MERCADOLIBRE INC
Form 10-Q/A
May 14, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q/A

(Amendment No. 1)

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended March 31, 2018

-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, 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 x 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 x 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	x	Accelerated filer	¨
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	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 x

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.

44,157,364 shares of the issuer’s common stock, $0.001 par value, outstanding as of May 8, 2018.

EXPLANATORY NOTE

On May 10, 2018, MercadoLibre, Inc. filed a Quarterly Report on Form 10-Q (the “Report”) with the Securities and Exchange Commission to report the Company’s financial results for the first quarter ended on March 31, 2018. This Amendment No. 1 to the Report amends and restates Item 2 of Part I, “Management's Discussion and Analysis of Financial Condition and Results of Operations” to correct the overstated number of total volume of payments on our marketplace as of March 31, 2018 and the related disclosure regarding the percentage of this metric represented in our gross merchandise volume in the section entitled “Principal trends in results of operations.” The remainder of the Report remains unchanged.

Except as described above, no changes have been made to the Report. Except as otherwise indicated herein, this Amendment No. 1 continues to speak as of the date of the Report, and the Company has not updated the disclosures contained therein to reflect any events that occurred subsequent to the date of the Report. Accordingly, this Amendment No. 1 should be read in conjunction with the Report, and any filings made with the SEC subsequent to the filing of the Report.

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 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, 2017 filed with the Securities and Exchange Commission (“SEC”) on February 23, 2018, as updated by those described in “Item 1A — Risk Factors” in Part II of this report and 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, 2017. 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 a material risk that could cause results to differ materially from our expectations.

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 presents 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, 2018 and 2017;
- 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 one of the largest online commerce ecosystems 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 number of unique visitors and page views. We also operate online commerce platforms in the Dominican Republic, Honduras, Nicaragua, Salvador, Panama, Bolivia, Guatemala, Paraguay and Portugal.

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 635 million people and 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 MercadoLibre Classifieds Service, the MercadoPago payments solution, the MercadoEnvios shipping service, the MercadoLibre advertising program 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 service. This service permits both businesses and individuals to list merchandise and conduct sales and purchases online in either a fixed-price or auction-based format.

To complement the MercadoLibre Marketplace, we developed MercadoPago, an integrated online payments solution. MercadoPago is designed to facilitate transactions both on and off our marketplace by providing a mechanism that allows our users to securely, easily and promptly send and receive payments online. Mercado Pago is currently available in: Argentina, Brazil, Mexico, Colombia, Venezuela, Chile, Uruguay and Perú. MercadoPago allows merchants to facilitate checkout and payment processes on their websites and also enables users to simply transfer money to each other either through the website or using the MercadoPago App, available on iOS and Android. Additionally, we launched MercadoCredito, which is designed to extend loans to specific merchants and consumers. Our MercadoCredito solution allows us to deepen our engagement with our merchants, in Argentina, Brazil and Mexico, and consumers, in Argentina, by offering them additional services.

To further enhance our suite of e-commerce services, we launched the MercadoEnvios shipping program in Brazil, Argentina, Mexico, Colombia and Chile. Through MercadoEnvios, we offer a cost-efficient way to utilize our existing distribution chain to fulfill sales on our platform. Sellers opting into the program are able to offer a uniform and seamlessly integrated shipping experience to their buyers at competitive prices. As of March 31, 2018, we also offer free shipping to buyers in Brazil, Argentina, Mexico, Chile and Colombia.

Through MercadoLibre Classifieds Service, our online classified listing service, our users can also list and purchase motor vehicles, vessels, aircraft, real estate and services in all countries where we operate. Classifieds listings differ from Marketplace listings as they only charge optional placement fees and never final value fees. Our classifieds pages are also a major source of traffic to our website, benefitting both the Marketplace and non-marketplace businesses.

Furthermore, we developed our MercadoLibre advertising program to enable businesses to promote their products and services on the Internet. Through our advertising program, MercadoLibre's sellers and large advertisers are able to display product ads on our webpages and our associated vertical sites in the region.

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 other marketplace, payment and advertising services we offer. Users can choose from a basic, free store or pay monthly subscriptions for enhanced functionality and value added services on their store.

MercadoLibre also develops and sells enterprise software solutions to e-commerce business clients in Brazil.

Reporting Segments and Geographic Information

Our segment reporting is based on geography, which is the current criterion we are using to evaluate our segment performance. Our geographic segments include Brazil, Argentina, Mexico and other countries (including Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Panama, Peru, Portugal, Bolivia, Honduras, Nicaragua, El Salvador, Guatemala, Paraguay, Uruguay and the United States of America (through real estate classifieds in the State of Florida only)). Venezuela was one of our geographic segments until we deconsolidated our Venezuelan operations, effective as of December 1, 2017 and first disclosed on our Annual Report on Form 10-K for the fiscal year ended December 31, 2017. 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. We, therefore, encourage potential investors to consider this strategy before making an investment in our common stock. 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 stronger than us.

The following table sets forth the percentage of our consolidated net revenues by segment for the three-month periods ended March 31, 2018 and 2017:

	Three-month Periods Ended March 31,	
(% of total consolidated net revenues) (*)(**)	**2018**	**2017**

Brazil	57.4%	59.2%
Argentina	31.8	26.5
Mexico	5.3	4.2
Venezuela (***)	—	5.3
Other Countries	5.6	4.7

(*) 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, which under ASC 606 are netted from revenues was $112.5 million and $4.3 million for the three-month periods ended March 31, 2018 and 2017, respectively. Please refer to Note 2 of our unaudited interim condensed consolidated financial statements for additional detail.

(***) Venezuelan revenues have been deconsolidated since December 1, 2017. Please refer to Note 2 of our unaudited interim condensed consolidated financial statements for additional detail.

The following table summarizes the changes in our net revenues by segment for the three-month periods ended March 31, 2018 and 2017:

	Three-month Periods Ended March 31,		Change from 2017 to 2018 (*)	
	2018	2017	in Dollars	in %
	(in millions, except percentages)			
Net Revenues(**):				
Brazil	$ 184.2	$ 159.8	$ 24.4	15.3 %
Argentina	101.9	71.4	30.5	42.8
Mexico	17.1	11.3	5.7	50.7
Venezuela (***)	—	14.4	(14.4)	(100.0)
Other Countries	17.8	12.8	5.0	39.4
Total Net Revenues	$ 321.0	$ 269.7	$ 51.3	19.0 %

(*) 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, which under ASC 606 are netted from revenues, was $112.5 million and $4.3 million for the three-month periods ended March 31, 2018 and 2017, respectively. Please refer to Note 2 of our unaudited interim condensed consolidated financial statements for additional detail.

(***) Venezuelan revenues have been deconsolidated since December 1, 2017. Please refer to Note 2 of our unaudited interim condensed consolidated financial statements for additional detail.

Recent Developments

2018 Capped Call Transactions

In March 2018, we paid $45.7 million (including transaction expenses) to enter into privately negotiated capped call transactions with respect to shares of our common stock with several financial institutions. The 2018 Capped Call Transactions are in addition to the 2014 and 2017 Capped Call Transactions and are expected generally to reduce the potential dilution upon conversion of the Notes in the event that the market price of our common stock is greater than the strike price of the Capped Call Transactions, initially set at $426.73 per common share. The 2018 Capped Call Transactions are subject to anti-dilution adjustments substantially similar to those applicable to the conversion rate of the Notes, and have a cap price of approximately $467.38 per common share. If any portion of the Notes are converted prior to maturity or we repurchase any portion of the Notes prior to maturity, a corresponding portion of the Capped

Call Transactions may be terminated for value at our election.

