ | 12.4 | $ | (15.9) | -128.1% |
| As a percentage of net revenues (*) | -0.7% | | 3.9% | | | | |

(*) Percentages have been calculated using whole-dollar amounts rather than the rounded amounts that appear in the table. The table above may not total due to rounding.

During the three-month period ended March 31, 2019 as compared to the same period in 2018, income tax expense increased by $15.9 million mainly as a consequence of pre-tax gains in Brazil (resulting primarily from lower free shipping subsidies) compared to the pre-tax losses recorded in Brazil during 2018 (as a result mainly of higher operating and shipping costs during 2018).

Our blended tax rate is defined as income tax (expense)/gain as a percentage of income/(loss) before income tax. Our effective income tax rate is defined as the provision for income taxes payable as a percentage of income/(loss) before income tax. The effective income tax rate excludes the effects of the deferred income tax, and complementary income tax.

The following table summarizes our blended and effective tax rates for the three-month periods ended March 31, 2019 and 2018:

| | Three-month Periods Ended March 31, | |
|---|---|---|
| | 2019 | 2018 |
| Blended tax rate | 22.7% | 49.1% |
| Effective tax rate | 113.6% | -71.6% |

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Our blended tax rate for the three-month period ended March 31, 2019 decreased as compared to the same period in 2018 mainly due to the effect of the compensation during the first quarter of 2018 between pre-tax losses and gains which generated a reduction of our interim consolidated pre-tax result and a higher blended tax rate also due to the combination of different tax rates. This effect did not take place in 2019, where we had pre-tax gains at consolidated level that were taxable at lower tax rate, mainly due to the benefits of Argentine software development law.

Our effective tax rate for the three-month period ended March 31, 2019 increased as compared to the same period in 2018 mainly due to the combined effect of the increase in our pre-tax losses for Mexico at the segment level and the provision for income tax corresponding to certain subsidiaries with pre-tax gains. Additionally, during the first quarter of 2018, Brazil had pre-tax losses at the segment level but also provision for income tax corresponding to certain subsidiaries with pre-tax gains and during the first quarter of 2019, Brazil had pre-tax gains at the segment level, increasing its effective tax rate.

The following table sets forth our effective income tax rate on a segment basis for the three-month periods ended March 31, 2019 and 2018:

| | Three-month Periods Ended March 31, | |
|---|---|---|
| | 2019 | 2018 |
| Effective tax rate by country | | |
| Argentina | 33.3% | 30.5% |
| Brazil | 32.9% | -19.0% |
| Mexico | -1.5% | -0.9% |

The increase in the effective income tax rate in our Argentine subsidiaries during the three-month period ended March 31, 2019 as compared to the same period in 2018 was mainly related to lower pre-tax gains and higher non-deductible expenses, mainly associated to the functional currency change related to our Argentine operations in the first quarter of 2019.

For information regarding the benefits granted to the Company under the software development law, please see Note 2 to our interim unaudited condensed consolidated financial statements.

The increase in our Brazilian effective income tax rate, which was negative for the three-month period ended March 31, 2018 as compared to the same period in 2019, was mainly related to pre-tax gains during first quarter of 2019. During the first quarter of 2018, the effective tax rate in Brazil was lower and negative because of pre-tax losses (as a result of a decrease in net revenues because of the increase in our shipping subsidies described above) without any corresponding impact in our provision for income taxes.

The decrease in our Mexican negative effective income tax rate for the three-month period ended March 31, 2019 as compared to the same period in 2018 was mainly related to the combined effect of the increase in our pre-tax losses in Mexico at the segment level (as a result of an increase in our shipping subsidies described above) and the provision for income tax corresponding to certain subsidiaries with pre-tax gains.

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Segment information

| (In millions, except for percentages) | Three-month Period Ended March 31, 2019 (*) | | | | |
|---|---|---|---|---|---|
| | Brazil | Argentina | Mexico | Other Countries | Total |
| Net revenues | $ 302.4 | $ 93.8 | $ 54.6 | $ 23.0 | $ 473.8 |
| Direct costs | $ (225.3) | $ (67.5) | $ (65.6) | $ (20.4) | $ (378.9) |
| Direct contribution | 77.0 | 26.3 | (11.0) | 2.6 | 94.9 |
| Margin | 25.5% | 28.0% | -20.2% | 11.3% | 20.0% |

| | Three-month Period Ended March 31, 2018 (*) | | | | |
|---|---|---|---|---|---|
| | Brazil | Argentina | Mexico | Other Countries | Total |
| Net revenues | $ 184.2 | $ 101.9 | $ 17.1 | $ 17.8 | $ 321.0 |
| Direct costs | $ (177.0) | $ (57.3) | $ (26.3) | $ (17.3) | $ (277.9) |
| Direct contribution | 7.2 | 44.6 | (9.3) | 0.5 | 43.1 |
| Margin | 3.9% | 43.8% | -54.3% | 3.1% | 13.4% |

