

MERCADOLIBRE INC  
Form 10-Q  
November 04, 2016  
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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 September 30, 2016

-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	(I.R.S. Employer
incorporation or organization)	Identification Number)

Arias 3751, 7th Floor

Buenos Aires, C1430CRG, Argentina

(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 and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files. Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

(Do not check if a smaller reporting company)

Smaller reporting company

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

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.

44,157,341 shares of the issuer's common stock, \$0.001 par value, outstanding as of November 3, 2016.

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Interim Condensed Consolidated Financial Statements

as of September 30, 2016 and December 31, 2015

and for the nine and three-month periods

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MercadoLibre, Inc.

Interim Condensed Consolidated Balance Sheets

As of September 30, 2016 and December 31, 2015

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

(Unaudited)

	September 30, 2016	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	\$ 187,995	\$ 166,881
Short-term investments	283,650	202,112
Accounts receivable, net	31,086	28,428
Credit cards receivables, net	226,818	131,946
Prepaid expenses	6,299	6,007
Inventory	1,388	222
Other assets	21,871	9,577
Total current assets	759,107	545,173
Non-current assets:		
Long-term investments	155,178	187,621
Property and equipment, net	121,006	81,633
Goodwill	94,493	86,545
Intangible assets, net	27,725	28,991
Deferred tax assets	44,066	29,688
Other assets	54,482	43,955
Total non-current assets	496,950	458,433
Total assets	\$ 1,256,057	\$ 1,003,606
Liabilities and Equity		
Current liabilities:		
Accounts payable and accrued expenses	\$ 95,970	\$ 62,038
Funds payable to customers	313,837	203,247
Salaries and social security payable	43,676	32,918
Taxes payable	27,810	10,092
Loans payable and other financial liabilities	6,077	1,965
Other liabilities	2,319	7,667
Dividends payable	6,624	4,548
Total current liabilities	496,313	322,475
Non-current liabilities:		

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Salaries and social security payable	14,801	10,422
Loans payable and other financial liabilities	299,472	294,342
Deferred tax liabilities	36,070	27,049
Other liabilities	14,414	9,860
Total non-current liabilities	364,757	341,673
Total liabilities	\$ 861,070	\$ 664,148

Equity:

Common stock, \$0.001 par value, 110,000,000 shares authorized, 44,157,341 and 44,156,854 shares issued and outstanding at September 30, 2016 and December 31, 2015, respectively	\$ 44	\$ 44
Additional paid-in capital	137,979	137,923
Retained earnings	505,915	440,770
Accumulated other comprehensive loss	(248,951)	(239,279)
Total Equity	394,987	339,458
Total Liabilities and Equity	\$ 1,256,057	\$ 1,003,606

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 nine and three -month periods ended September 30, 2016 and 2015

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

(Unaudited)

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2016	2015	2016	2015
Net revenues	\$ 588,121	\$ 471,058	\$ 230,847	\$ 168,641
Cost of net revenues	(213,993)	(151,832)	(85,199)	(56,813)
Gross profit	374,128	319,226	145,648	111,828
Operating expenses:				
Product and technology development	(72,223)	(53,927)	(26,066)	(17,042)
Sales and marketing	(107,743)	(86,442)	(39,723)	(31,125)
General and administrative	(64,061)	(57,127)	(26,150)	(18,381)
Impairment of Long-Lived Assets	(13,717)	(16,226)	—	—
Total operating expenses	(257,744)	(213,722)	(91,939)	(66,548)
Income from operations	116,384	105,504	53,709	45,280
Other income (expenses):				
Interest income and other financial gains	25,192	14,768	9,892	5,777
Interest expense and other financial losses	(18,807)	(16,162)	(6,492)	(6,011)
Foreign currency (loss) gain	(5,062)	(6,647)	(4,823)	2,570
Net income before income / asset tax expense	117,707	97,463	52,286	47,616
Income / asset tax expense	(32,690)	(30,639)	(13,374)	(1,976)
Net income	\$ 85,017	\$ 66,824	\$ 38,912	\$ 45,640

Nine Months Ended September  
30,  
2016

2015

Three Months Ended September 30,  
2016

2015



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Basic EPS								
Basic net income								
Shareholders per common share	\$	1.93	\$	1.51	\$	0.88	\$	1.03
Weighted average of outstanding common shares		44,157,215		44,155,303		44,157,341		44,155,830
Diluted EPS								
Diluted net income								
Shareholders per common share	\$	1.93	\$	1.51	\$	0.88	\$	1.03
Weighted average of outstanding common shares		44,157,215		44,155,303		44,157,341		44,155,830
Cash Dividends declared		0.450		0.309		0.150		0.103

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 nine and three-month periods ended September 30, 2016 and 2015

(In thousands of U.S. dollars)

(Unaudited)

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2016	2015	2016	2015
Net income	\$ 85,017	\$ 66,824	\$ 38,912	\$ 45,640
Other comprehensive (loss) income, net of income tax:				
Currency translation adjustment	(11,056)	(46,054)	(2,974)	(22,127)
Unrealized net gains (losses) on available for sale investments	712	(38)	1,106	(11)
Less: Reclassification adjustment for losses on available for sale investments	(672)	(379)	—	—
Net change in accumulated other comprehensive loss, net of income tax	(9,672)	(45,713)	(1,868)	(22,138)
Total Comprehensive Income (loss)	\$ 75,345	\$ 21,111	\$ 37,044	\$ 23,502

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 nine-month periods ended September 30, 2016 and 2015

(In thousands of U.S. dollars)

(Unaudited)

