MERCADOLIBRE INC
Form 10-Q
August 05, 2016
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2016

-OR-

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

Commission file number 001-33647

MercadoLibre, Inc.

(Exact name of Registrant as specified in its Charter)

Delaware	98-0212790
(State or other jurisdiction of 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 No

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

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

Large accelerated filer	Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company)	Smaller reporting company

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

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

MERCADOLIBRE, INC.

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Interim Condensed Consolidated Financial Statements

as of June 30, 2016 and December 31, 2015

and for the six and three-month periods

ended June 30, 2016 and 2015

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MercadoLibre, Inc.

Interim Condensed Consolidated Balance Sheets

As of June 30, 2016 and December 31, 2015

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

(Unaudited)

	June 30, 2016	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	$ 144,016	$ 166,881
Short-term investments	251,416	202,112
Accounts receivable, net	40,055	28,428
Credit cards receivables, net	215,437	131,946
Prepaid expenses	6,004	6,007
Inventory	990	222
Other assets	15,349	9,577
Total current assets	673,267	545,173
Non-current assets:		
Long-term investments	157,832	187,621
Property and equipment, net	104,808	81,633
Goodwill	96,150	86,545
Intangible assets, net	29,126	28,991
Deferred tax assets	36,417	29,688
Other assets	42,549	43,955
Total non-current assets	466,882	458,433
Total assets	$ 1,140,149	$ 1,003,606
Liabilities and Equity		
Current liabilities:		
Accounts payable and accrued expenses	$ 86,068	$ 62,038
Funds payable to customers	277,528	203,247
Salaries and social security payable	32,786	32,918
Taxes payable	16,419	10,092
Loans payable and other financial liabilities	782	1,965
Other liabilities	2,148	7,667
Dividends payable	6,624	4,548
Total current liabilities	422,355	322,475
Non-current liabilities:		

Salaries and social security payable	10,239	10,422
Loans payable and other financial liabilities	296,691	294,342
Deferred tax liabilities	32,099	27,049
Other liabilities	14,198	9,860
Total non-current liabilities	353,227	341,673
Total liabilities	$ 775,582	$ 664,148
Equity:		
Common stock, $0.001 par value, 110,000,000 shares authorized, 44,157,341 and 44,156,854 shares issued and outstanding at June 30, 2016 and December 31, 2015, respectively	$ 44	$ 44
Additional paid-in capital	137,979	137,923
Retained earnings	473,627	440,770
Accumulated other comprehensive loss	(247,083)	(239,279)
Total Equity	364,567	339,458
Total Liabilities and Equity	$ 1,140,149	$ 1,003,606

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

MercadoLibre, Inc.

Interim Condensed Consolidated Statements of Income

For the six and three -month periods ended June 30, 2016 and 2015

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

(Unaudited)

	Six Months Ended June 30,		Three Months Ended June 30,	
	2016	2015	2016	2015
Net revenues	$ 357,274	$ 302,417	$ 199,644	$ 154,314
Cost of net revenues	(128,794)	(95,019)	(73,346)	(50,311)
Gross profit	228,480	207,398	126,298	104,003
Operating expenses:				
Product and technology development	(46,157)	(36,885)	(24,216)	(19,639)
Sales and marketing	(68,020)	(55,317)	(35,337)	(29,115)
General and administrative	(37,910)	(38,746)	(20,841)	(20,612)
Impairment of Long-Lived Assets	(13,717)	(16,226)	(13,717)	—
Total operating expenses	(165,804)	(147,174)	(94,111)	(69,366)
Income from operations	62,676	60,224	32,187	34,637
Other income (expenses):				
Interest income and other financial gains	15,300	8,991	8,049	4,683
Interest expense and other financial losses	(12,315)	(10,151)	(6,631)	(5,201)
Foreign currency losses	(240)	(9,217)	(5,387)	(648)
Net income before income / asset tax expense	65,421	49,847	28,218	33,471
Income / asset tax expense	(19,316)	(28,663)	(12,360)	(14,008)
Net income	$ 46,105	$ 21,184	$ 15,858	$ 19,463

	Six Months Ended June 30,	Three Months Ended June 30,

	2016	2015	2016	2015
Basic EPS				
Basic net income				
Shareholders per common share	$ 1.04	$ 0.48	$ 0.36	$ 0.44
Weighted average of outstanding common shares	44,157,151	44,155,035	44,157,341	44,155,271
Diluted EPS				
Diluted net income				
Shareholders per common share	$ 1.04	$ 0.48	$ 0.36	$ 0.44
Weighted average of outstanding common shares	44,157,151	44,155,035	44,157,341	44,155,271
Cash Dividends declared	0.150	0.206	0.150	0.103

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

MercadoLibre, Inc.

Interim Condensed Consolidated Statements of Comprehensive Income

For the six and three-month periods ended June 30, 2016 and 2015

(In thousands of U.S. dollars)

(Unaudited)

	Six Months Ended June 30,		Three Months Ended June 30,	
	2016	2015	2016	2015
Net income	$ 46,105	$ 21,184	$ 15,858	$ 19,463
Other comprehensive (loss) income, net of income tax:				
Currency translation adjustment	(8,082)	(23,927)	3,108	(1,397)
Unrealized net losses on available for sale investments	(394)	(27)	(842)	(288)
Less: Reclassification adjustment for losses on available for sale investments included in net income	(672)	(379)	—	—
Net change in accumulated other comprehensive (loss) income, net of income tax	(7,804)	(23,575)	2,266	(1,685)
Total Comprehensive Income (loss)	$ 38,301	$ (2,391)	$ 18,124	$ 17,778

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

MercadoLibre, Inc.

Interim Condensed Consolidated Statements of Cash Flow

For the six-month periods ended June 30, 2016 and 2015

(In thousands of U.S. dollars)

(Unaudited)

	Six Months Ended June 30,	
	2016	2015
Cash flows from operations:		
Net income	$ 46,105	$ 21,184
Adjustments to reconcile net income to net cash provided by operating activities:		
Unrealized Devaluation Loss, net	5,162	10,862
Impairment of Long-Lived Assets	13,717	16,226
Depreciation and amortization	13,178	10,970
Accrued interest	(7,918)	(5,769)
Non cash interest and convertible bonds amortization of debt discount and Amortization of debt issuance costs	4,705	8,562
LTRP accrued compensation	10,126	8,463
Deferred income taxes	(1,981)	7,736
Changes in assets and liabilities:		
Accounts receivable	(2,833)	(19,342)
Credit Card Receivables	(78,334)	(52,553)
Prepaid expenses	9	(2,327)
Inventory	(637)	—
Other assets	(7,704)	(4,122)
Accounts payable and accrued expenses	(15,133)	40,974
Funds payable to customers	59,309	52,006
Other liabilities	(566)	(652)
Interest received from investments	7,650	4,613
Net cash provided by operating activities	44,855	96,831
Cash flows from investing activities:		
Purchase of investments	(1,559,095)	(950,636)
Proceeds from sale and maturity of investments	1,565,336	926,058

Payment for acquired businesses, net of cash acquired	(7,284)	(45,009)
Purchases of intangible assets	(49)	(1,367)
Advance for property and equipment	(4,963)	(7,473)
Purchases of property and equipment	(32,590)	(16,305)
Net cash used in investing activities	(38,645)	(94,732)
Cash flows from financing activities:		
Payments on loans payable and other financing	(6,299)	(4,438)
Dividends paid	(11,172)	(11,878)
Repurchase of Common Stock	—	(2,714)
Net cash used in financing activities	(17,471)	(19,030)
Effect of exchange rate changes on cash and cash equivalents	(11,604)	(35,822)
Net decrease in cash and cash equivalents	(22,865)	(52,753)
Cash and cash equivalents, beginning of the period	$166,881	223,144
Cash and cash equivalents, end of the period	$144,016	$ 170,391

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

MercadoLibre, Inc.