| | Change from the Three-month Period Ended March 31, 2018 to March 31, 2019 (*) | | | | |
|---|---|---|---|---|---|
| | Brazil | Argentina | Mexico | Other Countries | Total |
| Net revenues | | | | | |
| in Dollars | $ 118.2 | $ (8.2) | $ 37.5 | $ 5.2 | $ 152.8 |
| in % | 64.2% | -8.0% | 219.7% | 29.4% | 47.6% |
| Direct costs | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| in Dollars | $ (48.4) | $ (10.2) | $ (39.3) | $ (3.2) | $ (101.0) |
| in % | 27.3% | 17.8% | 149.2% | 18.4% | 36.3% |
| Direct contribution | | | | | |
| in Dollars | $ 69.9 | $ (18.4) | $ (1.8) | $ 2.1 | $ 51.8 |
| in % | 973.8% | -41.1% | 19.1% | 376.8% | 120.2% |

(*) Percentages have been calculated using whole-dollar amounts rather than the rounded amounts that appear in the table. The table above may not total due to rounding.

Net revenues

Net revenues for the three-month period ended March 31, 2019 as compared to the same period in 2018 are described above in "Item 2 — Management's Discussion and Analysis of Financial Condition and Results of Operations — Net revenues".

Direct costs

Brazil

For the three-month period ended March 31, 2019 as compared to the same period in 2018, direct costs increased by 27.3%, mainly driven by: i) a 40.8% increase in cost of net revenues, mainly attributable to an increase in collection fees as a consequence of higher transactions volume of our Mercado Pago business, shipping operating costs, sales tax and salaries and wages related to customer service; ii) a 11.9% increase in sales and marketing expenses, mainly due to an increase in online and offline marketing expenses, buyer protection program expenses, bad debt expenses, salaries and wages and chargebacks from credit cards due to the increase in our Mercado Pago transaction volume; iii) a 28.0% increase in product and technology development expenses, mainly due to an increase in depreciation and amortization expenses and salaries and wages and; iv) a 6.3% increase in general and administrative expenses, mainly attributable to an increase in tax and other fees and other general and administrative expenses.

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Argentina

For the three-month period ended March 31, 2019 as compared to the same period in 2018, direct costs increased by 17.8%, mainly driven by: i) a 20.3% increase in cost of net revenues, mainly attributable to an increase in cost of products sold as a consequence of higher volume of mobile point of sale devices, salaries and wages related to customer service and other payments costs and ii) a 9.3% increase in sales and marketing expenses, mainly due to an increase in buyer protection program expenses, chargebacks from credit cards and salaries and wages.

Mexico

For the three-month period ended March 31, 2019 as compared to the same period in 2018, direct costs increased by 149.2%, mainly driven by: i) a 316.3% increase in cost of net revenues, mainly attributable to an increase in shipping operating costs, collection fees due to higher Mercado Pago penetration, customer support costs and cost of products sold as a consequence of higher volume of mobile point of sale devices; ii) a 51.1% increase in sales and marketing expenses, mainly due to increases in online and offline marketing expenses, buyer protection program expenses, chargebacks from credit cards due to the increase in our Mercado Pago volume and salaries and wages; iii) a 133.3% increase in general and administrative expenses mainly due to a increase in salaries and wages and other general and administrative expenses and iv) a 83.2% increase in product and technology development expenses, mainly attributable to depreciation and amortization and salaries and wages.

Liquidity and Capital Resources

Our main cash requirement has been working capital to fund Mercado Pago financing operations. We also require cash for capital expenditures relating to technology infrastructure, software applications, office space, business acquisitions, to fund our credit business, to build out our logistics capacity and the interest payments on our issued convertible notes.

Since our inception, we have funded our operations primarily through contributions received from our stockholders during the first two years of operations, from funds raised during our initial public offering, and from cash generated from our operations. We issued the 2019 Notes and 2028 Notes for net proceeds of approximately $321.7 million and $864.6 million, respectively. We have funded Mercado Pago mainly by discounting credit card receivables and credit lines.

Additionally, we continue funding our MercadoCredito business through securitization of certain loan receivables through SPEs created in Brazil and Argentina, formed to securitize loan receivables provided by us to our users. We will be using this alternative funding as the MercadoCredito business requires financing to develop and improve its operations. Please refer to Note 11 of our unaudited interim condensed consolidated financial statements for further detail on securitization transactions.

Finally, we issued common and preferred stock in the securities offerings that closed on March 15, 2019 and March 29, 2019, respectively, for net aggregate proceeds of approximately $2,000 million, which are intended to be used to fund the growth of our payment initiatives, build out our logistics capacity, drive the adoption of these services and for general corporate purposes. Please see note 10 to our unaudited condensed consolidated financial statements for additional information regarding our equity offerings.