	Nine Months Ended September 30,	
	2016	2015
Cash flows from operations:		
Net income	\$ 85,017	\$ 66,824
Adjustments to reconcile net income to net cash provided by operating activities:		
Unrealized Devaluation Loss, net	5,162	6,080
Impairment of Long-Lived Assets	13,717	16,226
Depreciation and amortization	20,698	16,956
Accrued interest	(12,643)	(9,311)
Non cash interest and convertible bonds amortization of debt discount and amortization of debt issuance costs	9,122	12,917
LTRP accrued compensation	19,251	8,032
Deferred income taxes	(5,895)	6,206
Changes in assets and liabilities:		
Accounts receivable	(2,409)	(50,105)
Credit Card Receivables	(92,811)	(122,328)
Prepaid expenses	(272)	(4,922)
Inventory	(1,048)	(169)
Other assets	(15,865)	(13,089)
Accounts payable and accrued expenses	13,852	66,898
Funds payable to customers	100,322	100,938
Other liabilities	136	2,226
Interest received from investments	11,348	7,900
Net cash provided by operating activities	147,682	111,279
Cash flows from investing activities:		
Purchase of investments	(2,548,060)	(1,435,655)
Proceeds from sale and maturity of investments	2,525,118	1,424,150
Payment for acquired businesses, net of cash acquired	(7,284)	(45,009)

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Purchases of intangible assets	(49)	(1,502)
Advance for property and equipment	(6,129)	(17,779)
Purchases of property and equipment	(55,510)	(19,063)
Net cash used in investing activities	(91,914)	(94,858)
Cash flows from financing activities:		
Proceeds from loans payable and other financial liabilities	3,892	5,015
Payments on loans payable and other financing	(6,492)	(4,622)
Dividends paid	(17,795)	(16,426)
Repurchase of Common Stock	—	(2,714)
Net cash used in financing activities	(20,395)	(18,747)
Effect of exchange rate changes on cash and cash equivalents	(14,259)	(47,794)
Net increase (decrease) in cash and cash equivalents	21,114	(50,120)
Cash and cash equivalents, beginning of the period	\$166,881	223,144
Cash and cash equivalents, end of the period	\$187,995	\$ 173,024

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

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MercadoLibre, Inc.

Notes to Interim Condensed Consolidated Financial Statements (unaudited)

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 leading ecommerce company in Latin America, serving as an integrated regional platform and as an enabler of the necessary online and technology tools to 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 MercadoPago, MercadoLibre enables individuals and businesses to send and receive online payments; through MercadoEnvios, MercadoLibre facilitates the shipping of goods from sellers to buyers; through MercadoClics and other ad-sales products, MercadoLibre facilitates advertising services to large retailers and brands to promote their product and services on the web; and through MercadoShops, MercadoLibre facilitates users to set-up, manage, and promote their own on-line web-stores under a subscription-based business model. In addition, MercadoLibre develops and sells software enterprise solutions to e-commerce business clients in Brazil.

As of September 30, 2016, 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, Salvador, Portugal, Uruguay, Bolivia, Guatemala, Paraguay and Venezuela. Additionally, MercadoLibre operates an online payments solution directed towards Argentina, Brazil, Mexico, Venezuela, Chile, Peru and Colombia. It also offers a shipping solution directed towards Argentina, Brazil, Mexico, Colombia and Chile. 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 and its wholly-owned subsidiaries. These interim condensed consolidated financial statements are stated in U.S. dollars, except for amounts 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, amounting to approximately 99.9% and 99.7% of the consolidated amounts during the nine-month periods ended September 30, 2016 and 2015. Long-lived assets, intangible assets and goodwill located in the foreign operations totaled \$232,819 thousands and \$184,178 thousands as of September 30, 2016 and December 31, 2015, respectively.

These interim condensed consolidated financial statements reflect the Company's consolidated financial position as of September 30, 2016 and December 31, 2015. These financial statements also show the Company's consolidated statements of income and comprehensive income for the nine and three-month periods ended September 30, 2016 and 2015; and statement of cash flows for the nine-month period ended September 30, 2016 and 2015. 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, 2015, 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, of comprehensive income and of 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 Form 10-K. During the nine-month period ended September 30, 2016, there were no material updates made to the Company's significant accounting policies.

#### Foreign currency translation

All of the Company's foreign operations have determined the local currency to be their functional currency, except for Venezuela since January 1, 2010, as described below. Accordingly, these foreign operating subsidiaries translate assets and liabilities from their local currencies into U.S. dollars by using period-end exchange rates while income and expense accounts are translated at the average rates in effect during the period, 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 (loss) income.

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MercadoLibre, Inc.

Notes to Interim Condensed Consolidated Financial Statements (unaudited)

Venezuelan currency status

Pursuant to U.S. GAAP, the Company has transitioned its Venezuelan operations to highly inflationary status as from January 1, 2010, which requires that transactions and balances are re-measured as if the U.S. dollar was the functional currency for such operation. The cumulative three year inflation rate as of December 31, 2010 exceeded 100%. The Company continues to treat the economy of Venezuela as highly-inflationary. Therefore, no translation effect was accounted for in other comprehensive income related to the Venezuelan operations.

On February 10, 2015, the Venezuelan government issued a decree that unified the two previous foreign exchange systems “SICAD 1 and SICAD 2” into a new single system (SICAD), with an initial public foreign exchange rate of 12 BsF per U.S. dollar. The SICAD auction process remains available only to obtain foreign currency to pay for a limited list of goods considered to be of high priority by the Venezuelan government, which does not include those relating to the Company’s business. In the same decree the Venezuelan government created the “Sistema Marginal de Divisas” (“SIMADI”), a new foreign exchange system that is separate from SICAD, which publishes a foreign exchange rate from the Central Bank of Venezuela (“BCV”) on a daily basis.

In light of the disappearance of SICAD 2, and the Company’s inability to gain access to U.S. dollars under SICAD, it started requesting and was granted U.S. dollars through SIMADI. As a result, the Company from that moment expected to settle its transactions through SIMADI going forward and concluded that the SIMADI exchange rate should be used to re-measure its bolivar-denominated monetary assets and liabilities and to re-measure the revenues and expenses of the Venezuelan subsidiaries effective as of March 31, 2015. In connection with this re-measurement, the Company recorded a foreign exchange loss of \$20.4 million during the first quarter of 2015.

Considering this change in facts and circumstances and the lower U.S. dollar-equivalent cash flows then expected from the Venezuelan business, the Company reviewed its long-lived assets, goodwill and intangible assets with indefinite useful life for impairment and concluded that the carrying value of certain real estate investments in Venezuela as of March 31, 2015 would not be fully recoverable. As a result, the Company recorded an impairment of long-lived assets of \$ 16.2 million on March 31, 2015. The carrying amount was adjusted to its estimated fair value of approximately \$9.2 million as of March 31, 2015, by using the market approach, and considering prices for similar assets.