Notes to Interim Condensed Consolidated Financial Statements (unaudited)

1. Nature of Business

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

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

As of June 30, 2016, MercadoLibre, through its wholly-owned subsidiaries, operated online ecommerce platforms directed towards Argentina, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Peru, Mexico, Panama, Honduras, Nicaragua, Salvador, Portugal, Uruguay and Venezuela, including the recently launched online ecommerce platforms in Bolivia, Guatemala and Paraguay. Additionally, MercadoLibre operates an online payments solution directed towards Argentina, Brazil, Mexico, Venezuela, Chile and Colombia; and added Peru to its list of countries where the service is offered since June 2016. It also offers a shipping solution directed towards Argentina, Brazil, Mexico, Colombia and added Chile to its list of countries where the service is offered since February 2016. In addition, the Company operates a real estate classified platform that covers some areas of State of Florida, in the United States of America.

2. Summary of significant accounting policies

Basis of presentation

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

Substantially all net revenues, cost of net revenues and operating expenses, are generated in the Company's foreign operations, amounting to approximately 99.9% and 99.9% of the consolidated amounts during the six-month periods ended June 30, 2016 and 2015. Long-lived assets, intangible assets and goodwill located in the foreign operations totaled $219,789 thousands and $184,178 thousands as of June 30, 2016 and December 31, 2015, respectively.

These interim condensed consolidated financial statements reflect the Company’s consolidated financial position as of June 30, 2016 and December 31, 2015. These financial statements also show the Company’s consolidated statements of income and comprehensive income for the six and three-month periods ended June, 2016 and 2015; and statement of cash flows for the six-month period ended June, 2016 and 2015. These interim condensed consolidated financial statements include all normal recurring adjustments that management believes are necessary to fairly state the Company’s financial position, operating results and cash flows.

Because all of the disclosures required by U.S. GAAP for annual consolidated financial statements are not included herein, these unaudited interim condensed financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto for the year ended December 31, 2015, contained in the Company’s Annual Report on Form 10-K filed with the Securities and Exchange Commission (“SEC”). The condensed consolidated statements of income, of comprehensive income and of cash flows for the periods presented herein are not necessarily indicative of results expected for any future period. For more detailed discussion about the Company’s significant accounting policies, see note 2 to the Form 10-K. During the six-month period ended June 30, 2016, there were no material updates made to the Company’s significant accounting policies.

Foreign currency translation

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

MercadoLibre, Inc.

Notes to Interim Condensed Consolidated Financial Statements (unaudited)

rates at the date of the transaction are used. The resulting translation adjustment is recorded as a component of other comprehensive (loss) income.

Venezuelan currency status

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

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

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

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

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

Additionally, the agreement established that the alternate foreign currency markets referred to in Exchange Agreement No.33 of February 10, 2015 (SIMADI) will continue to operate until replaced by others. As of the date of issuance of these interim condensed consolidated financial statements, the SIMADI has not been replaced and for that reason, the Company continued using SIMADI. From March 31, 2016 through June 30, 2016, the SIMADI exchange rate increased from 273 BsF per U.S. dollar to 628 BsF per U.S. dollar, a 130% increase in the exchange rate. As a consequence of the local currency devaluation, the Company recorded a foreign exchange loss of $4.9 million during the second quarter of 2016.

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

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

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Notes to Interim Condensed Consolidated Financial Statements (unaudited)

The following table sets forth the assets, liabilities and net assets of the Company's Venezuelan subsidiaries, before intercompany eliminations of a net liability of $34.3 million and $24.6 million, as of June 30, 2016 and December 31, 2015 and net revenues for the six-month periods ended June 30, 2016 and 2015:

	June 30,	
	2016	2015
	(In thousands)	
Venezuelan operations		
Net Revenues	$ 19,566	$ 19,669

	June 30, 2016	December 31, 2015
	(In thousands)	
Assets	54,502	65,407
Liabilities	(39,765)	(36,266)
Net Assets	$ 14,737	$ 29,141

As of June 30, 2016, net assets (before intercompany eliminations) of the Venezuelan subsidiaries amounted to approximately 4.0% of consolidated net assets, and cash and investments of the Venezuelan subsidiaries held in local currency in Venezuela amounted to approximately 1.0% of our consolidated cash and investments.

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

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

Argentine currency status

During December 2015 the Argentine peso exchange rate increased by approximately 37% against the U.S. dollar to 13.3 Argentine pesos per U.S. dollar as of December 31, 2015. Due to such increase in the Argentine peso exchange rate against the U.S. dollar, during the fourth quarter of 2015, the Company recognized a foreign exchange gain of $18.2 million (as a result of having a net asset position in U.S. dollars) and the reported Other Comprehensive Loss increased by $22.8 million (as a result of having a net asset position in Argentine pesos). As of June 30, 2016 the Argentine Peso exchange rate against the U.S. dollar was 15.0.

In Argentina, access to the local foreign exchange market without requiring prior Central Bank approval is allowed for all of the following: real estate investments abroad, loans granted to non-Argentine residents, Argentine residents' contributions of direct investments abroad, portfolio investment of Argentine individuals abroad, certain other investments abroad of Argentine residents, portfolio investments of Argentine legal entities abroad, purchase of foreign currency bills to be held in Argentina, as well as purchase of traveler checks. The total amount of foreign currency purchased for all the above mentioned items cannot exceed $5.0 million per month in the aggregate.

Brazilian currency status

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

MercadoLibre, Inc.

Notes to Interim Condensed Consolidated Financial Statements (unaudited)

Income and asset taxes

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

On August 17, 2011, the Argentine government issued a new software development law and on September 9, 2013 the regulatory decree was issued, which established the new requirement to become beneficiary of the new software development law. The new decree establishes compliance requirements with annual incremental ratios related to exports of services and research and development expenses that must be achieved to remain within the tax holiday. The Argentine operation will have to achieve certain required ratios annually under the new software development law.

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

On September 17, 2015, the Argentine Industry Secretary issued Resolution 1041/2015 approving the Company’s application for eligibility under the new software development law. As a result, the Company’s Argentinean subsidiary has been granted a tax holiday retroactive from September 18, 2014. A portion of the benefits obtained as beneficiaries of the new law is a relief of 60% of total income tax related to software development activities and a 70% relief in payroll taxes related to software development activities.

The new software development law, which provides that beneficiaries must meet certain on-going eligibility requirements, will expire on December 31, 2019. As a result of the Company’s eligibility under the new law, it recorded an income tax benefit of $9,195 and $4,853 thousands for the six and three-month periods ended June 30, 2016, respectively. Furthermore, the Company recorded a labor cost benefit of $2,006 and $1,049 thousands for the six and three-month periods ended June 30, 2016, respectively. Additionally, $785 and $413 thousands were accrued to pay software development law audit fees during the six and three-month periods ended June 30, 2016, respectively. During the first half of 2015, the company did not record any income tax, labor cost benefits or software development law audit fees. Aggregate per share effect of the Argentine tax holiday amounted to $0.25 and $0.13 for the six and three-month periods ended June 30, 2016, respectively.

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

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

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

As of June 30, 2016 and December 31, 2015, the Company included under non-current deferred tax assets caption the foreign tax credits related to the dividend distributions received from its subsidiaries for a total amount of $12,040 thousands and $10,102 thousands, respectively. Those foreign tax credits will be used to offset the future domestic income tax payable.

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Notes to Interim Condensed Consolidated Financial Statements (unaudited)

Accumulated other comprehensive loss

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

	June 30, 2016 (In thousands)	December 31, 2015
Accumulated other comprehensive loss:		
Foreign currency translation	$ (246,689)	$ (238,607)
Unrealized losses on investments	(602)	(1,023)
Estimated tax gain on unrealized losses on investments	208	351
	$ (247,083)	$ (239,279)

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

	Unrealized (Losses) Gains on Investments	Foreign Currency Translation	Estimated tax (expense) benefit	Total
	(In thousands)			
Balances as of December 31, 2015	$ (1,023)	$ (238,607)	$ 351	$ (239,279)
Other comprehensive loss before reclassifications adjustments for gains (losses) on available for sale investments	(602)	(8,082)	208	(8,476)
Amount of (loss) gain reclassified from accumulated other comprehensive loss	1,023	—	(351)	672
Net current period other comprehensive income (loss)	421	(8,082)	(143)	(7,804)
Ending balance	$ (602)	$ (246,689)	$ 208	$ (247,083)

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

Inventory

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

Impairment of long-lived assets

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

As explained in section "Foreign Currency Translation" of the present Note to these interim condensed consolidated financial statements, the Company has subsequently accessed to more unfavorable exchange markets in Venezuela as from March 2015.