As of March 31, 2019, our main source of liquidity, amounting to $2,706.3 million of cash and cash equivalents and short-term investments which excludes a $238.0 million investment related to the Central Bank of Brazil Mandatory

Guarantee, and $275.4 million of long-term investments, consists of cash generated from operations, proceeds from loans, from the issuance of the 2019 Notes and the 2028 Notes and proceeds from the issuance of common and preferred stock. We consider our long-term investments as part of our liquidity because long-term investments are comprised of available-for-sale securities classified as long-term as a consequence of their contractual maturities.

The significant components of our working capital are cash and cash equivalents, restricted cash and cash equivalents, short-term investments, accounts receivable, loans receivable, accounts payable and accrued expenses, funds receivable from and payable to Mercado Pago users, and short-term debt.

As of March 31, 2019, cash and investments of our non-U.S. subsidiaries amounted to $875.1 million, a 27.1% of our consolidated cash, restricted cash and cash equivalents and investments, and our non-U.S. dollar-denominated cash and investments amounted to approximately 23.7% of our consolidated cash and investments. Our non-U.S. dollar-denominated cash and investments are located primarily in Brazil.

In the event we change the way we manage our business, our working capital needs could be funded, as in the past, through a combination of the sale of credit card coupons to financial institutions, cash advances from our business and securitization of financial assets through a special purpose vehicle, such as a trust.

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The following table presents our cash flows from operating activities, investing activities and financing activities for the three-month periods ended March 31, 2019 and 2018:

| | Three-month Periods Ended March 31, (*) | |
|---|---|---|
| (In millions) | 2019 | 2018 |
| Net cash provided by (used in): | | |
| Operating activities | $ 138.4 | $ (37.0) |
| Investing activities | (1,260.1) | (24.1) |
| Financing activities | 1,974.7 | 24.0 |
| Effect of exchange rates on cash and cash equivalents | (11.4) | (0.8) |
| Net increase/(decrease) in cash and cash equivalents | $ 841.6 | $ (37.8) |

(*) The table above may not total due to rounding.

Net cash provided by/(used in) operating activities

Cash provided by/(used in) operating activities consists of net income adjusted for certain non-cash items, and the effect of changes in working capital and other activities:

| | Three-month Periods Ended March 31, (*) | | Change from 2018 to 2019 (*) | |
|---|---|---|---|---|
| | 2019 | 2018 | in Dollars | in % |
| | (in millions, except percentages) | | | |
| Net Cash provided by/(used in): | | | | |
| Operating activities | $ 138.4 | $ (37.0) | $ 175.4 | 473.9% |

(*) Percentages have been calculated using whole-dollar amounts rather than the rounded amounts that appear in the table. The table above may not total due to rounding.

The $175.4 million increase in net cash provided by operating activities during the three-month period ended March 31, 2019, as compared to the same period in 2018, was primarily driven by a $69.8 million increase caused by a reduction in credit card receivables, a $43.1 million increase in funds payable to customers, a $24.8 million increase in our net income, a $19.5 million increase caused by a reduction in prepaid expenses and a $9.7 million increase in other liabilities.

Net cash used in investing activities

| | Three-month Periods Ended March 31, (*) | | Change from 2018 to 2019 (*) | |
|---|---|---|---|---|
| | 2019 | 2018 | in Dollars | in % |
| | (in millions, except percentages) | | | |
| Net Cash used in: | | | | |
| Investing activities | $ (1,260.1) | $ (24.1) | $ (1,236.0) | -5129.2% |

(*) Percentages have been calculated using whole-dollar amounts rather than the rounded amounts that appear in the table. The table above may not total due to rounding.

Net cash used in investing activities in the three-month period ended March 31, 2019 resulted mainly from purchases of investments of $1,624.2 million, which was partially offset by proceeds from the sale and maturity of investments of $439.7 million, as part of our financial strategy. We used $42.6 million in principal of loans receivable granted to merchants and consumers under our MercadoCredito solution; and $32.9 million in the purchase of property and equipment (mainly in information technology in Argentina, Brazil and the United States).

Net cash provided by financing activities

| | Three-month Periods Ended March 31, (*) | | Change from 2018 to 2019 (*) | |
|---|---|---|---|---|
| | 2019 | 2018 | in Dollars | in % |
| | (in millions, except percentages) | | | |
| Net Cash provided by: | | | | |
| Financing activities | $ 1,974.7 | $ 24.0 | $ 1,950.7 | 8119.0% |

(*) Percentages have been calculated using whole-dollar amounts rather than the rounded amounts that appear in the table. The table above may not total due to rounding.