Description of Line Items

Net revenues

Effective January 1, 2018, we adopted ASC 606 – Revenue from Contracts with Customers related to revenue recognition ("ASC 606") issued by the Financial Accounting Standards Board ("FASB") in 2014. ASC 606 provides a unified model to determine when and how revenue is recognized. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration for which the entity expects to be entitled in exchange for those goods or services. We adopted ASC 606 using the full retrospective transition method and recast the prior reporting period presented.

Under the full retrospective method, we retrospectively applied ASC 606 to the three-month period ended March 31, 2017. For the three-month periods ended March 31, 2018 and 2017, we incurred $112,497 thousands and $4,251 thousands, respectively, of subsidized shipping costs that have been incurred and included as a reduction of revenues. The total impact resulting from the change in presentation of shipping subsidies was a decrease in Net revenues and Cost of net revenues of $4,251 thousands in the Interim Condensed Consolidated Statement of Income for the three-month period ended March 31, 2017.

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" which includes our core business and "Non-Marketplace" which includes ad sales, classified fees, payment fees and other ancillary businesses.

The following table summarizes our consolidated net revenues by revenue stream for the three-month periods ended March 31, 2018 and 2017:

	Three-month Periods Ended March 31, (*)	
Consolidated net revenues by revenue stream (****)	**2018**	**2017**
	(in millions)	
Enhanced Marketplace	$ 140.7	$ 177.9
Non-Marketplace (**) (***)	180.3	91.7
Total	$ 321.0	$ 269.7

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

(**) Includes final value fees and shipping fees. The amount incurred in shipping subsidies, which under ASC 606 are netted from revenues, was $112.5 million and $4.3 million for the three-month periods ended March 31, 2018 and 2017, respectively. Please refer to Note 2 of our unaudited interim condensed consolidated financial statements for additional detail.

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

(****) Includes $144.8 million and $65.2 million of Payment Fees for the three-month periods ended March 31, 2018 and 2017, respectively.

(*****) Revenues from Venezuela have been deconsolidated since December 1, 2017. Please refer to Note 2 of our unaudited interim condensed consolidated financial statements for additional detail.

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

For Enhanced Marketplace services, final value fees represent a percentage of the sale value that is charged to the seller once an item is successfully sold. Our 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.

With respect to our MercadoPago service, 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 MercadoPago 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 customers and merchant and consumer credits granted under our MercadoCredito solution; and
- revenues from the sale of mobile points of sale products.

Although we also process payments on the Marketplace, we do not charge sellers an added commission for this service, as it is already included in the Marketplace final value fee we charge.

Through our classifieds offerings in motor vehicles, real estate and services, we generate revenues from up-front fees. These fees are charged 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 to interested advertisers.

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, 2018 and 2017, no single customer accounted for more than 5.0% of our net revenues.

Our MercadoLibre Marketplace is available in 19 countries (Argentina, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Mexico, Panama, Peru, Portugal, Uruguay, Venezuela, Bolivia, Honduras, Nicaragua, Salvador, Guatemala and Paraguay), and MercadoPago is available in 8 countries (Argentina, Brazil, Chile, Peru, Colombia, Mexico, Uruguay and Venezuela). Additionally, MercadoEnvios is available in 5 countries (Argentina, Brazil, Mexico, Colombia and Chile). The functional currency for each country's operations is the country's local currency, except for Venezuela where the functional currency was the U.S. dollar due to Venezuela's status as a highly inflationary economy. See—"Critical accounting policies and estimates—Foreign Currency Translation" included below. Therefore, our net revenues are generated in multiple foreign currencies and then translated into U.S. dollars at the average monthly exchange rate. Venezuelan revenues have been deconsolidated since December 1, 2017. Please refer to Note 2 to our unaudited interim condensed consolidated financial statements for Venezuela' deconsolidation details.

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 9.3% of net revenues for the three-month period ended March 31, 2018, as compared to 9.1% for the same period in 2017.

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, compensation for customer support personnel, ISP connectivity charges, depreciation and amortization, hosting and site operation fees, cost of mobile point of sale products sold and other operation 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 of 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 MercadoPago 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 for 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, 2017 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 606 and ASU 2016-16- Income taxes (Topic 740) as of January 1, 2018.

Foreign Currency Translation

All of our foreign consolidated operations use the local currency as their functional currency. Accordingly, these operating foreign subsidiaries translate assets and liabilities from their local currencies to U.S. dollars using period-end exchange rates while income and expense accounts are translated at the average exchange 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 part of other comprehensive (loss) income, a component of equity. Gains and losses resulting from transactions denominated in non-functional currencies are recognized in earnings. Net foreign currency exchange losses or gains are included in the unaudited interim condensed consolidated statements of income under the caption "Foreign currency (losses) gains".

Venezuelan deconsolidation

Effective December 1, 2017, we determined that deteriorating conditions in Venezuela had led us to no longer meet the accounting criteria for control over our Venezuelan subsidiaries. Venezuela's recent selective default determination, restrictive exchange controls and suspension of foreign exchange market in Venezuela, the lack of access to U.S. dollars through official currency exchange mechanisms together with the worsening in Venezuela's macroeconomic environment resulted in other-than-temporary lack of exchangeability between the Venezuela bolivar and the U.S. dollar, and restricted our ability to pay dividends and our ability to satisfy other obligations denominated in U.S. dollars. Therefore, in accordance with the applicable accounting standards, as of December 1, 2017, we deconsolidated the financial statements of our subsidiaries in Venezuela and began reporting the results under the cost method of accounting.

Beginning December 1, 2017, we no longer include the results of the Venezuelan subsidiaries in our consolidated financial statements.

Allowances for doubtful accounts, loan receivables and for chargebacks

We are exposed to losses due to uncollectible accounts and credits to sellers. Allowances for these items represent our estimate of future losses based on our historical experience. The allowances for doubtful accounts, loan receivables and for chargebacks are recorded as charges to sales and marketing expenses. Historically, our actual losses have been consistent with our charges. However, future adverse changes to our historical experience for doubtful accounts, loan receivables and chargebacks could have a material impact on our future consolidated statements of income and cash flows.

We believe that the accounting estimate related to allowances for doubtful accounts, loans receivables and for chargebacks is a critical accounting estimate because it requires management to make assumptions about future collections and credit analysis. Our management's assumptions about future collections require significant judgment.

Legal contingencies

In connection with certain pending litigation and other claims, we have estimated the range of probable loss and provided for such losses through charges to our interim condensed consolidated statement of income. These estimates are based on our assessment of the facts and circumstances and historical information related to actions filed against us at each balance sheet date and are subject to change based upon new information and future events.

Convertible Senior Notes

On June 30, 2014, we issued $330 million of 2.25% convertible senior notes due 2019 (the "Notes"). The 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 Notes, subject to adjustment as described in the indenture governing the Notes. The convertible debt instrument, within the scope of the cash conversion subsection, was separated into debt and equity components at issuance and a fair value was assigned. The value assigned to the debt component was the estimated fair value, as of the issuance date, of a similar debt without the conversion feature. As of June 30, 2014, we determined the fair value of the liability component of the Notes by reviewing market data that was available for senior, unsecured nonconvertible corporate bonds issued by comparable companies. The difference between the cash proceeds and this estimated fair value represents the value assigned to the equity component and was recorded as a debt discount. The debt discount is amortized using the effective interest method from the origination date through its stated contractual maturity date.