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Furthermore, from March 31, 2016 through June 30, 2016, the SIMADI exchange rate increased from 273 BsF per U.S. dollar to 628 BsF per U.S. dollar, a 130% increase in the exchange rate.

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

Use of estimates

The preparation of interim condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates are used for, but not limited to accounting for allowance for doubtful accounts and chargeback provisions, recoverability of goodwill and intangible assets with indefinite useful life, useful life of long-lived assets and intangible assets, impairment of short-term and long-term investments, impairment of long-lived assets, compensation costs relating to the Company's long term retention plan, fair value of convertible debt note, recognition of income taxes and contingencies. Actual results could differ from those estimates.

Recently issued accounting pronouncements

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

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

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

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

Share-Based Payment Accounting, which has been deleted. The new standard is effective for fiscal years beginning after December 15, 2016. The Company is assessing the effects that the adoption of this accounting pronouncement may have on the company´s financial statements.

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

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

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

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

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3. Net income per share

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

Diluted earnings per share for the Company’s common stock assume the issuance of shares as a consequence of a convertible debt securities conversion event (refer to Note 9 to these interim condensed consolidated financial statements) and the effects of assumed share settlement of long term retention plans for earnings per share calculations.

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

	Six Months Ended June 30,				Three Months Ended June 30,		
	2016		2015		2016		20
	(In thousands)						
	Basic	Diluted	Basic	Diluted	Basic	Diluted	B
Net income per common share	$ 1.04	$ 1.04	$ 0.48	$ 0.48	$ 0.36	$ 0.36	$0
Numerator:							
Net income	$ 46,105	$ 46,105	$ 21,184	$ 21,184	$ 15,858	$ 15,858	$1
Denominator:							
Weighted average of common stock outstanding for Basic earnings	44,157,151		44,155,035		44,157,341		44

per share			
Adjusted weighted average of common stock outstanding for Diluted earnings per share	44,157,151	44,155,035	44,157,341

For the six and three-month periods ended June 30, 2016 and 2015 there was no impact on the calculation of diluted earnings per share as a consequence of the consideration of the Convertible Notes and the Long term retention plan referred to above calculated using the "if converted" method and the "treasury stock method" respectively (Please refer to note 9 of these interim condensed consolidated financial statements).

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

4. Business combinations, goodwill and intangible assets

Business combinations

Acquisition of a software development company in Argentina

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

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

The Company's unaudited interim condensed consolidated statement of income includes the results of operations of the acquired business as from February 12, 2016. The net revenues and net income before intercompany eliminations of the acquired Company included in the Company's interim condensed consolidated statement of income since the acquisition amounted to $1,045 thousands and $63 thousands, respectively.

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

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

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

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

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

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

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

Acquisition of a software development company in Brazil

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

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

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

The Company's consolidated statement of income includes the results of operations of the acquired business as from June 1, 2016. The net revenues and net loss of the acquiree included in the Company's statement of income since the acquisition amounted to $69 thousands and $71 thousands, respectively.

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

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

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

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

Arising goodwill was allocated to the Brazilian segment identified by the Company’s management, considering the synergies expected from this acquisition and it is expected that the acquiree will contribute to the earnings generation process of such segment. Goodwill arising from this acquisition is deductible for tax purposes.

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

Goodwill and intangible assets

The composition of goodwill and intangible assets is as follows:

	June 30, 2016		December 31, 2015	
	(In thousands)			
Goodwill	$	96,150	$	86,545
Intangible assets with indefinite lives				
- Trademarks	13,278		13,074	
Amortizable intangible assets				
- Licenses and others	7,430		8,691	
- Non-compete/solicitation agreement	1,851		1,615	
- Customer lists	14,866		12,971	
- Trademarks	1,011		—	
Total intangible assets	$	38,436	$	36,351
Accumulated amortization	(9,310)		(7,360)	
Total intangible assets, net	$	29,126	$	28,991

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Goodwill

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

	Period ended June 30, 2016					
	Brazil	Argentina	Chile	Mexico	Venezuela	Colombi
	(In thousands)					
Balance, beginning of the period	$ 18,526	$ 7,430	$ 16,438	$ 33,834	$ 5,729	$
- Business acquisition	5,635	700	—	190	260	57
- Effect of exchange rates changes	3,973	(985)	1,153	(1,677)	—	255
Balance, end of the period	$ 28,134	$ 7,145	$ 17,591	$ 32,347	$ 5,989	$

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

changes						
Balance, end of the year	$ 18,526	$ 7,430	$ 16,438	$ 33,834	$ 5,729	$ 3,4

Intangible assets with definite useful life

Intangible assets with definite useful life are comprised of customer lists and user base, non-compete and non-solicitation agreements, acquired software licenses and other acquired intangible assets including developed technologies. Aggregate amortization expense for intangible assets totaled $905 thousands and $853 thousands for the three-month periods ended June 30, 2016 and 2015, respectively, while for the six-month periods ended at such dates amounted to $1,719 thousands and $1,364 thousands, respectively.

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

For year ended 12/31/2016	$ 2,259
For year ended 12/31/2017	3,884
For year ended 12/31/2018	3,119
For year ended 12/31/2019	2,341
Thereafter	4,245
	$ 15,848

5. Segment reporting

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

Segment reporting is based on geography as the main basis of segment breakdown to reflect the evaluation of the Company’s performance defined by the management. The Company’s segments include Brazil, Argentina, Mexico, Venezuela and other countries (such as Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Panama, Honduras, Nicaragua, Salvador, Bolivia, Guatemala, Paraguay, Peru, Portugal, Uruguay and USA).

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

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

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

	Six Months Ended June 30, 2016					
	Brazil	Argentina	Mexico	Venezuela	Other Countries	Total
	(In thousands)					
Net revenues	$ 180,424	$ 115,902	$ 22,568	$ 19,566	$ 18,814	$ 35
Direct costs	(111,761)	(66,192)	(18,651)	(9,228)	(13,339)	(219,171)
Impairment of Long-lived Assets	-	-	-	(13,717)	-	(13,717)
Direct contribution	68,663	49,710	3,917	(3,379)	5,475	124,386
Operating expenses and indirect costs of net revenues						(61,710)
Income from operations						62,676
Other income (expenses):						
Interest income and						15,300

other financial gains	
Interest expense and other financial losses	(12,315)
Foreign currency losses	(240)
Net income before income / asset tax expense	$ 6

	Six Months Ended June 30, 2015					
	Brazil	Argentina	Mexico	Venezuela	Other Countries	Total
	(In thousands)					
Net revenues	$ 141,365	$ 104,262	$ 19,428	$ 19,669	$ 17,693	$ 30
Direct costs	(83,676)	(53,842)	(12,615)	(6,835)	(11,083)	(168,051)
Impairment of Long-lived Assets	-	-	-	(16,226)	-	(16,226)
Direct contribution	57,689	50,420	6,813	(3,392)	6,610	118,140
Operating expenses and indirect costs of net revenues						(57,916)
Income from operations						60,224
Other income (expenses):						
Interest income and other						8,991

financial gains		
Interest expense and other financial losses	(10,151)	
Foreign currency losses	(9,217)	
Net income before income / asset tax expense	$	4