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For the three-month period ended March 31, 2019, the $1,950.7 million increase in net cash provided by financing activities was mainly derived from $1,866.5 million in proceeds from the issuance of Common Stock, $98.7 million in proceeds from issuance of Preferred Stock.

In the event that we decide to pursue strategic acquisitions in the future, we may fund them with available cash, third-party debt financing, or by raising equity capital, as market conditions allow.

Debt

Convertible Senior Notes

On August 24, 2018, we issued $800 million of 2.00% Convertible Senior Notes due 2028 and on August 31, 2018 we issued an additional $80 million of notes pursuant to the partial exercise of the initial purchasers' option to purchase such additional notes, resulting in an aggregate principal amount of $880 million of 2.00% Convertible Senior Notes due 2028. The 2028 Notes are unsecured, unsubordinated obligations of us, which pay interest in cash semi-annually, on February 15 and August 15, at a rate of 2.00% per annum. The 2028 Notes will mature on August 15, 2028 unless earlier repurchased or converted in accordance with their terms prior to such date. The 2028 Notes may be converted, under specific conditions, based on an initial conversion rate of 2.2553 shares of common stock per $1,000 principal amount of the 2028 Notes (equivalent to an initial conversion price of $443.40 per share of common stock), subject to adjustment as described in the indenture governing the 2028 Notes.

On June 30, 2014, we issued $330 million of 2.25% convertible senior notes due 2019 (the "2019 Notes"). The 2019 Notes are unsecured, unsubordinated obligations of the Company, which pay interest in cash semi-annually, on January 1 and July 1 of each year, at a rate of 2.25% per annum. The 2019 Notes will mature on July 1, 2019 unless earlier repurchased or converted in accordance with their terms prior to such date. The 2019 Notes may be converted, under specific conditions, based on an initial conversion rate of 7.9353 shares of common stock per $1,000 principal amount of the 2019 Notes (equivalent to an initial conversion price of $126.02 per share of common stock), subject to adjustment as described in the indenture governing the Notes.

Please refer to note 9 to our unaudited interim condensed consolidated financial statements for additional information regarding the 2019 Notes, the 2028 Notes and the related capped call transactions.

Mercado Pago Funding

During 2019, we, through our subsidiaries, continued obtaining certain lines of credit in Argentina, Chile and Uruguay primarily to fund the Mercado Pago business. Additionally, we started to securitize certain loan receivables through its Argentine and Brazilian SPEs, formed to securitize loan receivables provided by us to our users. Please refer to Note 11 to our interim unaudited condensed consolidated financial statements for additional detail.

Capital expenditures

Our capital expenditures (composed of our payments for property and equipment (as fulfillment centers), intangible assets and acquired businesses) for the three-month periods ended March 31, 2019 and 2018 amounted to $33.0 million and $23.0 million, respectively.

During the three-month period ended March 31, 2019, we invested $12.2 million in information technology in Brazil, Argentina and Mexico, and $12.1 million in our Argentine, Brazilian and Mexican offices.

We are continually increasing our level of investment in hardware and software licenses necessary to improve and update our platform's technology and computer software developed internally. We anticipate continued investments in capital expenditures related to information technology in the future as we strive to maintain our position in the Latin American e-commerce market.

We believe that our existing cash and cash equivalents, including the sale of credit card receivables and cash generated from operations will be sufficient to fund our operating activities, property and equipment expenditures and to pay or repay obligations going forward.

Off-balance sheet arrangements

As of March 31, 2019, we had no off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on our consolidated financial condition, results of operations, liquidity, capital expenditures or capital resources.

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Recently issued accounting pronouncements

See Item 1 of Part I, "Unaudited Interim Condensed Consolidated Financial Statements-Note 2-Summary of significant accounting policies- Recently Adopted Accounting Standards and Recently issued accounting pronouncements not yet adopted."

Non-GAAP Financial Measures

To supplement our consolidated financial statements presented in accordance with U.S. GAAP, we use foreign exchange ("FX") neutral measures as a non-GAAP measure.

This non-GAAP measure should not be considered in isolation or as a substitute for measures of performance prepared in accordance with U.S. GAAP and may be different from non-GAAP measures used by other companies. In addition, this non-GAAP measure is not based on any comprehensive set of accounting rules or principles. Non-GAAP measures have limitations in that they do not reflect all of the amounts associated with our results of operations as determined in accordance with U.S. GAAP. This non-GAAP financial measure should only be used to evaluate our results of operations in conjunction with the most comparable U.S. GAAP financial measures.

Reconciliation of this non-GAAP financial measure to the most comparable U.S. GAAP financial measure can be found in the table included in this quarterly report.

We believe that reconciliation of FX neutral measures to the most directly comparable GAAP measure provides investors an overall understanding of our current financial performance and its prospects for the future. Specifically, we believe this FX neutral non-GAAP measure provide useful information to both Management and investors by excluding the foreign currency exchange rate impact that may not be indicative of our core operating results and business outlook.