On March 9, 2016 the BCV issued the Exchange Agreement No.35, which is effective since March 10, 2016. The agreement established a “protected” exchange rate (“DIPRO”) for certain transactions, such as but not limited to: imports of goods of the food and health sectors, as well as supplies associated with the production of said sectors; expenses relating to health treatments, sports, culture, scientific research, and other urgent matters defined by the exchange regulations. All foreign currency transactions not expressly provided in Exchange Agreement No.35 will be processed on the alternate foreign currency markets governed by the exchange regulations, at the floating supplementary market exchange rate (“DICOM”).

Additionally, the agreement established that the alternate foreign currency markets referred to in Exchange Agreement No.33 of February 10, 2015 (SIMADI) will continue to operate until replaced by others. As of the date of issuance of these interim condensed consolidated financial statements, the SIMADI has not been replaced and for that reason, the Company continued using SIMADI. From March 31, 2016 through June 30, 2016, the SIMADI exchange rate

increased from 273 BsF per U.S. dollar to 628 BsF per U.S. dollar, a 130% increase in the exchange rate. As a consequence of the local currency devaluation, the Company recorded a foreign exchange loss of \$4.9 million during the second quarter of 2016.

Considering the significant devaluation and the lower U.S. dollar-equivalent cash flows then expected from the Venezuelan business, the Company reviewed its long-lived assets (including non-current other assets), goodwill and intangible assets with indefinite useful life for impairment and concluded that the carrying value of certain real estate investments in Venezuela as of June 30, 2016 would not be fully recoverable. As a result, on June 30, 2016, the Company recorded an impairment related to offices and commercial property under construction included within non-current other assets of \$13.7 million. The carrying amount of offices and commercial property under construction was adjusted to its estimated fair value of approximately \$12.5 million as of June 30, 2016, by using the market approach, and considering prices for similar assets. As of September 30, 2016, the SIMADI exchange rate was 658.9 BsF per U.S. dollar.

Until 2010 the Company was able to obtain U.S. dollars for any purpose, including dividends distribution, using alternative mechanisms other than through the Commission for the Administration of Foreign Exchange Control (CADIVI). Those U.S. dollars, obtained at a higher exchange rate than the one offered by CADIVI, and held at U.S. bank accounts of our Venezuelan subsidiaries, were used until 2012 for dividend distributions from our Venezuelan subsidiaries. The Company has not distributed dividends from the Venezuelan subsidiaries since 2011.

The following table sets forth the assets, liabilities and net assets of the Company's Venezuelan subsidiaries, before intercompany eliminations of a net liability of \$13.4 million and \$24.6 million, as of September 30, 2016 and December 31, 2015 and net revenues for the nine-month periods ended September 30, 2016 and 2015:



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MercadoLibre, Inc.

Notes to Interim Condensed Consolidated Financial Statements (unaudited)

	September 30,	
	2016	2015
	(In thousands)	
Venezuelan operations		
Net Revenues	\$ 26,451	\$ 28,529
	September 30,	December 31,
	2016	2015
	(In thousands)	
Assets	56,569	65,407
Liabilities	(16,902)	(36,266)
Net Assets	\$ 39,667	\$ 29,141

As of September 30, 2016, net assets (before intercompany eliminations) of the Venezuelan subsidiaries amounted to approximately 10.0% of consolidated net assets, and cash and investments of the Venezuelan subsidiaries held in local currency in Venezuela amounted to approximately 1.0% of our consolidated cash and investments.

The Company's ability to obtain U.S. dollars in Venezuela is negatively affected by the exchange regulations in Venezuela that are described above and elsewhere in these interim condensed consolidated financial statements. In addition, its business and ability to obtain U.S. dollars in Venezuela would be negatively affected by additional material devaluations or the imposition of significant additional and more stringent controls on foreign currency exchange by the Venezuelan government.

Despite the current difficult macroeconomic environment in Venezuela, the Company continues to actively manage, through its Venezuelan subsidiaries, its investment in Venezuela.

## Argentine currency status

During December 2015 the Argentine peso exchange rate increased by approximately 37% against the U.S. dollar to 13.3 Argentine pesos per U.S. dollar as of December 31, 2015. Due to this increase, during the fourth quarter of 2015, the Company recognized a foreign exchange gain of \$18.2 million (as a result of having a net asset position in U.S. dollars) and the reported Other Comprehensive Loss increased by \$22.8 million (as a result of having a net asset position in Argentine pesos). As of September 30, 2016 the Argentine Peso exchange rate against the U.S. dollar was 15.3.

## Brazilian currency status

During 2015, the Brazilian Reais exchange rate increased in approximately 44%, relative to the U.S. dollar, from 2.7 Brazilian Reais per U.S. dollar as of December 31, 2014 to 3.9 Brazilian Reais per U.S. dollar as of December 31, 2015. Due to the fluctuations of the Brazilian foreign currency against the U.S. dollar, the Company recognized a foreign exchange gain of \$14.6 million during the year 2015. In addition, the reported Other Comprehensive Loss of our Brazilian segment increased by \$9.0 million during the year 2015. As of September 30, 2016 the Brazilian Reais exchange rate against the U.S. dollar was 3.2.

#### Income and asset taxes

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 carry forwards. 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

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MercadoLibre, Inc.

Notes to Interim Condensed Consolidated Financial Statements (unaudited)

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 regulatory decree was issued, which established the new requirement to become beneficiary of the new software development law. The new decree establishes compliance requirements with annual incremental ratios related to exports of services and research and development expenses that must be achieved to remain within the tax holiday. The Argentine operation will have to achieve certain required ratios annually under the new software development law.

The Industry Secretary resolution which rules, among other provisions, on the mechanism to file the information to obtain the benefits derived from the new software development law was issued in late February 2014. During May 2014, the Company presented all the required documentation in order to apply for the new software development law.