In connection with the issuance of the Notes, we paid $19.7 million, $67.3 million and $45.7 million (including transaction expenses) in June 2014, September 2017 and March 2018, respectively, to enter into capped call transactions with respect to shares of our common stock (the "Capped Call Transactions"), with certain financial institutions. The Capped Call Transactions are expected generally to reduce the potential dilution upon conversion of the Notes in the event that the market price of our common stock is greater than the strike price of the Capped Call Transactions. The cost of the Capped Call Transactions is included as a net reduction to additional paid-in capital in the stockholders' equity section of our consolidated balance sheets.

For more detailed information in relation to the Notes and the Capped Call Transactions, see "—Results of operations for the three-month period ended March 31, 2018 compared to the three-month period ended March 31, 2017 —Debt" and Note 9 to our unaudited interim condensed consolidated financial statements.

Impairment of long-lived assets, goodwill and intangible assets with indefinite useful life

We review long-lived assets for impairments whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Furthermore, goodwill and certain indefinite life trademarks are reviewed for impairment at each year-end or more frequently when events or changes in circumstances indicate that their carrying value may not be recoverable.

We believe that the accounting estimate related to impairment of long-lived assets and goodwill is critical since it is highly susceptible to change from period to period because: (i) it requires management to make assumptions about gross merchandise volume growth, total payment volume, total payment transactions, future interest rates, sales and costs; and (ii) the impact that recognizing an impairment would have on the assets reported on our balance sheet as well as our net income would be material. Management's assumptions about future sales and future costs require significant judgment.

For additional information, see "Critical Accounting Policies" section in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

Income taxes

We are required to recognize a provision for income taxes based upon taxable income and temporary differences between the book and tax bases of our assets and liabilities for each of the tax jurisdictions in which we operate. This process requires a calculation of taxes payable under currently enacted tax laws in each jurisdiction and an analysis of temporary differences between the book and tax bases of our assets and liabilities, including various accruals, allowances, depreciation and amortization. The tax effect of these temporary differences and the estimated tax benefit from our tax net operating losses are reported as deferred tax assets and liabilities in our consolidated balance sheet. We also assess the likelihood that our net deferred tax assets will be realized from future taxable income. To the extent we believe that it is more likely than not that some portion or all of our deferred tax assets will not be realized, we establish a valuation allowance. As of March 31, 2018, we had a valuation allowance on certain foreign net operating losses based on our assessment that it is more likely than not that the deferred tax asset will not be realized. To the extent we establish a valuation allowance or change the allowance in a period, we reflect the change with a corresponding increase or decrease in our “Income tax expense” line in our unaudited interim condensed consolidated statement of income.

Stock-based compensation

Our board of directors adopted long-term retention plans ("LTRPs"), under which certain eligible employees receive awards. See "Item 3. Quantitative and Qualitative Disclosures About Market Risk —Equity Price Risk" for details on the LTRPs. The variable LTRP awards are calculated based on the fair value of our common stock on the NASDAQ Global Market.

Results of operations for the three-month period ended March 31, 2018 compared to the three-month period ended March 31, 2017

The selected financial data for the three-month periods ended March 31, 2018 and 2017 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 period ended March 31, 2018 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2018 or for any other period.

Statement of income data

	Three-month Periods Ended March 31, (**)	
(In millions)	**2018 (*)**	**2017 (*)**
	(Unaudited)	
Net revenues(***)	$ 321.0	$ 269.7
Cost of net revenues	(158.2)	(100.8)
Gross profit	162.8	168.9
Operating expenses:		
Product and technology development	(38.4)	(30.3)
Sales and marketing	(110.7)	(46.9)
General and administrative	(43.1)	(28.3)
Total operating expenses	(192.2)	(105.5)
(Loss)/Income from operations	(29.4)	63.3
Other income (expenses):		
Interest income and other financial gains	9.2	12.2
Interest expense and other financial charges	(10.7)	(6.5)
Foreign currency gain	5.6	0.7
Net (loss)/income before income tax expense	(25.4)	69.7

Income tax gain/(expense)	12.4	(21.1)
Net (loss)/income	$ (12.9)	$ 48.5

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

(**) Venezuelan result have been deconsolidated since December 1, 2017, therefore, our 2018 results do not include Venezuelan segment results.

(***) The amount incurred in shipping subsidies, which under ASC 606 are netted from revenues, was $112.5 million and $4.3 million for the three-month periods ended March 31, 2018 and 2017, respectively. Please refer to Note 2 of our unaudited interim condensed consolidated financial statements for additional detail.

Principal trends in results of operations

Growth in net revenues

Since our inception, we have consistently generated revenue growth from our Enhanced Marketplace and Non-Marketplace revenue streams, driven by the strong growth of our key operational metrics. Our net revenues grew 19.0% in the three-month period ended March 31, 2018 as compared to the same period in 2017. Our successful items sold and total payment volume increased 50.6% and 60.5%, respectively, in the three-month period ended March 31, 2018 as compared to the same period in 2017. Additionally, our number of confirmed registered users was 22.4% higher as of March 31, 2018 as compared to the number of confirmed registered users as of March 31, 2017. Furthermore, our gross merchandise volume ("GMV") and our successful items shipped increased 34.0% and 92.4%, respectively, in the three-month period ended March 31, 2018 as compared to the same period in 2017. Our growth in net revenues was negatively affected by our implementation of ASC 606. Our shipping subsidies are netted from net revenues when we subsidize the cost of shipping. The free shipping subsidies incurred in the three-month periods ended March 31, 2018 and 2017 amounted to $112.5 million and $4.3 million, respectively. For the three-month period ended March 31, 2017 our revenues include Venezuelan revenues of $14.4 million. As a result of the deconsolidation, since December 1, 2017, our revenues for the three-month period ended March 31, 2018 exclude the revenues of our Venezuelan subsidiaries.

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, the effects of Venezuelan deconsolidation 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, revenues could decline if we continue with our free shipping initiatives and our shipping service grows faster than our marketplace and non-marketplace 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 50.7% and 62.6% for the three-month periods ended March 31, 2018 and 2017, respectively. The decrease in our gross profit margins resulted primarily from:

(i) Increased costs of providing free shipping in Brazil, Mexico, Argentina, Chile and Colombia of $108.2 million for the three-month period ended March 31, 2018, as compared with the same period in 2017, respectively.

(ii) Higher penetration of our payments and shipping solution into our Argentine, Brazilian and Mexican marketplaces. For the three-month period ended March 31, 2018, total volume of payments on our marketplace represented 89.9% of our total GMV (excluding motor vehicles, vessels, aircraft and real estate); as compared to 78.2% for the three-month period ended March 31, 2017. Additionally, for the three-month period ended March 31, 2018, the total number of items shipped through our shipping solution represented 65.6% of our total number of successful items sold, as compared to 51.3% for the three-month period ended March 31, 2017. 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 financing and shipping revenues are 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, 2018, collection fees and sales taxes increased $22.5 million and $5.4 million, respectively, as compared to the same period in 2017.

(iii) Increased cost of products sold of $9.9 million for the three-month period ended March 31, 2018, as compared with the same period in 2017, related to a higher volumes of mobile points of sales devices sold in Brazil, Argentina and Mexico.

(iv) Increased hosting costs of $6.6 million for the three-month period ended March 31, 2018, as compared with the same period in 2017.

(v) Increased customer support costs of $6.4 million for the three-month period ended March 31, 2018, as compared with the same period in 2017, mainly as a consequence of an increase in salaries and wages. The number of customer support employees was 2,651 as of March 31, 2018 as compared with 1,839 as of March 31, 2017.