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	Three Months Ended June 30, 2016					
	Brazil	Argentina	Mexico	Venezuela	Other Countries	Total
	(In thousands)					
Net revenues	$ 102,889	$ 67,701	$ 11,452	$ 7,461	$ 10,141	$
Direct costs	(61,462)	(38,446)	(9,200)	(4,094)	(7,138)	(120,34
Impairment of Long-lived Assets	-	-	-	(13,717)	-	(13,717
Direct contribution	41,427	29,255	2,252	(10,350)	3,003	65,587
Operating expenses and indirect costs of net revenues						(33,400
Income from operations						32,187
Other income (expenses):						
Interest income and other financial gains						8,049
Interest expense and other						(6,631)

financial losses	
Foreign currency losses	(5,387)
Net income before income / asset tax expense	$28,218

	Three Months Ended June 30, 2015					
	Brazil	Argentina	Mexico	Venezuela	Other Countries	Total
	(In thousands)					
Net revenues	$72,867	$56,830	$9,991	$5,714	$8,912	$154,314
Direct costs	(43,995)	(29,057)	(6,646)	(2,631)	(5,912)	(88,241)
Direct contribution	28,872	27,773	3,345	3,083	3,000	66,073
Operating expenses and indirect costs of net revenues						(31,436)
Income from operations						34,637
Other income (expenses):						
Interest income and other financial gains						4,683
Interest expense and other financial losses						(5,201)

Foreign currency losses	(648)
Net income before income / asset tax expense	$33,471

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

	June 30, 2016		December 31, 2015	
	(In thousands)			
US property and equipment, net	$	10,125	$	12,756
Other countries				
Argentina	22,861		22,379	
Brazil	39,799		17,150	
Mexico	2,697		2,475	
Venezuela	21,084		21,556	
Other countries	8,242		5,317	
	$	94,683	$	68,877
Total property and equipment, net	$	104,808	$	81,633

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

	June 30, 2016	December 31, 2015
	(In thousands)	
US intangible assets	$ 170	$ 235
Other countries goodwill and intangible assets		
Argentina	8,310	8,763
Brazil	32,344	21,338
Mexico	43,476	46,186
Venezuela	7,421	7,217
Other countries	33,555	31,797
	$ 125,106	$ 115,301
Total goodwill and intangible assets	$ 125,276	$ 115,536

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

	Six-months Ended June 30,		Three-months Ended June 30,	
Consolidated Net Revenues	2016	2015	2016	2015
	(In thousands)		(In thousands)	
Marketplace	$ 207,375	$ 187,943	$ 113,252	$ 93,181
Non-marketplace (*)	$ 149,899	$ 114,474	$ 86,392	$ 61,133

Total	$ 357,274	$ 302,417	$ 199,644	$ 154,314

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

6. Fair value measurement of assets and liabilities

The following table summarizes the Company's financial assets and liabilities measured at fair value on a recurring basis as of June 30, 2016 and December 31, 2015:

	Balances as of	Quoted Prices in active markets for	Significant other	Unobservable	Balances as of	Quoted Price active marke for
	June 30,	identical Assets	observable inputs	inputs	December 31,	identical Ass
Description	2016 (In thousands)	(Level 1)	(Level 2)	(Level 3)	2015	(Level 1)
Assets						
Cash and Cash Equivalents:						
Money Market Funds	$ 66,708	$ 66,708	$ —	$ —	$ 46,423	$ 46,4
Corporate Debt Securities	10,484	—	10,484	—	15,785	—
Investments:						
Sovereign Debt Securities	$ 62,266	$ 59,799	$ 2,467	$ —	$ 69,302	$ 64,2
Corporate Debt Securities	229,028	118,724	110,304	—	232,257	51,974
Certificates of deposit	19,037	—	19,037	—	11,516	—
Total Financial Assets	$ 387,523	$ 245,231	$ 142,292	$ —	$ 375,283	$ 162,6

Liabilities:					
Contingent considerations	$ 4,115	$ —	$ —	$ 4,115	$ 9,007	$
Long-term retention plan	17,377	—	17,377	—	17,159	—
Total Financial Liabilities	$ 21,492	$ —	$ 17,377	$ 4,115	$ 26,166	$

As of June 30, 2016 and December 31,2015, the Company's financial assets valued at fair value consisted of assets valued using i) Level 1 inputs: unadjusted quoted prices in active markets (Level 1 instrument valuations are obtained from observable inputs that reflect quoted prices (unadjusted) for identical assets in active markets) and; ii) Level 2 inputs: obtained from readily-available pricing sources for comparable instruments as well as instruments with inactive markets at the measurement date.

As of June 30, 2016 and December 3

As of June 30, 2016 and December 31, 2015, the Company´s liabilities were valued at fair value using level 2 inputs, except for contingent considerations, which were valued using level 3 inputs (valuations based on unobservable inputs reflecting Company own assumptions). Fair value of contingent considerations are determined based on the probability of achievement of the performance targets arising from each acquisition, as well as the Company's historical experience with similar arrangements. For the six-month period ended June 30, 2016 the Company recognized in earnings a loss of $230 thousands and a gain of $1,010 thousands within other comprehensive income, in relation with contingent considerations. In addition, during the six-month period ended June 30, 2016, the Company assumed additional contingent considerations for an amount of $1,215 thousands and settled contingent considerations for an amount of $7,347 thousands ($1,200 thousands are withheld in escrow).

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

As of June 30, 2016 and December 31, 2015, the carrying value of the Company's financial assets and liabilities measured at amortized cost approximated their fair value mainly because of its short term maturity. These assets and liabilities included cash and cash equivalents (excluding money markets funds), accounts receivables, credit card receivables, funds payable to customers, other receivables, other assets, accounts payable, salaries and social security payable, taxes payable, provisions and other liabilities. The convertible senior notes, the rest of the loans payable and other financial liabilities approximate their fair value because the interest rates are not materially different from market interest rates.

The following table summarizes the fair value level for those financial assets and liabilities of the Company measured at amortized cost as of June 30, 2016 and December 31, 2015:

	Balances as of June 30, 2016 (In thousands)	Significant other observable inputs (Level 2)	Balances as of December 31, 2015	Significant other observable inputs (Level 2)
Assets				
Time Deposits	$ 98,917	98,917	$ 76,658	76,658
Accounts receivable	40,055	40,055	28,428	28,428
Credit Cards receivable	215,437	215,437	131,946	131,946
Other assets	43,318	43,318	53,532	53,532
Total Assets	$ 397,727	$ 397,727	$ 290,564	$ 290,564
Liabilities				
Accounts payable and accrued expenses	$ 86,068	$ 86,068	$ 62,038	$ 62,038
Funds payable to customers	277,528	277,528	203,247	203,247
Salaries and social security payable	25,648	25,648	26,181	26,181
Tax payable	16,419	16,419	10,092	10,092
Dividends payable	6,624	6,624	4,548	4,548
Loans payable and other financial liabilities	297,473	297,473	296,307	296,307
Other liabilities	12,231	12,231	8,520	8,520
Total Liabilities	$ 721,991	$ 721,991	$ 610,933	$ 610,933

As of June 30, 2016 and December 31, 2015, the Company held no direct investments in auction rate securities, collateralized debt obligations or structured investment vehicles, and does not have any non-financial assets or liabilities measured at fair value.