On September 17, 2015, the Argentine Industry Secretary issued Resolution 1041/2015 approving the Company's application for eligibility under the new software development law for the Company's Argentinean subsidiary, Mercadolibre S.R.L. Furthermore, on September 18, 2016, the Argentine Industry Secretary issued Resolutions 93/2016 and 97/2016 approving the Company's application for eligibility under the new software development law for the Company's Argentinean subsidiaries, Neosur S.R.L. and Business Vision S.A. As a result, the Company's Argentinean subsidiaries have been granted a tax holiday retroactive from September 18, 2014. A portion of the benefits obtained as beneficiaries of the new law is a relief of 60% of total income tax related to software development activities and a 70% relief in payroll taxes related to software development activities.

The new software development law, which provides that beneficiaries must meet certain on-going eligibility requirements, will expire on December 31, 2019. As a result of the Company's eligibility under the new law, it recorded an income tax benefit of \$16,018 and \$6,823 thousands for the nine and three-month periods ended September 30, 2016, respectively. Furthermore, the Company recorded a labor cost benefit of \$4,173 and \$2,167 thousands for the nine and three-month periods ended September 30, 2016, respectively. Additionally, \$1,416 and \$631 thousands were accrued to pay software development law audit fees during the nine and three-month periods ended September 30, 2016, respectively. During the third quarter of 2015, the Company recorded an income tax benefit of \$16,015 thousands, a labor cost benefit of \$4,183 thousands and \$1,414 million were accrued to pay software development law audit fees. Aggregate per share effect of the Argentine tax holiday amounted to \$0.46 and \$0.20 for the nine and three-month periods ended September 30, 2016, respectively.

In November 2015, the Financial Accounting Standards Board ("FASB") issued the Accounting Standards Update 2015-17, Balance Sheet Classification of Deferred Taxes (ASU 2015-17). The new guidance requires that deferred income tax liabilities and assets be classified as non-current in a classified statement of financial position. The amendments in this Update are effective for fiscal years beginning after December 15, 2016, with early adoption permitted.

The company elected to apply the amendments retrospectively to all periods presented as it reduces the costs and complexity in current GAAP without affecting the quality of information provided to users of financial statements.

The quantitative effect of the change on the December 31, 2015 balance sheet presented was a decrease in current deferred tax assets and current deferred tax liabilities of 12,290 thousands and 2,551 thousands, respectively. Those balances were reclassified to non-current deferred tax assets and non-current deferred tax liabilities as appropriate. Consequently, all deferred taxes were presented as Non-current in balance sheet.

As of September 30, 2016 and December 31, 2015, the Company included under non-current deferred tax assets caption the foreign tax credits related to the dividend distributions received from its subsidiaries for a total amount of \$15,966 thousands and \$10,102 thousands, respectively. Those foreign tax credits will be used to offset the future domestic income tax payable.

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MercadoLibre, Inc.

Notes to Interim Condensed Consolidated Financial Statements (unaudited)

Accumulated other comprehensive loss

The following table sets forth the Company's accumulated other comprehensive loss as of September 30, 2016 and the year ended December 31, 2015:

	September 30, 2016 (In thousands)	December 31, 2015
Accumulated other comprehensive loss:		
Foreign currency translation	\$ (249,663)	\$ (238,607)
Unrealized gains (losses) on investments	1,077	(1,023)
Estimated tax (loss) gain on unrealized gains (losses) on investments	(365)	351
	\$ (248,951)	\$ (239,279)

The following tables summarize the changes in accumulated balances of other comprehensive loss for the nine-month period ended September 30, 2016:

	Unrealized (Losses) Gains on Investments (In thousands)	Foreign Currency Translation	Estimated tax (expense) benefit	Total
Balances as of December 31, 2015	\$ (1,023)	\$ (238,607)	\$ 351	\$ (239,279)
Other comprehensive loss before reclassifications adjustments for gains (losses) on available for sale investments	1,077	(11,056)	(365)	(10,344)
Amount of gain (loss) reclassified from accumulated other comprehensive loss	1,023	—	(351)	672
Net current period other comprehensive income gain (loss)	2,100	(11,056)	(716)	(9,672)
Ending balance	\$ 1,077	\$ (249,663)	\$ (365)	\$ (248,951)

Details about Accumulated	Amount of (Loss) Gain Reclassified from Accumulated Other	Affected Line Item in the Statement of Income
Other Comprehensive Loss	Comprehensive	Interest expense and other financial losses
Components	Loss (In thousands)	Income / asset tax gain
Unrealized losses on investments	\$ (1,023)	Total, net of income taxes
Estimated tax gain on unrealized losses on investments	351	
Total reclassifications for the year	\$ (672)	

### Inventory

Inventory, consisting of points of sale (“POS”) devices available for sale, are accounted for using the first-in first-out (“FIFO”) method, and are valued at the lower of cost or market value.

### Impairment of long-lived assets

The Company reviews its long-lived assets (including non-current other assets) for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable.

As explained above under “Foreign Currency Translation”, the Company has been subject to more unfavorable exchange markets in Venezuela since March 2015. Furthermore, from March 31, 2016 through June 30, 2016, the SIMADI exchange rate increased from 273 BsF per U.S. dollar to 628 BsF per U.S. dollar, a 130% increase in the exchange rate.

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Considering these changes in facts and circumstances and the lower U.S. dollar-equivalent cash flows expected from the Venezuelan business, and long-lived assets expected use, the Company concluded that certain real estate investments held in Caracas, Venezuela, should be impaired. The fair value of long-lived assets was estimated through market approach using level 3 inputs in the fair value hierarchy. These level 3 inputs included, but are not limited to, executed purchase agreements in similar assets and third party valuations. As a consequence, the Company estimated the fair value of the impaired long-lived assets, and recorded impairment losses of \$13.7 million and \$16.2 million on June 30, 2016 and March 31, 2015, respectively.

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 allowance for doubtful accounts and chargeback provisions, recoverability of goodwill and intangible assets with indefinite useful life, useful life of long-lived assets and intangible assets, 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 note, recognition of income taxes and contingencies. Actual results could differ from those estimates.