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 (loss)/income margins

For the three-month period ended March 31, 2018 as compared to the same period in 2017, our operating (loss)/income margin decreased from a positive margin of 23.5% to a negative margin of 9.2%, mainly as a consequence of increases in costs of net revenues (driven mainly by collection fees), as described under “Gross profit margins” above, and increases in sales and marketing expenses (driven mainly by online and offline marketing expenses, buyer protection program expenses, bad debt expenses, salaries and chargebacks from credit cards).

We anticipate that as we continue to invest in product development, sales, 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 is increasingly difficult to sustain growth in operating margins.

Other Data

(in millions)	Three-month Periods Ended March 31, 2018	2017 (11)
Number of confirmed registered users at end of period [1]	223.1	182.2
Number of confirmed new registered users during period [2]	11.2	8.1
Gross merchandise volume [3]	$ 3,126.4	$ 2,334.0
Number of successful items sold [4]	80.1	53.2
Number of successful items shipped [5]	52.5	27.3
Total payment volume [6]	$ 4,175.3	$ 2,601.0
Total volume of payments on marketplace [7]	$ 2,809.5	$ 1,825.8
Total payment transactions [8]	74.3	44.1
Unique buyers [9]	17.0	13.3
Unique sellers [10]	5.0	4.1
Capital expenditures	$ 23.0	$ 12.8
Depreciation and amortization	$ 11.1	$ 9.0

(1) Measure of the cumulative number of users who have registered on the MercadoLibre Marketplace and confirmed their registration.

(2) Measure of the number of new users who have registered on the MercadoLibre Marketplace and confirmed their registration.

(3) Measure of the total U.S. dollar sum of all transactions completed through the MercadoLibre Marketplace, excluding motor vehicles, vessels, aircraft and real estate.

(4) Measure of the number of items that were sold/purchased through the MercadoLibre Marketplace.

(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 MercadoPago, including marketplace and non-marketplace transactions.

(7) Measure of the total U.S. dollar sum of all marketplace transactions paid for using MercadoPago, excluding shipping and financing fees.

(8) Measure of the number of all transactions paid for using MercadoPago.

(9) New or existing users with at least one purchase made in the period.

(10) New or existing users with at least one sale made in the period.

(11) Data for 2017 includes Venezuelan metrics. Please refer to Note 2 of our unaudited interim condensed consolidated financial statements for additional details.

Net revenues

	Three-month Periods Ended March 31,				**Change from 2017 to 2018 (*)**		
	2018		**2017**		**in Dollars**		**in %**
	(in millions, except percentages)						
Total Net Revenues (**)	$	321.0	$	269.7	$	51.3	19.0%
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, which under ASC 606 are netted from revenues, was $112.5 million and $ 4.3 million for the three-month periods ended March 31, 2018 and 2017, respectively. Please refer to Note 2 of our unaudited interim condensed consolidated financial statements for additional detail.

Our net revenues grew 19.0% in the three-month period ended March 31, 2018 as compared to the same period in 2017. The increase in Net Revenues was primarily attributable to increases in the enhanced marketplace transactions volume explained by:

a) a 34.0% increase in gross merchandise volume ("GMV"),

b) a 50.6% increase in successful items sold; and

c) a 92.4% increase in successful items shipped.

The enhanced marketplace revenues increase was partially offset by higher shipping subsidies. For the three-month periods ended March 31, 2018 and 2017, the amount incurred in shipping subsidies, which under ASC 606 are netted from revenues, was $112.5 million and $4.3 million, respectively.

In addition, the increase in our net revenues was attributable to a 96.5% increase in our non-marketplace revenues from $91.7 million in the first quarter of 2017 to $180.3 million in the first quarter of 2018, mainly generated by a 60.5% increase in our total payment volume.

Finally, the increase in our net revenues was negatively impacted by the Venezuelan deconsolidation in the fourth quarter of 2017. For the three-month period ended March 31, 2017 our revenues include Venezuelan revenues of $14.4 million. As a result of the deconsolidation, as of December 1, 2017 our revenues exclude the revenues of our Venezuelan subsidiaries.

			Change from 2017	
	Three-month Periods Ended March 31,		**to 2018 (***)**	
Consolidated Net Revenues by revenue stream	**2018**	**2017**	**in Dollars**	**in %**
	(in millions, except percentages)			
Brazil				
Enhanced Marketplace	$ 71.4	$ 108.3	$ (36.9)	-34.1%
Non-Marketplace	112.7	51.4	61.3	119.1%
	184.2	159.8	24.4	15.3%
Argentina				

Enhanced Marketplace	$	52.1	$	44.3	$	7.8	17.5%
Non-Marketplace	49.8		27.1		22.8		84.2%
	101.9		71.4		30.5		42.8%
Mexico							
Enhanced Marketplace	$	10.0	$	6.7	$	3.3	49.9%
Non-Marketplace	7.0		4.6		2.4		51.8%
	17.1		11.3		5.7		50.7%
Venezuela (****)							
Enhanced Marketplace	$	—	$	13.2	$	(13.2)	-100.0%
Non-Marketplace	—		1.2		(1.2)		-100.0%
	—		14.4		(14.4)		-100.0%
Other countries							
Enhanced Marketplace	$	7.1	$	5.4	$	1.7	32.4%
Non-Marketplace	10.7		7.4		3.3		44.5%
	17.8		12.8		5.0		39.4%
Enhanced Marketplace (*)	140.7		177.9		(37.2)		-20.9%
Non-Marketplace (**)	180.3		91.7		88.5		96.5%
Total	$	321.0	$	269.7	$	51.3	19.0%

(*) The amount incurred in shipping subsidies, which under ASC 606 are netted from revenues, was $112.5 million and 44.3 million for the three-month periods ended March 31, 2018 and 2017, respectively. Please refer to Note 2 of our unaudited interim condensed consolidated financial statements for additional detail.

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

(***) 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.

(****) Venezuelan revenues have been deconsolidated since December 1, 2017. Please refer to Note 2 of our unaudited interim condensed consolidated financial statements for additional detail.

Net revenues for the three-month period ended March 31, 2018 increased in all of our geographic segments, except from Venezuela due to deconsolidation.

Brazil

Enhanced Marketplace revenues in Brazil decreased 34.1% in the three-month period ended March 31, 2018 as compared to the same period in 2017. The decrease was primarily a consequence of $92.1 million in shipping subsidies related to our free shipping initiative launched in the second quarter of 2017, which is presented netted from revenues in accordance with ASC 606, and a 3.1% average devaluation of the local currency. This decrease was partially offset by a 71.1% increase in local currency gross merchandise volume. Non-Marketplace revenues grew 119.1%, a $61.3 million increase, during the same period, mainly driven by: i) a 66.0 % increase in the volume of payments transactions; and ii) a 131.7 % increase in ad sales volume.

Argentina

Enhanced Marketplace revenues in Argentina increased 17.5% in the three-month period ended March 31, 2018 as compared to the same period in 2017. The increase was primarily a consequence of a 52.8% increase in local currency gross merchandise volume, partially offset by $4.1 million in shipping subsidies related to our free shipping initiative launched in the first quarter of 2018, which is presented netted from revenues in accordance with ASC 606 and a 20.4% average devaluation of the local currency. Non-Marketplace revenues grew 84.2% in the three-month period ended March 31, 2018, a $22.8 million increase, mainly driven by: i) a 36.8% increase in the volume of payments transactions; and ii) a 71.8% increase in ad sales volume.