The FX neutral measures were calculated by using the average monthly exchange rates for each month during 2018 and applying them to the corresponding months in 2019, so as to calculate what our results would have been if exchange rates remained stable from one year to the next. The table below excludes intercompany allocation FX effects. Finally, this measures does not include any other macroeconomic effect such as local currency inflation effects, the impact on impairment calculations or any price adjustment to compensate local currency inflation or devaluations.

The following table sets forth the FX neutral measures related to our reported results of the operations for the three-month periods ended March 31, 2019:

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Three-month Periods Ended March 31, (*) As reported | | | | | FX Neutral Measures | | As reported | |
| (In millions, except percentages) | 2019 | | 2018 | | Percentage Change | 2019 | | 2018 | |
| | (Unaudited) | | | | | (Unaudited) | | | |
| Net revenues | $ | 473.8 | $ | 321.0 | 47.6% | $ | 619.2 | $ | 32 |
| Cost of net revenues | (236.8) | | (158.2) | | 49.6% | (317.1) | | (158.2) | |
| Gross profit | 237.0 | | 162.8 | | 45.6% | 302.2 | | 162.8 | |
| Operating expenses | (226.9) | | (192.2) | | 18.1% | (332.9) | | (192.2) | |
| Income (Loss) from operations | 10.1 | | (29.4) | | -134.5% | (30.8) | | (29.4) | |

(*) The table above may not total due to rounding.

The table above shows a loss from operations on an FX neutral basis mainly as result of a 53.5% Argentine local currency devaluation as of March 31, 2019 compared to March 31, 2018, which has a strong impact if we estimate our Argentine operating expenses on an FX neutral basis.

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## Item 3 — Qualitative and Quantitative Disclosure About Market Risk

We are exposed to market risks arising from our business operations. These market risks arise mainly from the possibility that changes in interest rates and the U.S. dollar exchange rate with local currencies, particularly the Brazilian Reais and Argentine Peso due to Brazil's and Argentine's respective share of our revenues, may affect the value of our financial assets and liabilities.

### Foreign currencies

We have significant operations internationally that are denominated in foreign currencies, primarily the Brazilian Reais, Argentine Peso, Mexican Peso, Colombian Peso and Chilean Peso, subjecting us to foreign currency risk which may adversely impact our financial results. We transact business in various foreign currencies and have significant international revenues and costs. In addition, we charge our international subsidiaries for their use of intellectual property and technology and for certain corporate services. Our cash flows, results of operations and certain of our intercompany balances that are exposed to foreign exchange rate fluctuations may differ materially from expectations and we may record significant gains or losses due to foreign currency fluctuations and related hedging activities.

As of March 31, 2019, we hold cash and cash equivalents in local currencies in our subsidiaries, and have receivables denominated in local currencies in all of our operations. Our subsidiaries generate revenues and incur most of their expenses in the respective local currencies of the countries in which they operate. As a result, our subsidiaries use their local currency as their functional currency except for our Argentine subsidiaries whose functional currency is the U.S. dollar due to the inflationary environment. As of March 31, 2019, the total cash and cash equivalents denominated in foreign currencies totaled $306.2 million, short-term investments denominated in foreign currencies totaled $422.3 million and accounts receivable, credit cards receivable and loans receivable in foreign currencies totaled $342.7 million. As of March 31, 2019, we had no long-term investments denominated in foreign currencies. To manage exchange rate risk, our treasury policy is to transfer most cash and cash equivalents in excess of working capital requirements into U.S. dollar-denominated accounts in the United States. As of March 31, 2019, our U.S. dollar-denominated cash and cash equivalents and short-term investments totaled $2,226.2 million and our U.S. dollar-denominated long-term investments totaled $275.4 million.

For the three-month period ended March 31, 2019, we had a consolidated loss on foreign currency of $3.7 million primarily as a result of a $3.5 million loss arising from the strengthening of the U.S. dollar over our Argentine Peso net asset position in Argentina.

The following table sets forth the percentage of consolidated net revenues by segment for the three-month periods ended March 31, 2019 and 2018:

| | Three-month Periods Ended March 31, | |
|---|---|---|
| (% of total consolidated net revenues) (*) (**) | 2019 | 2018 |
| Brazil | 63.8 % | 57.4 % |

| | | |
|---|---|---|
| Argentina | 19.8 | 31.8 |
| Mexico | 11.5 | 5.3 |
| Other Countries | 4.9 | 5.6 |

(*) Percentages have been calculated using whole-dollar amounts.

(**)The amount incurred in shipping subsidies, which are netted from revenues, when we act as an agent, was $74.0 million and $112.5 million for the three-month periods ended March 31, 2019 and 2018, respectively.