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As of June 30, 2016 and December 31, 2015, the fair value of money market funds, short and long-term investments classified as available for sale securities are as follows:

	June 30, 2016 Cost	Gross Unrealized Gains (1)	Gross Unrealized Losses (1)	Estimated Fair Value
	(In thousands)			
Cash and cash equivalents				
Money Market Funds	$ 66,708	$ —	$ —	$ 66,708
Corporate Debt Securities	10,497	—	(13)	10,484
Total Cash and cash equivalents	$ 77,205	$ —	$ (13)	$ 77,192
Short-term investments				
Sovereign Debt Securities	$ 9,857	$ 10	$ —	$ 9,867
Corporate Debt Securities	123,638	79	(122)	123,595
Certificates of deposit	19,030	8	(1)	19,037
Total Short-term investments	$ 152,525	$ 97	$ (123)	$ 152,499
Long-term investments				
Sovereign Debt Securities	$ 52,056	$ 343	$ —	$ 52,399
Corporate Debt Securities	104,456	986	(9)	105,433
Certificates of deposit	—	—	—	—
Total Long-term investments	$ 156,512	$ 1,329	$ (9)	$ 157,832
Total	$ 386,242	$ 1,426	$ (145)	$ 387,523

	December 31, 2015			
	Cost	Gross Unrealized Gains (1)	Gross Unrealized Losses (1)	Estimated Fair Value
	(In thousands)			
Cash and cash equivalents				
Money Market Funds	$ 46,423	$ —	$ —	$ 46,423
Corporate Debt Securities	15,796	—	(11)	15,785
Total Cash and cash equivalents	$ 62,219	$ —	$ (11)	$ 62,208
Short-term investments				
Sovereign Debt Securities	$ 13,981	$ —	$ (19)	$ 13,962
Corporate Debt Securities	103,130	4	(157)	102,977
Certificates of deposit	8,516	1	(2)	8,515
Total Short-term investments	$ 125,627	$ 5	$ (178)	$ 125,454
Long-term investments				
Sovereign Debt Securities	$ 55,536	$ 53	$ (249)	$ 55,340
Corporate Debt Securities	129,921	18	(659)	129,280
Certificates of deposit	3,003	—	(2)	3,001
Total Long-term investments	$ 188,460	$ 71	$ (910)	$ 187,621
Total	$ 376,306	$ 76	$ (1,099)	$ 375,283

(1) Unrealized gains (losses) from securities are attributable to market price movements, net foreign exchange losses and foreign currency translation. Management does not believe any remaining significant unrealized losses represent other-than-temporary

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impairments based on the evaluation of available evidence including the credit rating of the investments, as of June 30, 2016 and December 31, 2015.

The material portion of the Sovereign Debt Securities is U.S. Treasury Notes with no significant risk associated.

As of June 30, 2016, the estimated fair values (in thousands of U.S. dollars) of cash equivalents, short-term and long-term investments classified by its effective maturities are as follows:

One year or less	229,691
One year to two years	80,405
Two years to three years	52,999
Three years to four years	9,923
Four years to five years	14,357
More than five years	148
Total	$ 387,523

7. Commitments and Contingencies

Update of Litigation and Other Legal Matters

The Company is subject to certain contingent liabilities with respect to existing or potential claims, lawsuits and other proceedings. The Company accrues liabilities when it considers probable that future costs will be incurred and such costs can be reasonably estimated. The proceeding-related reserve is based on developments to date and historical information related to actions filed against the Company. As of June 30, 2016, the Company had established reserves for proceeding-related contingencies and other estimated contingencies of $5,430 thousands to cover legal actions against the Company in which its Management has assessed the likelihood of a final adverse outcome as probable. Expected legal costs related to litigations are accrued when the legal service is actually provided. In addition, as of June 30, 2016, the Company and its subsidiaries are subject to certain legal actions considered by the Company's management and its legal counsels to be reasonably possible for an aggregate amount up to $4,501 thousands.

No loss amount has been accrued for such reasonably possible legal actions of which most significant (individually or in the aggregate) are described below.

As of June 30, 2016, there were 56 lawsuits pending against our Argentine subsidiaries in the Argentine ordinary courts and 1,307 pending claims in the Argentine Consumer Protection Agencies, where a lawyer is not required to file or pursue a claim.

As of June 30, 2016, there were six claims pending against our Mexican subsidiaries in the Mexican ordinary courts and 102 claims pending against our Mexican subsidiaries in the Mexican Consumer Protection Agencies, where a lawyer is not required to file or pursue a claim.

As of June 30, 2016, 677 legal actions were pending in the Brazilian ordinary courts. In addition, June 30, 2016, there were 2,566 cases still pending in Brazilian consumer courts. Filing and pursuing of an action before Brazilian consumer courts do not require the assistance of a lawyer.

In most of the cases filed against the Company, the plaintiffs asserted that the Company was responsible for fraud committed against them, or responsible for damages suffered when purchasing an item on the Company’s website, when using MercadoPago or when the Company invoiced them. Management believes that the Company has meritorious defenses to these claims and intends to continue defending them.

Citizen Watch do Brasil

On August 25, 2010, Citizen Watch do Brasil S/A, or Citizen, sued Brazilian subsidiaries in the 31th Central Civil Court State of São Paulo, Brazil. Citizen alleged that the Brazilian subsidiaries were infringing Citizen’s trademarks as a result of users selling allegedly counterfeit Citizen watches through the Brazilian page of the Brazilian subsidiaries’ website. Citizen sought an order enjoining the sale of Citizen-branded watches on the Brazilian subsidiaries’ Marketplace with a $6,000 daily non-compliance penalty. On September 23, 2010, the Brazilian subsidiaries were summoned of an injunction granted to prohibit the offer of Citizen products on its platform, but the penalty was established at $6,000 per day. On September 26, 2010, the Brazilian subsidiaries presented their defense and appealed the decision of the injunction relief to the State Court of Appeals of São Paulo on September 27, 2010. On October 22, 2010 the injunction granted to Citizen was suspended. On March 23, 2011, the Company’s appeal regarding the injunction granted to Citizen was ruled in favor of the Brazilian subsidiaries. On May 4, 2011, Citizen presented a motion to clarify the decision but it was dismissed on March 14, 2012. On May 28, 2012, the Plaintiff filed a special recourse related to the injunction relief to the State Court of Appeals, and the Brazilian subsidiaries presented their defense on August 16, 2012 which was not admitted. In September 2012, the Plaintiff filed a legal action against the Brazilian subsidiaries with same arguments alleged in the injunction request and seeking for compensatory and statutory damages and defenses were presented on March 20, 2013. On January 9, 2013, Citizen presented a motion to request the appeal to be ruled by the Brazilian Superior Court of Justice (Superior Tribunal de Justiça). On March 1, 2013, the Company presented its response to that appeal. On August 27, 2013, the Brazilian Superior Court of Justice ruled against Citizen's appeal. The Superior Court of Justice ruled that the Brazilian subsidiaries were not responsible for alleged infringement of intellectual property rights by its users and that they should comply with the "notice and take down" procedure it already have in place.

On October 4, 2013, Citizen presented a motion to clarify mentioned decision issued by the Brazilian Superior Court of Justice and such motion was denied on November 11, 2013. Citizen then filed, on November 25, 2013, an Extraordinary Appeal aiming the decision rendered by Brazilian Superior Court of Justice to be reviewed by Brazilian Federal Supreme Court. On February 21, 2014, Brazilian subsidiaries presented its response to Citizen's Extraordinary Appeal. On March 10, 2014, Citizen's extraordinary appeal was not accepted by the Brazilian Superior Court of Justice and, on March 26, 2014, Citizen filed an appeal against such decision, aiming at its Extraordinary Appeal to be accepted and ruled by Brazilian Federal Supreme Court. On May 5, 2014 the Company presented its response to Citizen's appeal to The Brazilian Federal Supreme Court. On December, 19, 2014 Brazilian Federal Supreme Court overruled Citizen's Extraordinary Appeal, ending the discussion regarding the injunction sought by Citizen which was definitely not granted. On February 19, 2015 the judge presiding the 31st Central Civil Court of the City of São Paulo, State of São Paulo, Brazil ruled the case in its merits totally in favor of the Brazilian subsidiary, stating that MercadoLivre shall not be held responsible for any of Citizen's pleas and allegations. Citizen did not appeal the mentioned decision. On February 19, 2016 a final decision on the injunction was issued in favor of the Brazilian Subsidiary and therefore the case was closed.