Mexico

Enhanced Marketplace revenues in Mexico increased by approximately 49.9% in the three-month period ended March 31, 2018, as compared to the same period in 2017, mainly due to a 76.6% increase in local currency gross merchandise volume and a 8.5% average appreciation of local currency, partially offset by an increase of $8.1 million in shipping subsidies related to our free shipping initiative, which is presented netted from revenues in accordance with ASC 606. Non-Marketplace revenues increased 51.8% in the three-month period ended March 31, 2018, a $2.4 million increase, mainly driven by increases in the volume of payments transactions and shipped items.

Venezuela

Venezuelan revenues have been deconsolidated since December 1, 2017. Please refer to Note 2 of our unaudited interim condensed consolidated financial statements for additional detail.

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) (*)			
2018				
Net revenues (**)	$ 321.0	n/a	n/a	n/a
Percent change from prior quarter	-10%			
2017				
Net revenues (**)(***)	$ 269.7	$ 283.9	$ 304.9	$ 358.1
Percent change from prior quarter	5%	5%	7%	17%

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

(**) The amount incurred in shipping subsidies, which under ASC 606 are netted from revenues, was $112.5 million and $4.3 million for the three-month periods ended March 31, 2018 and 2017, respectively. Please refer to Note 2 of our unaudited interim condensed consolidated financial statements for additional detail.

(***) Venezuelan revenues have been deconsolidated since December 1, 2017. Please refer to Note 2 of our unaudited interim condensed consolidated financial statements for additional detail. For the three-month period ended March 31, 2017 our revenues include Venezuelan revenues of $14.4 million.

The following table sets forth the growth in net revenues in local currencies for the three-month period ended March 31, 2018 as compared to the same period in 2017:

	Changes from 2017 to 2018 (*)
(% of revenue growth in Local Currency) (**)	**Three-month period**
Brazil	18.9%
Argentina	79.6%
Mexico	39.1%
Other Countries	34.4%
Total Consolidated	30.1%

(*) The local currency revenue growth was calculated by using the average monthly exchange rates for each month during 2017 and applying them to the corresponding months in 2018, 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 under ASC 606 are netted from revenues, was $112.5 million and $4.3 million for the three-month periods ended March 31, 2018 and 2017, respectively. Please refer to Note 2 of our unaudited interim condensed consolidated financial statements for additional detail.

In Argentina, the increase in our net revenues is due to an increase of our Argentine transactions volume, and increases in our MercadoPago transactions partially offset by higher shipping subsidies related to our free shipping initiative.

In Mexico, the increase in local currency growth is a consequence of an increase of our Mexican Marketplace transactions volumes, and increases in our MercadoPago transactions and shipped items volumes partially offset by higher shipping subsidies related to our free shipping initiative.

In Brazil, the increase in local currency growth is mainly a consequence of an increase of our Brazilian Marketplace transactions volume and increases in our MercadoPago transactions and our shipped items volume partially offset by higher shipping subsidies related to our free shipping initiative.

Cost of net revenues

	Three-month Periods Ended March 31,				Change from 2017 to 2018 (*)		
	2018		2017		in Dollars		in %
	(in millions, except percentages)						
Total cost of net revenues	$	158.2	$	100.8	$	57.4	56.9%
As a percentage of net revenues (*)	49.3%		37.4%				

(*) 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.

For the three-month period ended March 31, 2018 as compared to the same period of 2017, the increase of $57.4 million in cost of net revenues was primarily attributable to: i) an increase in collection fees of $22.5 million, which was mainly attributable to our Argentine and Brazilian operations as a result of the higher transactions volume of MercadoPago in those countries and higher off-platform transactions; ii) an increase in cost of product sold of $9.9 million as a consequence of higher volumes of mobile points of sales devices sold in Brazil and Argentina; iii) an increase in hosting expenses of $6.6 million; iv) a $6.4 million increase in customer support costs mainly as a consequence of salaries and wages and; v) an increase in sales taxes of $5.4 million, mainly related to the growth of our Argentine and Brazilian operations.

Product and technology development expenses

	Three-month Periods Ended March 31,		Change from 2017 to 2018 (*)	
	2018	2017	in Dollars	in %
	(in millions, except percentages)			
Product and technology development	$ 38.4	$ 30.3	$ 8.1	26.8%
As a percentage of net revenues (*)	12.0%	11.2%		

(*) 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.

For the three-month period ended March 31, 2018, the increase in product and technology development expenses as compared to the same period in 2017 amounted to $8.1 million. This increase was primarily attributable to: i) an increase of $4.9 million in salaries and wages; ii) an increase in other product and technology development expenses of $1.5 million; and iii) an increase in depreciation and amortization expenses of $1.3 million.

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 March 31,		Change from 2017 to 2018 (*)	
	2018	2017	in Dollars	in %
	(in millions, except percentages)			
Sales and marketing	$ 110.7	$ 46.9	$ 63.8	135.8%
As a percentage of net revenues (*)	34.5%	17.4%		

(*) 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.

For the three-month period ended March 31, 2018, the $63.8 million increase in sales and marketing expenses as compared to the same period in 2017 was primarily attributable to: i) an increase of $30.3 million in on-line and offline marketing expenses mainly in Brazil, Mexico and Argentina; ii) a $17.6 million increase in our buyer protection program expenses; iii) a $5.7 million increase in our bad debt expenses, mainly related to our credit business; iv) a $4.7 million increase in salaries and wages; and v) a $4.6 million increase in chargebacks from credit cards due to the increase in our MercadoPago volume.

General and administrative expenses

	Three-month Periods Ended March 31,		Change from 2017 to 2018 (*)	
	2018	**2017**	**in Dollars**	**in %**
	(in millions, except percentages)			
General and administrative	$ 43.1	$ 28.3	$ 14.7	52.1%
As a percentage of net revenues (*)	13.4%	10.5%		

(*) 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.

For the three-month period March 31, 2018, the $14.7 million increase in general and administrative expenses as compared to the same period in 2017 was primarily attributable to: i) a $10.2 million increase in salaries and wages; ii) a $2.2 million increase in tax, audit and legal fees; iii) a $0.8 million increase in temporary services hired, mainly associated to temporary administrative employees; and iv) a $0.7 increase in depreciation and amortization.

Other income, net

	Three-month Periods Ended March 31,		Change from 2017 to 2018 (*)	
	2018	**2017**	**in Dollars**	**in %**
	(in millions, except percentages)			
Other income, net	$ 4.1	$ 6.3	$ (2.3)	-36.0%
As a percentage of net revenues (*)	1.3%	2.4%		

(*) 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.

For the three-month period ended March 31, 2018, the $2.3 million decrease in other income, net as compared to the same period in 2017 was primarily attributable to: i) an increase of $4.3 million in financial expenses, mainly attributable to financial interest related to financial loans in Argentina, Uruguay and Chile; and ii) a $3.0 million decrease in interest income from our financial investments as a result of lower interest rates in Brazil as well as a lower float in Brazil and Argentina. This decrease was partially offset by an increase in foreign exchange gain of $4.9 million, from $0.7 million in 2017 to $5.6 million in 2018. The 2018 foreign exchange gain was mainly as a consequence of: i) a $3.1 million and a $0.9 million gain arising from the devaluation of the Argentine Peso and the Brazilian Reais over our U.S. Dollar net asset position in Argentina and Brazil, respectively and; ii) a $1.7 million gain arising from the Mexican Peso revaluation over our U.S. Dollar net liability position in Mexico.