Recently issued accounting pronouncements

On March 8, 2016 the FASB issued the ASU 2016-04. When an entity sells a prepaid stored-value product (such as gift cards, telecommunication cards, and traveler's checks), it recognizes a financial liability for its obligation to provide the product holder with the ability to purchase goods or services at a third-party merchant. When a prepaid stored-value product goes unused wholly or partially for an indefinite time period, the amount that remains on the product is referred to as breakage. There currently is diversity in the methodology used to recognize breakage. Subtopic 405-20 includes derecognition guidance for both financial liabilities and nonfinancial liabilities, and Topic 606, Revenue from Contracts with Customers, includes authoritative breakage guidance but excludes financial liabilities. The amendments in this Update provide a narrow scope exception to the guidance in Subtopic 405-20 to require that breakage be accounted for consistent with the breakage guidance in Topic 606. The new standard is effective for fiscal years beginning after December 15, 2017. The Company is assessing the effects that the adoption of this accounting pronouncement may have on the company's financial statements.

On March 14, 2016 the FASB issued the ASU 2016-06. Topic 815 requires that embedded derivatives be separated from the host contract and accounted for separately as derivatives if certain criteria are met, including the "clearly and closely related" criterion. The amendments in this Update clarify the requirements for assessing whether contingent call (put) options that can accelerate the payment of principal on debt instruments are clearly and closely related to their debt hosts. An entity performing the assessment under the amendments is required to assess the embedded call (put) options solely in accordance with the four-step decision sequence. The amendments apply to all entities that are issuers of or investors in debt instruments (or hybrid financial instruments that are determined to have a debt host) with embedded call (put) options. The new standard is effective for fiscal years beginning after December 15, 2017. The Company is assessing the effects that the adoption of this accounting pronouncement may have on the company's financial statements.

On March 17, 2016 the FASB issued the ASU 2016-08. This update releases Accounting Standards Update No. 2016-08--Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net). The amendments in this Update will clarify the implementation guidance on principal versus agent considerations. The new standard is effective for fiscal years beginning after December 15, 2017. The Company is assessing the effects that the adoption of this accounting pronouncement may have on the Company's financial statements.

On March 30, 2016 the FASB issued the ASU 2016-09. The Board is issuing this Update as part of its initiative to reduce complexity in accounting standards. The areas for simplification in this Update involve several aspects of the accounting for employee share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. Some of the areas for simplification apply only to nonpublic entities. In addition, the amendments in this Update eliminate the guidance in Topic 718 that was indefinitely deferred shortly after the issuance of FASB Statement No. 123 (revised 2004), Share-Based Payment. This Accounting Standards Update is the final version of Proposed Accounting Standards Update—Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting, which has been deleted. The new standard is effective for fiscal years beginning after December



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15, 2016. The Company is assessing the effects that the adoption of this accounting pronouncement may have on the Company's financial statements.

On April 14, 2016 the FASB issued the ASU 2016-10. This update releases Accounting Standards Update No. 2016-10—Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing. This Update clarifies guidance related to identifying performance obligations and licensing implementation guidance contained in the new revenue recognition standard. The Update includes targeted improvements based on input the Board received from the Transition Resource Group for Revenue Recognition and other stakeholders. The Update seeks to proactively address areas in which diversity in practice potentially could arise, as well as to reduce the cost and complexity of applying certain aspects of the guidance both at implementation and on an ongoing basis. The new standard is effective for fiscal years beginning after December 15, 2016. The Company is assessing the effects that the adoption of this accounting pronouncement may have on the Company's financial statements.

On May 3, 2016 the FASB issued the ASU 2016-11 on Revenue Recognition (Topic 605) and Derivatives and Hedging (Topic 815). The amendments in this Update eliminate some guidance related to revenue recognition and derivatives. The new standard is effective for fiscal years beginning after December 15, 2016. The Company is assessing the effects that the adoption of this accounting pronouncement may have on the Company's financial statements.

On May 9, 2016 the FASB issued the ASU 2016-12 “Revenue from Contracts with Customers (Topic 606)—Narrow-Scope Improvements and Practical Expedients”. The amendments in this update address narrow-scope improvements to the guidance on collectability, noncash consideration, and completed contracts at transition. Additionally, the amendments in this update provide a practical expedient for contract modifications at transition and an accounting policy election related to the presentation of sales taxes and other similar taxes collected from customers. The new standard is effective for fiscal years beginning after December 15, 2016. The Company is assessing the effects that the adoption of this accounting pronouncement may have on the Company's financial statements.

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 the Company's financial statements.

On August 26, 2016 the FASB issued the “ASU 2016-15—Statement of cash flows (Topic 230): Classification of certain cash receipts and cash payments”. This update addresses the following eight specific cash flow issues: debt prepayment or debt extinguishment costs; settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the

settlement of corporate-owned life insurance policies (COLIs) (including bank-owned life insurance policies (BOLIs)); distributions received from equity method investees; beneficial interests in securitization transactions; and separately identifiable cash flows and application of the predominance principle. The new standard is effective for fiscal years beginning after December 15, 2017. The Company is assessing the effects that the adoption of this accounting pronouncement may have on the Company's financial statements.

On October 24, 2016 the FASB issued the "ASU 2016-16—Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory". This update eliminates the exception that prohibits recognizing current and deferred income tax consequences for an intra-entity asset transfer until the asset or assets have been sold to an outside party.

Consequently, this update requires to recognize the current and deferred income tax consequences of an intra-entity asset transfer when the transfer occurs. The new standard is effective for fiscal years beginning after December 15, 2017. The Company is assessing the effects that the adoption of this accounting pronouncement may have on the Company's financial statements.

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## 3. Net income per share

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

Diluted earnings per share for the Company's common stock assume the issuance of shares as a consequence of a convertible debt securities conversion event and the effects of assumed share settlement of long term retention plans for earnings per share calculations.