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Foreign Currency Sensitivity Analysis

The table below shows the impact on our net revenues, expenses, other expenses and income tax, net income and equity for a positive and a negative 10% fluctuation on all the foreign currencies to which we are exposed to for the three-month period ended March 31, 2019:

| Foreign Currency Sensitivity Analysis (*)<br>(In millions) | -10%<br>(1) | Actual | +10%<br>(2) |
|---|---|---|---|
| Net revenues | $ 526.4 | $ 473.8 | $ 430.7 |
| Expenses | (515.2) | (463.6) | (421.4) |
| Income from operations | 11.2 | 10.1 | 9.3 |
| Other expenses and income tax related to P&L items | 6.6 | 5.4 | 4.4 |
| Foreign Currency impact related to the remeasurement of our Net Asset position | (4.1) | (3.7) | (3.3) |
| Net Income | 13.7 | 11.9 | 10.4 |
| Total Shareholders' Equity | $ 2,551.3 | $ 2,214.1 | $ 2,366.9 |

(1) Appreciation of the subsidiaries’ local currency against U.S. Dollar
(2) Depreciation of the subsidiaries’ local currency against U.S. Dollar
(*) The table above may not total due to rounding.

The table above shows an increase in our net income when the U.S. dollar weakens against foreign currencies because of the net negative impact of the re-measurement of our net asset position in U.S. dollars and the increase in our income from operations and other expenses, net and income tax lines related to the translation effect. Similarly, the table above shows a decrease in our net income when the U.S. dollar strengthens against foreign currencies because the re-measurement of our net asset position in U.S. dollars has a lesser impact than the decrease in our loss from operations and other expenses, net and income tax lines related to the translation effect.

Argentine Segment

In accordance with U.S. GAAP, we have classified our Argentine operations as highly inflationary since July 1, 2018, using the U.S. dollar as the functional currency for purposes of reporting our financial statements. Therefore, no translation effect has been accounted for in other comprehensive income related to our Argentine operations since July 1, 2018.

As of March 31, 2019, the Argentine Peso exchange rate against the U.S. dollar was 43.35.

Had a hypothetical devaluation of 10% of the Argentine Peso against the U.S. dollar occurred on March 31, 2019, the reported net asset in our Argentine subsidiaries would have recorded a foreign exchange loss amounting to approximately $1.7 million in our Argentine subsidiaries.

Brazilian Segment

As of March 31, 2019, the Brazilian Reais exchange rate against the U.S. dollar was 3.90.

Had a hypothetical devaluation of 10% of the Brazilian Reais against the U.S. dollar occurred on March 31, 2019, the reported net assets in our Brazilian subsidiaries would have decreased by approximately $30.9 million with the related impact in Other Comprehensive Income. Additionally, we would have recorded a foreign exchange gain amounting to approximately $2.4 million in our Brazilian subsidiaries.

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Interest

Our earnings and cash flows are also affected by changes in interest rates. These changes could have an impact on the interest rates that financial institutions charge us prior to the time we sell our Mercado Pago receivables. As of March 31, 2019, Mercado Pago's receivables totaled $308.5 million. Interest rate fluctuations could also impact interest earned through our MercadoCredito solution. As of March 31, 2019, loans granted under our MercadoCredito solution totaled $134.6 million. Interest rate fluctuations could also negatively affect certain of our fixed rate and floating rate investments comprised primarily of time deposits, money market funds, investment grade corporate debt securities and sovereign debt securities. Investments in both fixed rate and floating rate interest earning products carry a degree of interest rate risk. Fixed rate securities may have their fair market value adversely impacted due to a rise in interest rates, while floating rate securities may produce less income than predicted if interest rates fall.

Under our current policies, we do not use interest rate derivative instruments to manage exposure to interest rate changes. As of March 31, 2019, the average duration of our available for sale securities, defined as the approximate percentage change in price for a 100-basis-point change in yield, was 0.8%. If interest rates were to instantaneously increase (decrease) by 100 basis points, the fair market value of our available for sale securities as of March 31, 2019 could decrease (increase) by approximately $10.0 million.

As of March 31, 2019, our short-term investments amounted to $1,648.5 million and our long-term investments amounted to $275.4 million. These investments, except for the $238.0 million investment related to the Central Bank of Brazil Mandatory Guarantee, can be readily converted at any time into cash or into securities with a shorter remaining time to maturity. We determine the appropriate classification of our investments at the time of purchase and re-evaluate such designations as of each balance sheet date.