Income tax

	Three-month Periods Ended March 31,		Change from 2017 to 2018 (*)	
	2018	**2017**	**in Dollars**	**in %**
	(in millions, except percentages)			
Income tax	$ (12.4)	$ 21.1	$ (33.6)	-158.8%
As a percentage of net revenues (*)	-3.9%	7.8%		

(*) 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.

During the three-month period ended March 31, 2018 as compared to the same period in 2017, income tax expense decreased by $33.6 million mainly as a consequence of higher pre-tax losses recorded in Mexico (mainly attributable to an increase in our operating costs) and pre-tax losses in Brazil compared to the pre-tax tax gains recorded in Brazil during 2017 (as a result mainly of an increase in our operating costs discussed above); partially offset by a higher income tax expense in our Argentine subsidiaries during the first quarter of 2018, as compared to the same period in 2017, due to a higher pre-tax gain in 2018.

On December 27, 2017, the Argentine Senate approved a comprehensive income tax reform effective since January 1, 2018. The Argentine tax reform, among other things, reduces the prior 35 percent income tax rate to 30 percent for 2018 and 2019, and to 25 percent for 2020 and thereafter. The new regulation imposes a withholding income tax on dividends paid by Argentine entities of 7 percent for 2018 and 2019, increasing to 13 percent from 2020 forward. The reform also repeals the prior "equalization tax" (the 35 percent withholding applicable to dividends distributed in excess of the accumulated taxable income) for income accrued from 1 January 2018 forward.

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act"). The Tax Act makes broad and complex changes to the U.S. tax code, including, but not limited to, (1) requiring a one-time transition tax on certain unrepatriated earnings of foreign subsidiaries that is payable over eight years and (2) bonus depreciation that will allow for full expensing of qualified property.

The Tax Act also established new tax laws that came into effect on January 1, 2018, including, but not limited to: (a) elimination of the corporate alternative minimum tax (AMT); (b) the creation of the base erosion anti-abuse tax (BEAT), a new minimum tax; (c) a general elimination of U.S. federal income taxes on dividends from foreign subsidiaries; (d) a new provision designed to tax global intangible low-taxed income (GILTI), which allows for the possibility of using foreign tax credits (FTCs) and a deduction of up to 50 percent to offset income tax liability (subject to some limitations); (e) a new limitation on deductible interest expense; (f) the repeal of the domestic production activity deduction; (g) limitations on the deductibility of certain executive compensation; (h) limitations on the use of FTCs to reduce the U.S. income tax liability; and (i) limitations on net operating losses (NOLs) generated after December 31, 2017, to 80 percent of taxable income.

The Deemed Repatriation Transition Tax (Transition Tax) is a tax on previously untaxed accumulated and current earnings and profits (E&P) of certain of our foreign subsidiaries. To determine the amount of the Transition Tax, we must determine, in addition to other factors, the amount of post-1986 E&P of the relevant subsidiaries, as well as the amount of non-U.S. income taxes paid on such earnings. The company was able to make a reasonable estimate of the Transition Tax and determine that no tax duty related to the Transition Tax is expected to be due because the estimated tax is expected to be offset with available foreign tax credits as of December 31, 2017. Accordingly, no adjustments have been made to income tax expense. The Transition Tax calculation will not be finalized until the Mercadolibre Inc. Federal Income Tax return is filed.

We assessed whether our valuation allowance analysis is affected by various aspects of the Tax Act (including the deemed repatriation of deferred foreign income, GILTI inclusions and new categories of FTCs). As a consequence of such analysis we recorded an increase in valuation allowance of $12.1 million and $12.1 million to fully reserve the outstanding foreign tax credits as of December 31, 2017 and March 31, 2018.

The Tax Act created a new requirement that certain income (i.e., GILTI) earned by controlled foreign corporations (CFCs) must be included currently in the gross income of the CFCs' U.S. shareholder. GILTI is the excess of the shareholder's "net CFC tested income" over the net deemed tangible income return, which is currently defined as the excess of (1) 10 percent of the aggregate of the U.S. shareholder's pro rata share of the qualified business asset investment of each CFC with respect to which it is a U.S. shareholder over (2) the amount of certain interest expenses taken into account in the determination of net CFC-tested income.

Under U.S. GAAP, we were allowed to make an accounting policy choice of either (1) treating taxes due on future U.S. inclusions in taxable income related to GILTI as a current-period expense when incurred (the "period cost method") or (2) factoring such amounts into a company's measurement of its deferred taxes (the "deferred method"). We selected the period cost method. Accordingly, we are not required to record any impact in connection with the potential GILTI tax as of March 31, 2018 and December 31, 2017.

Our management considers the earnings of our foreign subsidiaries to be indefinitely reinvested, other than certain earnings the distributions of which do not imply withholdings, exchange rate differences or state income taxes, and for that reason has not recorded a deferred tax liability.

Our blended tax rate is defined as income tax gain/(expense) as a percentage of (loss)/income before income tax. Our effective income tax rate is defined as the provision for income taxes as a percentage of (loss)/income 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, 2018 and 2017:

	Three-month Periods Ended March 31,	
	2018	**2017**
Blended tax rate	49.1%	30.4%
Effective tax rate	-71.6%	34.4%

Our blended tax rate for the three-month period ended March 31, 2018 increased as compared to the same period in 2017 mainly due to the effect of the compensation between pre-tax losses – at a higher tax rate - 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. Such compensation effect did not take place in the three-month period ended March 31, 2017.

Our effective tax rate for the three-month periods ended March 31, 2018 decreased as compared to the same period in 2017 mainly due to an increase in our pre-tax losses in our Brazilian and Mexican subsidiaries, which increased our consolidated pre-tax losses without any corresponding recognition of provision for income taxes.

The following table sets forth our effective income tax rate on a segment basis for the three-month periods ended March 31, 2018 and 2017:

	Three-month Periods Ended March 31,	
	2018	**2017**
Effective tax rate by country		
Argentina	30.5%	24.0%
Brazil	-19.0%	32.8%
Venezuela (*)	-	37.8%
Mexico	-0.9%	-26.9%

(*) Venezuelan results have been deconsolidated since December 1, 2017. Please refer to Note 2 of our unaudited interim condensed consolidated financial statements for additional detail.

The increase in the effective income tax rate in our Argentine subsidiaries during the three-month period ended March 31, 2018 as compared to the same period in 2017 was mainly related to higher temporary differences in the current period.

On August 17, 2011, the Argentine government issued a new software development law and on September 9, 2013 a regulatory decree was issued that established new requirements to benefit from the new software development law. The decree establishes requirements to comply with annual incremental ratios related to exports of services and research and development expenses that must be achieved to remain within the tax holiday. Our Argentine subsidiary has to achieve certain required ratios annually under the software development law in order to be eligible for the benefits mentioned below.

On September 17, 2015, the Argentine Industry Secretary issued Resolution 1041/2015 approving the application for eligibility under the new software development law for the our Argentine subsidiary, Mercadolibre S.R.L. As a result, our 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.

The benefits to the Company under the software development law 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 $7.3 million and $5.1 million during the three-month periods ended March 31, 2018 and 2017, respectively. Aggregate per share effect of the Argentine tax holiday amounted to $0.17 and $0.12 for the three-month periods ended March 31, 2018 and 2017, respectively. Furthermore, the Company recorded a labor cost benefit of $2.0 million and $2.0 million during the three-month periods ended March 31, 2018 and 2017, respectively. Additionally, $0.7 million and $0.5 million were accrued to pay software development law audit fees during the first quarter of 2018 and 2017, respectively.