Net income per share of common stock is as follows for the nine and three-month periods ended September 30, 2016 and 2015:

	Nine Months Ended September 30,				Three Months Ended September 30,			
	2016		2015		2016		2015	
	(In thousands)							
	Basic	Diluted	Basic	Diluted	Basic	Diluted	Basic	Diluted
Net income per common share	\$ 1.93	\$ 1.93	\$ 1.51	\$ 1.51	\$ 0.88	\$ 0.88	\$1.03	\$1.03
Numerator:								
Net income	\$ 85,017	\$ 85,017	\$ 66,824	\$ 66,824	\$ 38,912	\$ 38,912	\$45,640	\$45,640
Denominator:								
Weighted average of common stock outstanding for Basic earnings per share	44,157,215		44,155,303		44,157,341		44,155,830	

Adjusted weighted average of common stock outstanding for Diluted earnings per share	44,157,215	44,155,303	44,157,341	44,155,831
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For the nine and three-month periods ended September 30, 2016 and 2015 there was no impact on the calculation of diluted earnings per share as a consequence of the consideration of the Convertible Notes and the Long term retention plan referred to above calculated using the “if converted” method and the “treasury stock method” respectively.

The denominator for diluted net income per share for the nine and three-month periods ended September 30, 2016 and 2015 does not include any effect from the capped call issued in connection with the notes because it would be antidilutive. In the event of conversion of any or all of the Notes, the shares that would be delivered to the Company under the Note hedges are designed to partially neutralize the dilutive effect of the shares that the Company would issue under the Notes.

#### 4. Business combinations, goodwill and intangible assets

##### Business combinations

##### Acquisition of a software development company in Argentina

On February 12, 2016, the Company completed, through its subsidiaries Meli Participaciones S.L. and Marketplace Investment LLC, a limited liability company organized under the laws of Delaware, USA (together referred to as the “Buyers”), the acquisition of the 100% of equity interest of Monits S.A., a software development company located and organized under the laws of the Buenos Aires City, Argentina. The objective of the acquisition was to enhance the capabilities of the Company in terms of software development.

The aggregate purchase price for the acquisition of the 100% of the acquired business was \$3,056 thousands, measured at its fair value, amount that included: (i) the total cash payment of \$1,713 thousands at closing day; (ii) an escrow of \$128 thousands and iii) a contingent additional cash consideration up to \$1,215 thousands.

The Company’s unaudited interim condensed consolidated statement of income includes the results of operations of the acquired business as from February 12, 2016. The net revenues and net income before intercompany eliminations of the acquired Company included in the Company’s interim condensed consolidated statement of income since the acquisition amounted to \$1,641 thousands and \$93 thousands, respectively.

In addition, the Company incurred in certain direct costs of the business combination which were expensed as incurred.



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As of September 30, 2016, the fair value of the contingent consideration recorded is \$1,215 thousands. Contingent additional cash considerations are to be paid after the achievement of the performance targets.

The following table summarizes the purchase price allocation for the acquisition:

	Monits S.A. In thousands of U.S. dollars
Cash and cash equivalents	\$ 3
Other net tangible assets	25
Total net tangible assets acquired	28
Non solicitation agreement	196
Goodwill	2,832
Purchase Price	\$ 3,056

The purchase price was allocated based on the measurement of the fair value of assets acquired and liabilities assumed considering the information available as of the date of acquisition. The valuation of identifiable intangible assets acquired reflects management's estimates based on the use of established valuation methods. Such assets consist of non-solicitation agreement for an amount of \$196 thousands. Management of the Company estimates that the non-solicitation agreement will be amortized over a two-year period.

The Company recognized goodwill for this acquisition based on management expectation that the acquired business will improve the Company's business.

Arising goodwill has been allocated proportionally to each of the segments identified by the Company's management, considering the synergies expected from this acquisition and it is expected that the acquiree will contribute to the earnings generation process of such segments. Goodwill arising from this acquisition is not deductible for tax purposes.

#### Acquisition of a software development company in Brazil

On June 1, 2016, through its subsidiary Ebazar.com.br Ltda., the Company acquired 100% of the issued and outstanding shares of capital stock of Axado Informação e Tecnologia S.A. ("Axado"), a company that develops logistic software for the e-commerce industry in Brazil.

The aggregate purchase price for the acquisition of the 100% of the acquired business was \$5,536 thousands, measured at its fair value, which included: (i) the total cash payment of \$4,706 thousands at closing day; and (ii) an escrow of \$830 thousands. Additionally, payments of \$830 thousands will be transferred to the sellers by the end of the first and second year after the acquisition, aiming to continue the employment relationship as key employees. This additional payment will be expensed over the period up to fulfillment of the conditions required by the selling and purchase agreement.

In addition, the Company incurred certain direct costs of the business combination which were expensed as incurred.

The Company's consolidated statement of income includes the results of operations of the acquired business as from June 1, 2016. The net revenues and net loss of the acquiree included in the Company's statement of income since the acquisition amounted to \$363 thousands and \$92 thousands, respectively.

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The following table summarizes the purchase price allocation for the acquisition:

	Axado Informacao e Tecnologia Ltda In thousands of U.S. dollars
Cash and cash equivalents	\$ 90
Other net tangible assets	77
Total net tangible assets acquired	167
Customer lists	676
Trademark	251
Software	282
Non-solicitation and Non-compete agreements	118
Goodwill	4,042
Purchase Price	\$ 5,536

The purchase price was allocated based on the measurement of the fair value of assets acquired and liabilities assumed considering the information available as of the date of acquisition. The valuation of identifiable intangible assets acquired reflects management's estimates based on the use of established valuation methods. Such assets consist of trademark, customer lists, software and non-compete and non-solicitation agreements for a total amount of \$1,327 thousands. Management of the Company estimates that customer lists and non-compete agreements will be amortized over a five -year period, while trademark and software will be amortized over a three-year period.

The Company recognized goodwill for this acquisition based on management's expectation that the acquired business will improve the Company's business.

Arising goodwill was allocated to the Brazilian segment identified by the Company's management, considering the synergies expected from this acquisition and it is expected that the acquiree will contribute to the earnings generation



process of such segment. Goodwill arising from this acquisition is deductible for tax purposes.

Supplemental pro forma financial information required by U.S. GAAP for each acquisition, both individually and in the aggregate, was not material to the interim condensed consolidated financial statements of income of the Company and, accordingly, such information has not been presented.