City of São Paulo Tax Claim

In 2007 São Paulo tax authorities have asserted taxes and fines against our Brazilian subsidiary relating to the period from 2005 to 2007 in an approximate amount of $5.9 million according to the exchange rate in effect at that time. In 2007, the Company presented administrative defenses against the authorities' claim and the tax authorities ruled against the Brazilian subsidiary. In 2009, the Company presented an appeal to the Conselho Municipal de Tributos or São Paulo Municipal Council of Taxes which reduced the fine. On February 11, 2011, the Company appealed this decision to the Câmaras Reunidas do Egrégio Conselho Municipal de Tributos or Superior Chamber of the São Paulo Municipal Council of Taxes which affirmed the reduction of the fine. As of the date of these consolidated financial statements, the total amount of the claim is approximately $4.1 million including surcharges and interest. With this decision the administrative stage is finished. On August 15, 2011, the Company made a deposit in court of R$9.5 million, which including accrued interests amounted to R$13.2 million or $4.1 million, according to the exchange rate at June 30, 2016, and filed a lawsuit in 8th Public Treasury Court of the County of São Paulo, State of São Paulo, Brazil, to contest the taxes and fines asserted by the Tax Authorities. On May 31, 2016, a lower court judge ruled in favor of the Company and the São Paulo Municipal Council presented a motion to clarify mentioned decision. As of the date of this report, the Company is still waiting for a decision.

Brazilian preliminary injunction against the Brazilian tax authorities

On November 6, 2014 the Company's Brazilian subsidiaries requested a preliminary injunction against Receita Federal Do Brasil in order to avoid the income tax withholding over payments remitted by Brazilian subsidiaries to the Argentine subsidiary for the provision of IT support and assistance services; and requested the reimbursement of the amounts improperly withheld in the last five years. The injunction was granted considering that such withholding violates the provisions of the convention signed between the Federative Republic of Brazil and the Argentine Republic to prevent double taxation. In August 2015, such injunction was revoked by the first instance judge decision of merit, which was favorable to Receita Federal Do Brasil. The Company presented an appeal in September, 2015 and as of June 30, 2016, the Company is waiting for the second instance decision. As a result, the Company started making deposits in court for the controversial amounts. As of June 30, 2016, the Company recorded in the balance sheet deposits in court for R$12.5 million or $3.9 million, according to the exchange rate at June 30, 2016 under the caption non-current other assets.

The Company's management, based on the external legal counsel opinion, believes that the tax position adopted is more likely than not, based on the technical merits of the tax position and the existence of favorable decisions of the Federal Regional Courts. For that reason, the Company has not recorded any expense or liability for the controversial amounts.

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

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Management believes that additional lawsuits alleging that the Company has violated copyright or trademark laws will be filed against the Company in the future.

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

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

8. Long term retention plan ("LTRP")

On August 2, 2016, the Board of Directors, upon the recommendation of the Compensation Committee, adopted the 2016 Long-Term Retention Plan ("2016 LTRP"). In addition to the annual salary and bonus of each employee, certain employees ("Eligible Employees") are eligible to participate in the 2016 LTRP, which provides for the grant to an eligible employee of a cash-settled fixed (a "2016 LTRP Fixed Award") and a cash-settled variable award, (a "2016 LTRP Variable Award", and together with any 2016 LTRP Fixed Award, the "2016 LTRP Awards"). Each eligible employee will be granted both a 2016 LTRP Fixed Award and a 2016 LTRP Variable Award, in addition to receiving their annual salary and bonus. In order to receive payment in respect of the 2016 LTRP Awards, each eligible employee must satisfy the performance conditions established by the Board of Directors for such employee. If these conditions are satisfied, the eligible employee will, subject to his or her continued employment as of each applicable payment date, receive the full amount of his or her 2016 LTRP Awards, payable as follows:

- 2016 LTRP Fixed Award: The eligible employee will receive a fixed payment equal to 16.66% of his or her 2016 Fixed Award once a year for a period of six years starting in March 2017 (the "Annual Fixed Payment"); and

- 2016 LTRP Variable Award: On each date the Company pays the Annual Fixed Payment to the eligible employee, he or she will also receive a 2016 LTRP Variable Award payment equal to the product of (i) 16.66% of the applicable 2016 LTRP Variable Award and (ii) the quotient of (a) divided by (b), where (a), the numerator, equals the Applicable Year Stock Price (as defined below) and (b), the denominator, equals the 2015 Stock Price (as defined below). For purposes of the 2016 LTRP, the "2015 Stock Price" shall equal $111.02 (the average closing price of the Company´s common stock on the NASDAQ Global Market during the final 60-trading days of 2015) and the "Applicable Year Stock Price" shall equal the average closing price of the Company´s common stock on the NASDAQ Global Market during the final 60-trading days of the year preceding the applicable payment date for so long as the

Company´s common stock is listed on the NASDAQ.

The following table summarizes the 2009, 2010, 2011, 2012, 2013, 2014, 2015 and 2016 long term retention plan accrued compensation expense for the six and three-month periods ended June 30, 2016 and 2015, which are payable in cash according to the decision made by the Board of Directors on August 2, 2016:

	Six Months Ended June 30,		Three Months Ended June 30,	
	2016	2015	2016	2015
	(In thousands)		(In thousands)	
LTRP 2009	283	308	250	320
LTRP 2010	464	511	401	392
LTRP 2011	590	587	495	445
LTRP 2012	726	707	596	522
LTRP 2013	1,665	2,038	1,252	1,196
LTRP 2014	1,615	2,126	1,111	1,067
LTRP 2015	2,147	-	1,254	-
LTRP 2016	2,636	-	2,636	-

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Notes to Interim Condensed Consolidated Financial Statements (unaudited)

9. 2.25% Convertible Senior Notes Due 2019

The following table presents the carrying amounts of the liability and equity components related to the 2.25% Convertible Senior Notes Due 2019 as of June 30, 2016:

	June 30, 2016	December 31, 2015
	(In thousands)	
Amount of the equity component (1)	$ 45,808	$ 45,808
2.25% convertible senior notes due 2019	$ 330,000	$ 330,000
Unamortized debt discount (2)	(29,718)	(34,214)
Unamortized transaction costs related to the debt component	(4,655)	(5,309)
Contractual coupon interest accrual	3,713	7,425
Contractual coupon interest payment	(3,713)	(7,425)
Net carrying amount	$ 295,627	$ 290,477

(1) Net of $1,177 thousands of transaction costs related to the equity component of the Notes.

(2) As of June 30, 2016, the remaining period over which the unamortized debt discount will be amortized is 3.0 years.

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

	Six-month period	Three-month period ended

	ended June 30, 2016	June 30, 2016
	(In thousands)	(In thousands)
Contractual coupon interest expense	$ 3,713	$ 1,857
Amortization of debt discount	4,496	2,248
Amortization of debt issuance costs	654	327
Total interest expense related to Notes	$ 8,863	$ 4,432

10. Cash Dividend Distribution

In each of February, April, July and November of 2015, our Board of Directors declared quarterly cash dividends of $4,548 thousands (or $0.103 per share on our outstanding shares of common stock). The dividends were paid on April 16, July 16, October 16, 2015 and January 15, 2016 to stockholders of record as of the close of business on March 31, June 30, September 30, and December 31, 2015.

On February 19, 2016, the board of directors approved a quarterly cash dividend of $6,624 thousands (or $0.150 per share) on our outstanding shares of common stock. The first quarterly dividend was paid on April 15, 2016 to stockholders of record as of the close of business on March 31, 2016.

On May 4, 2016, the board of directors approved a quarterly cash dividend of $6,624 thousands (or $0.150 per share) on our outstanding shares of common stock. The second quarterly dividend was paid on July 15, 2016 to stockholders of record as of the close of business on June 30, 2016.

On August 2, 2016, the board of directors approved a quarterly cash dividend of $6,624 thousands (or $0.150 per share) on our outstanding shares of common stock. This quarterly dividend is payable on October 14, 2016 to stockholders of record as of the close of business on September 30, 2016.