The decrease in our Brazilian effective income tax rate, which was negative for the three-month periods ended March 31, 2018 as compared to the same period in 2017 was mainly related to the pre-tax loss recorded during 2018 (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 periods ended March 31, 2018 as compared with the same period in 2017 is due to the higher pre-tax losses recorded during 2018 (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.

We do not expect the domestic effective income tax rate related to dividend distributions from foreign subsidiaries to have a significant impact on our company since our strategy is to reinvest our cash surplus in our international operations, and to distribute dividends when they can be offset with available tax credits.

Segment information

(In millions, except for percentages)	Three-month Period Ended March 31, 2018 (*)					
	Brazil	**Argentina**	**Mexico**	**Venezuela (**)**	**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%

	Three-month Period Ended March 31, 2017 (*)					
	Brazil	**Argentina**	**Mexico**	**Venezuela**	**Other Countries**	**Total**
Net revenues	$ 159.8	$ 71.4	$ 11.3	$ 14.4	$ 12.8	$
Direct costs	(87.0)	(45.1)	(12.6)	(6.6)	(9.7)	(161.0)
Direct contribution	72.7	26.3	(1.3)	7.8	3.1	108.7
Margin	45.5%	36.9%	-11.5%	54.5%	24.1%	40.3%

	Change from the Three-month Period Ended March 31, 2017 to March 31, 2018 (*)					
	Brazil	**Argentina**	**Mexico**	**Venezuela**	**Other Countries**	**Total**
Net revenues						
in Dollars	$ 24.4	$ 30.5	$ 5.7	$ (14.4)	$ 5.0	$
in %	15.3%	42.8%	50.7%	-100.0%	39.4%	19.0%
Direct costs						
in Dollars	$ (89.9)	$ (12.2)	$ (13.7)	$ 6.6	$ (7.6)	$
in %	103.3%	27.1%	108.4%	-100.0%	78.1%	72.6%
Direct contribution						
in Dollars	$ (65.6)	$ 18.3	$ (8.0)	$ (7.8)	$ (2.5)	$
in %	-90.1%	69.6%	609.3%	-100.0%	-82.3%	-60.3%

(*) 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.

(**) Venezuelan results have been deconsolidated since December 1, 2017. Please refer to Note 2 of our unaudited interim condensed consolidated financial statements for additional detail.

Net revenues

Net revenues for the three-month period ended March 31, 2018 as compared to the same period in 2017, 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, 2018 as compared to the same period in 2017, direct costs increased by 103.3%, mainly driven by: i) a 202.9% increase in sales and marketing expenses, mainly due to an increase in online and offline marketing expenses, buyer protection program expenses, chargebacks from credit cards due to the increase in our MercadoPago volume and salaries and wages; ii) a 79.3% increase in cost of net revenues, mainly attributable to an increase in collection fees as a consequence of higher transactions volume of our MercadoPago business, cost of products sold as a consequence of higher volumes of mobile points of sales devices, sales tax and salaries and wages related to customer service; iii) a 53.2% increase in product and technology development expenses, mainly due to an increase in depreciation and amortization expenses and other product development expenses; and iv) a 26.0% increase in general and administrative expenses, mainly attributable to an increase in salaries and wages, tax, legal and other fees and depreciation and amortization expenses.

Argentina

For the three-month period ended March 31, 2018 as compared to the same period in 2017, direct costs increased by 27.1%, mainly driven by: i) a 128.2% increase in general and administrative expenses, mainly attributable to an increase in salaries and wages, tax, legal and other fees and other general and administrative expenses; ii) a 92.2% increase in sales and marketing expenses, mainly due to an increase in online and offline marketing expenses, bad debt expenses and chargebacks from credit cards due to the increase in our MercadoPago volume; iii) a 18.7% increase in product and technology development expenses, mainly due to an increase in salaries and wages and depreciation and amortization expenses and; iv) a 10.5% increase in cost of net revenues, mainly attributable to an increase in collection fees as a consequence of a higher operation volume of MercadoPago business, cost of products sold as a consequence of higher volumes of mobile points of sales devices and sales taxes.

Mexico

For the three-month period ended March 31, 2018 as compared to the same period in 2017, direct costs increased by 108.4%, mainly driven by: i) a 119.8% 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 MercadoPago volume and salaries and wages; ii) a 104.1% increase in cost of net revenues, mainly attributable to an increase in collection fees due to higher MercadoPago penetration and customer support costs; iii) a 65.8% increase in general and administrative expenses and; iv) a 61.3% increase in product and technology development expenses, mainly attributable to depreciation and amortization.

Venezuela

Venezuelan operations have been deconsolidated since December 1, 2017. Please refer to Note 2 of our interim condensed consolidated financial statements for additional detail.

Liquidity and Capital Resources

Our main cash requirement historically has been working capital to fund MercadoPago financing operations in Brazil. We also require cash for capital expenditures relating to technology infrastructure, software applications, office space, business acquisitions, to fund our credit business, to fund the payment of quarterly cash dividends on shares of our common stock and to fund the interest payments on our 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. On June 30, 2014, we issued $330 million principal balance of Notes for net proceeds to us of approximately $321.7 million. We have funded MercadoPago mainly by discounting credit card receivables and through cash advances derived from our business.

As of March 31, 2018, our main source of liquidity, amounting to $509.9 million of cash and cash equivalents and short-term investments and $33.4 million of long-term investments, was provided by cash generated from operations, proceeds from loans and from the issuance of the Notes. 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, short-term investments, accounts receivable, loans receivable, accounts payable and accrued expenses, funds receivable from and payable to MercadoPago users, and short-term debt. As long as we continue transferring credit card receivables to financial institutions in return for cash, we will continue generating cash from those receivables.

As of March 31, 2018, cash and investments of our non-U.S. subsidiaries amounted to 90.6% of our consolidated cash and investments, or $492.4 million, and our non-U.S. dollar-denominated cash and investments amounted to approximately 74.8% of our consolidated cash and investments. Our non-U.S. dollar-denominated cash and investments are located primarily in Brazil and Argentina.

In the event we change the way we manage our business, our working capital needs could be funded, as it was in the past, through a combination of the sale of credit card coupons to financial institutions and cash advances from our business.

The following table presents our cash flows from operating activities, investing activities and financing activities for the three-month periods ended March 31, 2018 and 2017:

(In millions)	**Three-month Periods Ended March 31, (*) 2018**	**2017**
Net cash provided by (used in):		
Operating activities	$ (37.0)	$ 104.8
Investing activities	(24.1)	(39.1)
Financing activities	24.0	(5.2)
Effect of exchange rates on cash and cash equivalents	(0.8)	6.8
Net (decrease)/increase in cash and cash equivalents	$ (37.8)	$ 67.2

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

Net cash (used in) provided by operating activities

Cash provided by 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 2017 to 2018 (*)**	
	2018	**2017**	**in Dollars**	**in %**
	(in millions, except percentages)			
Net Cash (used in) provided by:				
Operating activities	$ (37.0)	$ 104.8	$ (141.8)	-135.4%

(*) 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 $141.8 million decrease in net cash (used in) provided by operating activities during the three-month period ended March 31, 2018, as compared to the same period in 2017, was primarily driven by a $61.4 million decrease in our net income, a $49.5 million decrease in credit card receivables, a $16.5 million decrease in prepaid expenses and an $8.5 decrease in other assets.