Equity Price Risk

Our board of directors adopted the 2011 and 2012 long-term retention plans (the "2011 and 2012 LTRPs", respectively), under which certain eligible employees receive awards ("LTRP Awards"), which are payable as follows:

- eligible employees will receive a fixed payment equal to 6.25% of his or her LTRP Award under the 2011, and/or 2012 LTRP, respectively, once a year for a period of eight years. The 2011 LTRP awards began paying out starting in 2012 and the 2012 LTRP Awards starting in 2013(the "2011 or 2012 Annual Fixed Payment", respectively); and
- on each date we pay the respective Annual Fixed Payment to an eligible employee, he or she will also receive a payment (the "2011 or 2012 Variable Payment", respectively) equal to the product of (i) 6.25% of the applicable 2011 and/or 2012 LTRP Award and (ii) the quotient of (a) divided by (b), where (a), the numerator, equals the Applicable Year Stock Price (as defined below) and (b), the denominator, equals the 2010 (with respect to the 2011 LTRP) and 2011 (with respect to the 2012 LTRP) Stock Price, ($65.41 and $77.77 for the 2011 and 2012 LTRP, respectively, which was the average closing price of the Company's common stock on the NASDAQ Global Select Market during the final 60 trading days of 2010 and 2011, respectively. The "Applicable Year Stock Price" equals the average closing price of the Company's common stock on the NASDAQ Global Select Market during the final 60 trading days of the year preceding the applicable payment date.

Our board of directors, upon the recommendation of the compensation committee, approved the 2013, 2014, 2015, 2016, 2017, and 2018 Long Term Retention Plan (the "2013, 2014, 2015, 2016, 2017 and 2018 LTRPs"), respectively.

In order to receive an award under the 2013, 2014, 2015, 2016, 2017 and/or 2018 LTRP, each eligible employee must satisfy the performance conditions established by the Board of Directors for such employee. If these conditions are satisfied, the eligible employee will, subject to his or her continued employment as of each applicable payment date, receive the full amount of his or her 2013, 2014, 2015, 2016, 2017, and/or 2018 LTRP award, payable as follows:

- the eligible employee will receive a fixed payment, equal to 8.333% of his or her 2013, 2014, 2015, 2016, 2017, and/or 2018 LTRP bonus once a year for a period of six years starting in March 2014, 2015, 2016, 2017, and/or 2018 respectively (the "2013, 2014, 2015, 2016, 2017, or 2018 Annual Fixed Payment", respectively); and
- on each date we pay the Annual Fixed Payment to an eligible employee, he or she will also receive a payment (the "2013, 2014, 2015, 2016, 2017, or 2018 Variable Payment", respectively) equal to the product of (i) 8.333% of the applicable 2013, 2014, 2015, 2016, 2017, and/or 2018 LTRP award and (ii) the quotient of (a) divided by (b), where (a), the numerator, equals the Applicable Year Stock Price (as defined below) and (b), the denominator, equals the 2012 (with respect to the 2013 LTRP), 2013 (with respect to the 2014 LTRP), 2014 (with respect to the 2015 LTRP), 2015 (with respect to the 2016 LTRP), 2016 (with respect to the 2017 LTRP) and 2017 (with respect to the 2018 LTRP) Stock Price, defined as $79.57, $118.48, $127.29, $111.02, $164.17, $270.84 and $322.91 for the 2013, 2014, 2015, 2016, 2017 and 2018 LTRP, respectively, which was the average closing price of our common stock on the NASDAQ Global Select Market during the final 60 trading days of 2012, 2013, 2014, 2015, 2016 and 2017, respectively. The "Applicable Year Stock Price" shall equal the average closing price of our common stock on the NASDAQ Global Select Market during the final 60 trading days of the year preceding the applicable payment date.

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Our board of directors, upon the recommendation of the compensation committee, approved the 2019 Long Term Retention Plan (the "2019 LTRP"). In order to receive the full target award under the 2019 LTRP, each eligible employee must remain employed as of each applicable payment date. The 2019 LTRP award is payable as follows:

- the eligible employee will receive 8.333% of his or her 2019 LTRP bonus once a year for a period of six years starting in March 2020 (the "2019 Annual Fixed Payment"); and
- on each date we pay the Annual Fixed Payment to an eligible employee, he or she will also receive a payment (the "2019 Variable Payment" equal to the product of (i) 8.333% of the 2019 LTRP award and (ii) the quotient of (a) divided by (b), where (a), the numerator, equals the Applicable Year Stock Price (as defined below) and (b), the denominator, equals the average closing price of our common stock on the NASDAQ Global Select Market during the final 60 trading days of 2019. The "Applicable Year Stock Price" shall equal the average closing price of our common stock on the NASDAQ Global Select Market during the final 60 trading days of the year preceding the applicable payment date.