Goodwill and intangible assets

The composition of goodwill and intangible assets is as follows:

	September 30, 2016 (In thousands)	December 31, 2015
Goodwill	\$ 94,493	\$ 86,545
Intangible assets with indefinite lives		
- Trademarks	13,388	13,074
Amortizable intangible assets		
- Licenses and others	7,457	8,691
- Non-compete/solicitation agreement	1,835	1,615
- Customer lists	14,825	12,971
- Trademarks	612	—
Total intangible assets	\$ 38,117	\$ 36,351
Accumulated amortization	(10,392)	(7,360)
Total intangible assets, net	\$ 27,725	\$ 28,991

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## Goodwill

The changes in the carrying amount of goodwill for the nine-month period ended September 30, 2016 and the year ended December 31, 2015 are as follows:

	Period ended September 30, 2016							Other C
	Brazil (In thousands)	Argentina	Chile	Mexico	Venezuela	Colombia		
Balance, beginning of the period	\$ 18,526	\$ 7,430	\$ 16,438	\$ 33,834	\$ 5,729	\$ 3,437	\$	
- Business acquisition	5,635	700	—	190	260	57	32	
- Effect of exchange rates changes	3,667	(1,164)	1,238	(2,979)	—	299	13	
Balance, end of the period	\$ 27,828	\$ 6,966	\$ 17,676	\$ 31,045	\$ 5,989	\$ 3,793	\$	

	Year ended December 31, 2015							Other C
	Brazil (In thousands)	Argentina	Chile	Mexico	Venezuela	Colombia		
Balance, beginning of year	\$ 10,557	\$ 11,859	\$ 19,101	\$ 15,719	\$ 5,729	\$ 4,521	\$	
- Business acquisition	14,066	—	—	22,978	—	—	—	
- Effect of exchange rates	(6,097)	(4,429)	(2,663)	(4,863)	—	(1,084)	(192)	

changes													
Balance,													
end of the													
year	\$	18,526	\$	7,430	\$	16,438	\$	33,834	\$	5,729	\$	3,437	\$

#### Intangible assets with definite useful life

Intangible assets with definite useful life are comprised of customer lists and user base, non-compete and non-solicitation agreements, acquired software licenses and other acquired intangible assets including developed technologies. Aggregate amortization expense for intangible assets totaled \$1,144 thousands and \$909 thousands for the three-month periods ended September 30, 2016 and 2015, respectively, while for the nine-month periods ended at such dates amounted to \$2,863 thousands and \$2,273 thousands, respectively.

The following table summarizes the remaining amortization of intangible assets (in thousands of U.S. dollars) with definite useful life as of September 30, 2016:

For year ended 12/31/2016	\$	1,045
For year ended 12/31/2017		3,554
For year ended 12/31/2018		3,013
For year ended 12/31/2019		2,373
Thereafter		4,352
	\$	14,337

#### 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 to reflect the evaluation of the Company's performance defined by the management. The Company's segments include Brazil, Argentina, Mexico, Venezuela and other countries (such as Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Panama, Honduras, Nicaragua, Salvador, Bolivia, Guatemala, Paraguay, Peru, Portugal, Uruguay and USA).

Direct contribution consists of net revenues from external customers less direct costs and any impairment of long lived assets. Direct costs 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

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marketing programs, customer support expenses, allowances for doubtful accounts, payroll, 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:

	Nine Months Ended September 30, 2016						
	Brazil	Argentina	Mexico	Venezuela	Other Countries	Total	
	(In thousands)						
Net revenues	\$ 311,427	\$ 185,885	\$ 34,375	\$ 26,451	\$ 29,983	\$ 588,121	588,121
Direct costs	(188,772)	(105,217)	(29,004)	(12,691)	(21,281)	(356,965)	(356,965)
Impairment of Long-lived Assets	-	-	-	(13,717)	-	(13,717)	(13,717)
Direct contribution	122,655	80,668	5,371	43	8,702	217,439	217,439
Operating expenses and indirect costs of net revenues							(101,055)
Income from operations							116,384
Other income (expenses):							
Interest income and other financial gains							25,192

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Interest expense and other financial losses										(18,807)
Foreign currency losses										(5,062)
Net income before income / asset tax expense										\$ 11

	Nine Months Ended September 30, 2015						
	Brazil	Argentina	Mexico	Venezuela	Other Countries	Total	
	(In thousands)						
Net revenues	\$ 215,651	\$ 171,496	\$ 29,308	\$ 28,529	\$ 26,074	\$ 471,058	
Direct costs	(127,406)	(92,547)	(21,175)	(10,500)	(16,427)	(268,055)	
Impairment of Long-lived Assets	-	-	-	(16,226)	-	(16,226)	
Direct contribution	88,245	78,949	8,133	1,803	9,647	186,777	
Operating expenses and indirect costs of net revenues							(81,273)
Income from operations							105,504
Other income (expenses):							
Interest income and other financial gains							14,768
							(16,162)

Interest  
expense and  
other  
financial  
losses  
Foreign  
currency  
losses  
Net income  
before  
income /  
asset tax  
expense

(6,647)

\$ 9

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	Three Months Ended September 30, 2016					
	Brazil	Argentina	Mexico	Venezuela	Other Countries	Total
	(In thousands)					
Net revenues	\$ 131,003	\$ 69,983	\$ 11,807	\$ 6,885	\$ 11,169	\$
Direct costs	(77,012)	(39,026)	(10,353)	(3,462)	(7,943)	(137,796)
Direct contribution	53,991	30,957	1,454	3,423	3,226	93,051
Operating expenses and indirect costs of net revenues						(39,342)
Income from operations						53,709
Other income (expenses):						
Interest income and other financial gains						9,892
Interest expense and other financial losses						(6,492)
Foreign currency losses						(4,823)
						\$52,286



Net  
income  
before  
income /  
asset tax  
expense

	Three Months Ended September 30, 2015					
	Brazil	Argentina	Mexico	Venezuela	Other Countries	Total
	(In thousands)					
Net revenues	\$74,286	\$67,234	\$9,880	\$8,860	\$8,381	\$168,641
Direct costs	(43,730)	(38,705)	(8,560)	(3,665)	(5,345)	(100,005)
Direct contribution	30,556	28,529	1,320	5,195	3,036	68,636
Operating expenses and indirect costs of net revenues						(23,356)
Income from operations						45,280
Other income (expenses):						
Interest income and other financial gains						5,777
Interest expense and other financial losses						(6,011)
Foreign currency gains						2,570
Net income before income / asset tax expense						\$47,616