Net cash used in investing activities

	Three-month Periods Ended March 31, 2018	2017	Change from 2017 to 2018 (*) in Dollars	in %
	(in millions, except percentages)			
Net Cash (used in):				
Investing activities	$ (24.1)	$ (39.1)	$ 15.0	38.4%

(*) 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.

Net cash used in investing activities in the three-month period ended March 31, 2018 resulted mainly from purchases of investments of $632.7 million, which was offset by proceeds from the sale and maturity of investments of $683.9 million, as part of our financial strategy. We used $52.2 million in principal of loans receivable granted to merchants and consumers under our MercadoCredito solution, $19.5 million in the purchase of property plant and equipment (mainly in information technology in Argentina, Brazil and the United States), $3.4 million in advances for property and $0.1 million in purchase of intangible assets.

Net cash provided by (used in) financing activities

	Three-month Periods Ended March 31, 2018	2017	Change from 2017 to 2018 (*) in Dollars	in %
	(in millions, except percentages)			
Net Cash provided by (used in):				
Financing activities	$ 24.0	$ (5.2)	$ 29.2	561.2%

(*) 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.

For the three-month period ended March 31, 2018, we generated $80.9 million proceeds from the issuance of loans. This increase in cash from financing activities was partially offset by the cash used to fund $45.7 million for the 2018 Capped Call Transactions, $6.6 million in cash dividends, and $4.6 million for the payments on loans payable

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

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

Holders may convert their notes at their option at any time prior to January 1, 2019 only under the following circumstances: (1) during any calendar quarter commencing after the calendar quarter ending on September 30, 2014 (and only during such calendar quarter), if the last reported sale price of the common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day; (2) during the five business day period after any five consecutive trading day period (the “measurement period”) in which the trading price per $1,000 principal amount of notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of our common stock and the conversion rate on each such trading day; or (3) upon the occurrence of specified corporate events. On or after January 1, 2019 until the close of business on the second scheduled trading day immediately preceding the maturity date, holders may convert their notes at any time, regardless of the foregoing circumstances.

As of March 31, 2018, the conversion threshold had been met and the Notes became convertible at the holders’ option beginning on April 1, 2018 and ending on June 30, 2018. The determination of whether or not the Notes are convertible must continue to be performed on a quarterly basis. 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 amount due upon conversion of the Notes.

From April 1 to the date of issuance of this form, no additional conversion request were made.

The total estimated fair value of the Notes was $937.1 million and $829.0 million as of March 31, 2018 and December 31, 2017, respectively. The fair value was determined based on the closing trading price per $100 of the Notes as of the last day of trading for the period. Based on the $356.4 closing price of the Company’s common stock on March 31, 2018, the if-converted value of the Notes exceeded their principal amount by approximately $603.2 million.

Capped Call Transactions

The net proceeds from the Notes were approximately $321.7 million after considering the transaction costs in an amount of $8.3 million. In connection with the issuance of the Notes, we paid approximately $19.7 million in June 2014 to enter into privately negotiated capped call transactions with respect to our common stock with certain financial institutions (the “2014 Capped Call Transactions”). In September 2017 and March 2018, we paid $67.3 million and $45.7 million (including transaction expenses), respectively, to enter into additional privately negotiated capped call transactions with certain financial institutions (the “2017 Capped Call Transactions” and the “2018 Capped Call Transactions,” respectively, and together with the 2014 Capped Call Transactions, the “Capped Call Transactions”). The 2017 and 2018 Capped Call Transactions are in addition to the 2014 Capped Call Transactions and have a higher strike price and cap price. The 2014 Capped Call Transactions have a cap price of approximately $155.78 per common share, the 2017 Capped Call Transactions have a cap price of approximately $366.06 per common share and the 2018 Capped Call Transactions have a cap price of approximately $467.38 per common share. The Capped Call Transactions are expected generally to reduce the potential dilution upon conversion of the Notes in the event that the market price of our common stock is greater than the strike price of the Capped Call Transactions. The strike price of the 2014 Capped Call Transactions was initially set at $126.02 per common share, which corresponds to the initial conversion price of the Notes. The strike price of the 2017 Capped Call Transactions was initially set at $295.67 per common share. The strike price of the 2018 Capped Call Transactions was initially set at $426.73 per common share. The Capped Call Transactions are subject to anti-dilution adjustments substantially similar to those applicable to the conversion rate of the Notes. The Capped Call Transactions allow us to receive shares of our common stock and/or cash related to the excess conversion value that we would pay to the holders of the Notes upon conversion, up to the applicable cap price.

Cash Dividends

In each of March, May, July and October of 2017, the Board of Directors approved a fixed quarterly cash dividend of $6,624 thousands (or $0.150 per share) on the Company's outstanding shares of common stock. The dividends were paid on April 17, July 14, October 16, 2017 and January 12, 2018 to stockholders of record as of the close of business on March 31, June 30, September 30 and December 31, 2017.

After reviewing our capital allocation process the Board of Directors has concluded that the Company has multiple investment opportunities that should generate greater returns to shareholders through investing capital into the business than issuing a dividend. Consequently, the decision has been made to suspend the payment of dividends to shareholders as of the first quarter of 2018, as it will free up capital for investment in multiple projects in our various platforms. Any future determination as to the declaration of dividends on our common stock will be made at the discretion of our board of directors and will depend on our earnings, operating and financial condition, capital requirements and other factors deemed relevant by our board of directors, including the applicable requirements of the Delaware General Corporation Law.

Capital expenditures

Our capital expenditures (composed of our payments for property and equipment and intangible assets) for the three-month periods ended March 31, 2018 and 2017 amounted to $23.0 million and $12.8 million, respectively.

During the three-month period ended March 31, 2018, we invested $9.9 million in information technology in Brazil and Argentina, and $3.9 million in our Argentine and Uruguayan offices.

We are continually increasing our level of investment in hardware and software licenses necessary to improve and update the technology of our platform and cost of 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, 2018, 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.

Recently issued accounting pronouncements

See Item 1 of Part I, "Unaudited Interim Condensed Consolidated Financial Statements-Note 2-Summary of significant accounting policies-Recently issued accounting pronouncements."

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 2017 and applying them to the corresponding months in 2018, so as to calculate what our results would have been had 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, 2018:

	Three-month Periods Ended March 31, (*) As reported			**FX Neutral Measures**	
(In millions, except percentages)	**2018**	**2017**	**Percentage Change**	**2018**	**2017**
	(Unaudited)			**(Unaudited)**	
Net revenues	$ 321.0	$ 269.7	19.0%	$ 350.8	$ 269.7
Cost of net revenues	(158.2)	(100.8)	56.9%	(170.2)	(100.8)
Gross profit	162.8	168.9	-3.6%	180.6	168.9
Operating expenses	(192.2)	(105.5)	82.1%	(212.7)	(105.5)
Loss / Income from operations	(29.4)	63.3	-146.5%	(32.2)	63.3

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

PART II. OTHER INFORMATION

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)
4.1	Form of Specimen Certificate for the Registrant's Common Stock.(2)
4.2	Second Amended and Restated Registration Rights Agreement, dated September 24, 2001, by and among the Registrant and the investors named therein. (1)
4.3	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. (3)
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 Annual Report on Form 10-K for the year ended December 31, 2008 filed on February 27, 2009.
(3) Incorporated by reference to the Registrant's Current Report on form 8-K filed on June 30, 2014.

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 14, 2018.	By: /s/ Marcos Galperin Marcos Galperin President and Chief Executive Officer
	By: /s/ Pedro Arnt Pedro Arnt Executive Vice President and Chief Financial Officer