11. New Law of "Costs, Earnings, and Fair Profits"

In November 2013 the Venezuelan Congress approved an "enabling law" granting the president of Venezuela the authority to enact laws and regulations in certain policy areas by decree. This authority includes the ability to restrict profit margins and impose greater controls on foreign exchange and the production, import, and distribution of certain goods. Among other actions, the president has used this decree power to pass the Law of Costs, Earnings, and Fair Profits, which became effective in January 2014 and, among other provisions, authorizes the Venezuelan government to set "fair prices" and maximum profit margins in the private sector. On October 26, 2015, the decree number 2,074 was published in the Official Gazette of Venezuela, establishing certain definitions related to the determination of prices in that country.

Despite the Company does not expect that this law together with the decree issued by the Venezuelan Government will have a material adverse impact on the Company´s financial condition or results of operations, considering the current difficult macroeconomic environment in Venezuela, the final potential effects remains uncertain. The effects of such potential effects, if any, would be recognized in the financial statements once the mentioned uncertainty is resolved.

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;
- government and central bank regulations;
- 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;
- our ability to attract new customers, retain existing customers and increase revenues;
- seasonal fluctuations; and
- political, social and economic conditions in Latin America in general, and Venezuela and Argentina in particular, including Venezuela’s status as a highly inflationary economy for generally accepted accounting principles in the United States (“U.S. GAAP”), and possible future currency devaluation and other changes to its exchange rate systems such as the “Sistema Marginal de Divisas” (“SIMADI”) or “Sistema Cambiario de Divisas Complementarias” (“DICOM”) and possible further devaluations of the Argentine Peso.

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, 2015 filed with the Securities and Exchange Commission (“SEC”) on February 26 , 2016, as updated by those described in “Item 1A — Risk Factors” in Part II of our Form 10-Q for the quarter ended March 31, 2016, and 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

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our Annual Report on Form 10-K for the year ended December 31, 2015. 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 six and three-month periods ended June 30, 2016 and 2015;
- 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.

Business Overview

MercadoLibre, Inc. (together with its subsidiaries “us”, “we”, “our” or the “Company”) hosts the largest online commerce platform in Latin America, which is focused on enabling e-commerce and its related services. Our platforms are designed to provide our users with a complete portfolio of services facilitating e-commerce transactions. Additionally, we are market leaders in e-commerce in each of Argentina, Brazil, Chile, Colombia, Costa Rica, Ecuador, Mexico, Peru, Uruguay and Venezuela, based on 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 online commerce platform, we provide buyers and sellers with a robust online commerce environment that fosters the development of a large and growing e-commerce community in Latin America, a region with a population of over 605 million people and one of the fastest-growing Internet penetration rates in the world. We believe that we offer a technological and commercial solution that addresses the distinctive cultural and geographic challenges of operating an online commerce platform in Latin America.

We offer our users an eco-system of six related e-commerce services: the MercadoLibre Marketplace, the MercadoLibre Classifieds service, the MercadoPago payments solution, the MercadoLibre Advertising program (“MercadoClics”), the MercadoShops online webstores solution and the MercadoEnvios shipping service.

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 general merchandising items and conduct their sales and purchases online in either a fixed-price or auction-based format. Any Internet user in the countries in which we operate can browse through the various products that are listed on our website and register with MercadoLibre to list, bid for and purchase such items and services.

To complement the MercadoLibre Marketplace, we developed MercadoPago, an integrated online payments solution. MercadoPago is designed to facilitate transactions both on and off the MercadoLibre Marketplace by providing a mechanism that allows our users to securely, easily and promptly send, receive and finance payments online. MercadoPago is currently available in: Argentina, Brazil, Mexico, Colombia, Venezuela and Chile; and added Peru to its list of countries where the service is offered since June 2016.

Through MercadoLibre Classifieds service, our online classified listings service, our users can offer for sale and generate leads on listings of motor vehicles, real estate and services in all counties where we operate.

As a further enhancement to the MercadoLibre Marketplace, we developed our MercadoLibre Advertising program to enable businesses to promote their products and services through a cost efficient and automated platform that allows advertisers to acquire traffic both, to our platform or to their own websites. Through MercadoLibre Advertising, MercadoLibre`s sellers, and large advertisers/brands are able to place display, product and/or text ads on our web pages, and other web pages including all vertical sites associated in the region.

Additionally, through MercadoShops, our online webstores solution, users can set-up, manage and promote their own online webstores. These webstores are hosted by MercadoLibre and offer integration with the other marketplace, payments and advertising services we offer. Users can choose from a basic, free webstore or pay monthly subscriptions for enhanced functionality and value added services on their webstores.

To further enhance our suite of e-commerce services, we launched the MercadoEnvios shipping solution in Brazil, Argentina, Mexico, Colombia and Chile. Through MercadoEnvios, we offer a cost-efficient integration with existing logistic and shipping carriers to sellers 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.

In addition, MercadoLibre began developing and selling software enterprise solutions to e-commerce business clients in Brazil during the second quarter of 2015.

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, Venezuela, Mexico and other countries (including Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Panama, Peru, Portugal, Bolivia, Honduras, Nicaragua, Salvador, Guatemala, Paraguay, Uruguay and the United States of America (real estate classifieds in the State of Florida only)). Although we discuss long-term trends in our business, it is our policy to not 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 of 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 six and three-month periods ended June 30, 2016 and 2015:

	Six-month Periods Ended June 30,		Three-month Periods Ended June 30,	
(% of total consolidated net revenues) (*)	2016	2015	2016	2015
Brazil	50.5 %	46.7 %	51.5 %	47.2 %
Argentina	32.4	34.5	33.9	36.8
Mexico	6.3	6.4	5.7	6.5
Venezuela	5.5	6.5	3.7	3.7
Other Countries	5.3	5.9	5.1	5.8

(*) 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.

The following table summarizes the changes in our net revenues by segment for the six and three-month periods ended June 30, 2016 and 2015:

	Six-months Periods Ended June 30,		Change from 2015 to 2016 (*)		Three-month Periods Ended June 30,		Change from 2015 to 2016 (*)	
	2016	2015	in Dollars	in %	2016	2015	in Dollars	in %
	(in millions, except percentages)				(in millions, except percentages)			
Net Revenues:								
Brazil	$ 180.4	$ 141.4	$ 39.1	27.6 %	$ 102.9	$ 72.9	$ 30.0	41.2 %
Argentina	115.9	104.3	11.6	11.2	67.7	56.8	10.9	19.1
Mexico	22.6	19.4	3.1	16.2	11.5	10.0	1.5	14.6
Venezuela	19.6	19.7	(0.1)	(0.5)	7.5	5.7	1.7	30.6
Other Countries	18.8	17.7	1.1	6.3	10.1	8.9	1.2	13.8
Total Net Revenues	$ 357.3	$ 302.4	$ 54.9	18.1 %	$ 199.6	$ 154.3	$ 45.3	29.4 %

(*) 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.

Recent Developments

Business acquisition

On June 1, 2016, through our subsidiary Ebazar.com.br Ltda., we acquired 100% of the issued and outstanding shares of capital stock of Axado Informação e Tecnologia S.A., a company that develops logistic software for the e-commerce industry in Brazil for a purchase price of $5.5 million. We believe this acquisition will allow us to enhance our software development capabilities on Transportation Management System and will contribute to our shipping business performance. For more detailed information see Note 4 to our interim condensed consolidated financial statements.

Commercial properties acquisition agreements in Caracas

During April 2016, our Venezuelan subsidiary acquired two commercial properties in process of construction for a total of 135.81 square meters, in Caracas, Venezuela for a total purchase price of approximately BF$1,359 million, or $3.7 million, for investment purposes and included in non-current other assets. The Venezuelan subsidiary paid the purchase price in Bolivares Fuertes. According to the purchase agreements, the commercial properties will be delivered in September 2017.