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

	September 30, 2016	December 31, 2015
	(In thousands)	
US property and equipment, net	\$ 10,268	\$ 12,756
Other countries		
Argentina	22,875	22,379
Brazil	54,350	17,150
Mexico	2,806	2,475
Venezuela	21,471	21,556
Other countries	9,236	5,317
	\$ 110,738	\$ 68,877
Total property and equipment, net	\$ 121,006	\$ 81,633

In August 2016, the Company's Argentine subsidiary acquired 6,057 square meters and 50 parking spaces, in an office building in process of construction located in Buenos Aires, for a total amount of Argentine pesos \$481.4 million or approximately \$31.4 million, plus VAT. The price of the transaction is payable as follows: i) \$9.4 million was paid at the date of signing the purchase agreement and recorded as an advance for fixed assets within non-current Other assets, ii) \$19.0 million will be paid in 14 monthly installments as from July 2017, and (iii) 3.0 million will be paid once the properties are delivered by the seller. According to the purchase agreement, 2,224 square meters will be delivered in September 2017 and 3,833 square meters will be delivered in

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September 2018. In connection with this acquisition, the Company may be granted with certain sales tax reliefs upon receiving definitive approval of the project from the City of Buenos Aires government.

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

	September 30, 2016 (In thousands)	December 31, 2015
US intangible assets	\$ 137	\$ 235
Other countries goodwill and intangible assets		
Argentina	8,072	8,763
Brazil	31,689	21,338
Mexico	41,407	46,186
Venezuela	7,403	7,217
Other countries	33,510	31,797
	\$ 122,081	\$ 115,301
Total goodwill and intangible assets	\$ 122,218	\$ 115,536

Consolidated net revenues by similar products and services for the nine and three-month periods ended September 30, 2016 and 2015 were as follows:

	Nine-months Ended September 30,		Three-months Ended September 30,	
Consolidated Net Revenues	2016	2015	2016	2015
	(In thousands)		(In thousands)	

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Marketplace	\$ 341,749	\$ 286,523	\$ 134,374	\$ 98,580
Non-marketplace (*)	\$ 246,372	\$ 184,535	\$ 96,473	\$ 70,061
Total	\$ 588,121	\$ 471,058	\$ 230,847	\$ 168,641

(\*) Includes, among other things, Ad Sales, Real Estate, Motors, Financing Fees, Off-platform Payment Fees, Shipping Fees and other ancillary services.

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 September 30, 2016 and December 31, 2015:

Description	Balances as of September 30, 2016 (In thousands)	Quoted Prices in active markets for identical Assets (Level 1)	Significant other observable inputs (Level 2)	Unobservable inputs (Level 3)	Balances as of December 31, 2015	Quoted active for identi (Level
<b>Assets</b>						
<b>Cash and Cash Equivalents:</b>						
Money Market Funds	\$ 97,602	\$ 97,602	\$ —	\$ —	\$ 46,423	\$
Corporate Debt Securities	1,997	—	1,997	—	15,785	—
<b>Investments:</b>						
Sovereign Debt Securities	\$ 53,745	\$ 53,235	\$ 510	\$ —	\$ 69,302	\$
Corporate Debt Securities	218,648	102,589	116,059	—	232,257	51,97
Certificates of deposit	39,100	—	39,100	—	11,516	—
<b>Total Financial Assets</b>	\$ 411,092	\$ 253,426	\$ 157,666	\$ —	\$ 375,283	\$
<b>Liabilities:</b>						
	\$ 4,154	\$ —	\$ —	\$ 4,154	\$ 9,007	\$

Contingent considerations									
Long-term retention plan	24,960	—		24,960	—		17,159	—	
Total Financial Liabilities	\$ 29,114	\$ —		\$ 24,960	\$ 4,154		\$ 26,166	\$ —	

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As of September 30, 2016 and December 31, 2015, 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.

As of June 30, 2016 and December 3

As of September 30, 2016 and December 31, 2015, the Company's liabilities were valued at fair value using level 2 inputs and level 3 inputs (valuations based on unobservable inputs reflecting Company own 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. For the nine-month period ended September 30, 2016 the Company recognized in earnings a loss of \$305 thousands and a loss of \$974 thousands within other comprehensive income, in relation with contingent considerations. In addition, during the nine-month period ended September 30, 2016, the Company assumed additional contingent considerations for an amount of \$1,215 thousands and settled contingent considerations for an amount of \$7,347 thousands.

The unrealized net gains or loss 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 September 30, 2016 and December 31, 2015, the carrying value of the Company's financial assets and liabilities measured at amortized cost approximated their fair value mainly because of its short term maturity. These assets and liabilities included cash and cash equivalents (excluding money markets funds), accounts receivables, credit card receivables, funds payable to customers, other receivables, other assets, accounts payable, salaries and social security payable, taxes payable, provisions and other liabilities. The convertible senior notes, the rest of the loans payable and other financial liabilities approximate their fair value because the 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 September 30, 2016 and December 31, 2015:

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	Balances as of September 30, 2016 (In thousands)	Significant other observable inputs (Level 2)	Balances as of December 31, 2015	Significant other observable inputs (Level 2)
<b>Assets</b>				
Time Deposits	\$ 127,335	127,335	\$ 76,658	76,658
Accounts receivable	31,086	31,086	28,428	28,428
Credit Cards receivable	226,818	226,818	131,946	131,946
Other assets	52,722	52,722	53,532	53,532
<b>Total Assets</b>	<b>\$ 437,961</b>	<b>\$ 437,961</b>	<b>\$ 290,564</b>	<b>\$ 290,564</b>
<b>Liabilities</b>				
Accounts payable and accrued expenses	\$ 95,970	\$ 95,970	\$ 62,038	\$ 62,038
Funds payable to customers	313,837	313,837	203,247	203,247
Salaries and social security payable	33,517	33,517	26,181	26,181
Taxes payable	27,810	27,810	10,092	