At March 31, 2019, the total contractual obligation fair value of our 2011, 2012, 2013, 2014, 2015, 2016, 2017, 2018 and 2019 LTRP Variable Payment obligation amounted to $106.0 million. As of March 31, 2019, the accrued liability related to the 2011, 2012, 2013, 2014, 2015, 2016, 2017, 2018 and 2019 Variable Payment of the LTRP included in Salaries and Social security payable in our condensed consolidated balance sheet amounted to $53.4 million. The following table shows a sensitivity analysis of the risk associated with our total contractual obligation fair value related to the 2011, 2012, 2013, 2014, 2015, 2016, 2017, 2018 and 2019 LTRP Variable Payment if our common stock price per share were to increase or decrease by up to 40%:

| | | As of March 31, 2019 | |
|---|---|---|---|
| (In thousands, except equity price) Change in equity price in percentage | | MercadoLibre, Inc Equity Price | 2011, 2012, 2013, 2014, 2015, 2016, 2017, 2018 and 2019 LTRP Variable contractual obligation |
| 40% | | 560.52 | 148,353 |
| 30% | | 520.48 | 137,757 |
| 20% | | 480.44 | 127,160 |
| 10% | | 440.41 | 116,563 |
| Static | (*) | 400.37 | 105,967 |
| -10% | | 360.33 | 95,370 |
| -20% | | 320.30 | 84,773 |
| -30% | | 280.26 | 74,177 |
| -40% | | 240.22 | 63,580 |

(*) Average closing stock price for the last 60 trading days of the closing date.

## Item 4 — Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports pursuant to the Securities Exchange Act of 1934, as amended (the “Exchange Act”) is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms, and that such information is accumulated and communicated to our Management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

### Evaluation of disclosure controls and procedures

Based on the evaluation of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) required by Exchange Act Rules 13a-15(b) or 15d-15(b), our chief executive officer and our chief financial officer have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective.

### Changes in Internal Controls Over Financial Reporting

There were no changes in our internal control over financial reporting (as such term is defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act) during the three-month period ended March 31, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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## PART II. OTHER INFORMATION

### Item 1 — Legal Proceedings

See Item 1 of Part I, "Financial Statements—Note 7 Commitments and Contingencies—Litigation and other Legal Matters."

### Item 1A — Risk Factors

As of March 31, 2019, there have been no material changes in our risk factors from those disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2018.

### Item 6 — Exhibits

The information set forth under "Index to Exhibits" below is incorporated herein by reference.

MercadoLibre, Inc.

INDEX TO EXHIBITS

| | |
|---|---|
| 3.1 | Registrant's Amended and Restated Certificate of Incorporation. (1) |
| 3.2 | Registrant's Amended and Restated Bylaws. (1) |
| 3.3 | Registrant's Certificate of Designation of Series A Perpetual Preferred Stock. (2) |
| 4.1 | Form of Specimen Certificate for the Registrant's Common Stock. (3) |
| 4.2 | Indenture with respect to the Registrant's 2.25% Convertible Senior Notes due 2019, dated as of June 30, 2014, between the Registrant and Wilmington Trust, National Association, as trustee. (4) |
| 4.3 | Indenture with respect to the Registrant's 2.00% Convertible Senior Notes due 2028, dated as of August 24, 2018, between the Registrant and Wilmington Trust, National Association, as trustee. (5) |
| 10.1 | Amended 2018 Long-Term Retention Plan * |
| 10.2 | 2019 Long-Term Retention Plan * |
| 10.3 | Securities Purchase Agreement, dated as of March 11, 2019, by and between MercadoLibre, Inc. and PayPal, Inc. (6) |
| 10.4 | Securities Purchase Agreement, dated as of March 11, 2019, by and between MercadoLibre, Inc. and Merlin DF Holdings, LP. (6) |
| 31.1 | Certification of Chief Executive Officer pursuant to Securities Exchange Act Rule 13a-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. * |
| 31.2 | Certification of Chief Financial Officer pursuant to Securities Exchange Act Rule 13a-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. * |
| 32.1 | Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. * |
| 32.2 | |

| | |
|---|---|
| | Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. * |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema Document |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase |

* Filed or furnished herewith, as applicable.

(1) Incorporated by reference to the Registration Statement on Form S-1 filed on May 11, 2007.

(2) Incorporated by reference to the Registrant's Current Report on Form 8-K filed on March 29, 2019.

(3) Incorporated by reference to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2008 filed on February 27, 2009.

(4) Incorporated by reference to the Registrant's Current Report on Form 8-K filed on June 30, 2014.

(5) Incorporated by reference to the Registrant's Current Report on Form 8-K filed on August 24, 2018.

(6) Incorporated by reference to the Registrant's Current Report on Form 8-K filed on March 13, 2019.

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Signatures

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.

MERCADOLIBRE, INC.
Registrant

Date: May 3, 2019. By: /s/ Marcos Galperin
Marcos Galperin
President and Chief Executive Officer

By: /s/ Pedro Arnt
Pedro Arnt
Executive Vice President and Chief Financial Officer