Venezuela Foreign Currency Status

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

Additionally, the agreement established that the alternate foreign currency markets referred to in Exchange Agreement No.33 of February 10, 2015 (SIMADI) will continue to operate until replaced by others. As of the date of issuance of these interim condensed consolidated financial statements, the SIMADI has not been replaced and for that reason, we continued using SIMADI. From March 31, 2016 through June 30, 2016, the SIMADI exchange rate increased from 273 BsF per U.S. dollar to 628 BsF per U.S. dollar, a 130% increase in the exchange rate. As a consequence of the local currency devaluation, the Company recorded a foreign exchange loss of $4.9 million during the second quarter of 2016.

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

2016 Long.term retention plan (2016 LTRP)

On August 2, 2016, the Board of Directors, upon the recommendation of the Compensation Committee, adopted the 2016 LTRP, which provides for the grant to eligible employees of a cash-settled fixed award (the 2016 LTRP Fixed Award) and a cash-settled variable award (the 2016 LTRP Variable Award). Each eligible employee will be granted both a 2016 LTRP Fixed Award and a 2016 LTRP Variable Award, in addition to receiving their annual salary and bonus. In order to receive awards under the 2016 LTRP, each eligible employee must satisfy the performance conditions established by the Board of Directors for such employee. If these conditions are satisfied, the eligible employee will, subject to his or her continued employment as of each applicable payment date, receive the full amount of his or her 2016 LTRP Awards, payable as follows:

- Fixed award: The eligible employee will receive a fixed payment equal to 16.66% of his or her 2016 LTRP fixed award once a year for a period of six years starting in March 2017 (the “Annual Fixed Payment”); and

- Variable award: On each date the Company pays the Annual Fixed Payment to the eligible employee, he or she will also receive the 2016 LTRP Variable Award payment equal to the product of (i) 16.66% of the applicable 2016 LTRP Variable Award and (ii) the quotient of (a) divided by (b), where (a), the numerator, equals the Applicable Year Stock Price (as defined below) and (b), the denominator, equals the 2015 Stock Price (as defined below). For purposes of the 2016 LTRP, the “2015 Stock Price” shall equal $111.02 (the average closing price of the Company´s common stock on the NASDAQ Global Market during the final 60 -trading days of 2015) and the “Applicable Year Stock Price” shall equal the average closing price of the Company´s common stock on the NASDAQ Global Market during the final 60-trading days of the year preceding the applicable payment date for so long as the Company´s common stock is listed on the NASDAQ.

The 2016 LTRP is filed as Exhibit 10.08 to this Quarterly Report on Form 10-Q, the contents of which are incorporated by reference herein, and the description of the 2016 LTRP above is qualified in its entirety by reference to such exhibit.

Description of Line Items

Net revenues

We recognize revenues in each of our five geographical reporting segments. Within each of our segments, the services we provide generally fall into two distinct revenue streams, “Marketplace” which includes our core business and “Non-Marketplace” which includes ad sales, real estate listings, motor vehicles listings, financing fees, off-platform payment fees, shipping fees and other ancillary businesses.

The following table summarizes our consolidated net revenues by revenue stream for the six and three-month periods ended June 30, 2016 and 2015:

Consolidated net revenues by revenue stream	Six-month Periods Ended June 30, (*)		Three-month Periods Ended June 30, (*)	
	2016	2015	2016	2015
	(in millions)		(in millions)	
Marketplace	$ 207.4	$ 187.9	113.3	$ 93.2
Non-Marketplace (**)	149.9	114.5	86.4	61.1
Total	$ 357.3	$ 302.4	199.6	$ 154.3

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

(**) Includes, among other things, ad sales, real estate listings, motor vehicles listings, financing fees, off-platform payment fees, shipping fees and other ancillary services.

Revenues from Marketplace transactions are generated from:

- final value fees; and
- up-front fees.

For Marketplace services, final value fees representing a percentage of the sale value that are charged to the seller once the item is successfully sold. Up-front fees are charged to the seller in exchange for improved exposure of the listings throughout our platform and are not subject to the successful sale of the items listed.

Revenues for Non-Marketplace services are generated from:

- financing fees;
- off-platform payment fees;
- motor vehicles listings up-front fees;
- ad sales up-front fees;
- real estate listings up-front fees;
- shipping fees; and
- fees from other ancillary businesses.

With respect to our MercadoPago service, we generate payment related revenues attributable to:

- commissions representing a percentage of the payment volume processed that are charged to sellers in connection with Non-Marketplace-platform transactions; and
- 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.

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 or text link ads throughout our websites to interested advertisers.

Finally, our shipping revenues are generated when a buyer elects to receive the item through our shipping service.

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

We have a highly fragmented customer revenue base given the large numbers of sellers and buyers who use our platforms. For the six-month periods ended June 30, 2016 and 2015, 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 seven countries (Argentina, Brazil, Chile, Peru, Colombia, Mexico and Venezuela). Additionally, MercadoEnvios is available in 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 is the U.S. dollar due to Venezuela’s status as a highly inflationary economy. Therefore, our net revenues are generated in multiple foreign currencies and then translated into U.S. dollars at the average monthly exchange rate. See “Critical Accounting Policies and Estimates — Foreign Currency Translation” for more information.

Our subsidiaries in Brazil, Argentina, Venezuela and Colombia are subject to certain taxes on revenues which are classified as a cost of net revenues. These taxes represented 8.8% of net revenues for the three-month period ended June 30, 2016, as compared to 7.7%, for the same period in 2015, mainly due to an increase in shipping and finance cost which are accounted for net of its costs in net revenues. These taxes are applicable mainly in our Brazilian and Argentine subsidiaries.

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, compensation for customer support personnel, ISP connectivity charges, depreciation and amortization and hosting and website operation fees.

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 marketing costs for our platforms through online and offline advertising, bad debt charges, chargebacks related to our MercadoPago operations, changes related to our buyer protection programs, compensation of employees involved in these activities, 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. In that regard, we enter into agreements with portals, search engines, social networks, ad networks and other websites in order to attract Internet users to the Marketplace and convert them into confirmed 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 for sellers. 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 compensation for management and administrative staff, compensation for our outside directors, long-term retention plan compensation, expenses for legal, accounting, 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.

Impairment of long-lived assets

We review long-lived assets (including non-current other assets) for impairments whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable.

As explained in section “Foreign Currency Translation – Venezuelan Currency Status” below, the exchange markets in Venezuela have been unfavorable to us since December 2013.

Considering these changes in facts and circumstances and the lower U.S. dollar-equivalent cash flows expected from the Venezuelan business, and long-lived assets expected use, we concluded that certain real estate investments held in Caracas, Venezuela, should be impaired. As a consequence, we estimated the fair value of the impaired long-lived assets, and recorded impairment losses of $13.7 million and $16.2 million on June 30, 2016 and March 31, 2015, respectively, by using the market approach and considering prices for similar assets.

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 and asset 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 and asset 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, 2015 and disclosed in the Form 10-K. See Item – “Critical Accounting Policies”.

Foreign Currency Translation

All of our foreign operations (other than Venezuela since January 1, 2010, as described below) 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/year-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 income (loss), 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 consolidated statements of income under the caption “Foreign currency gains/ losses”.

Venezuelan Currency Status

Pursuant to U.S. GAAP, we have classified our Venezuelan operations as highly inflationary since January 1, 2010, using the U.S. dollar as the functional currency for purposes of reporting our financial statements. Therefore, no translation effect has been accounted for in other comprehensive income related to our Venezuelan operations. As of June 30, 2016, monetary assets and liabilities in Bolivares Fuertes (“BsF”) were re-measured to the U.S. dollar using the SIMADI (defined below) closing exchange rate of 628 BsF per U.S. dollar.

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

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

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

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

Additionally, the agreement established that the alternate foreign currency markets referred to in Exchange Agreement No.33 of February 10, 2015 (SIMADI) will continue to operate until replaced by others. As of the date of issuance of these interim condensed consolidated financial statements, the SIMADI has not been replaced and for that reason, we continued using SIMADI. From March 31, 2016 through June 30, 2016, the SIMADI exchange rate increased from 273 BsF per U.S. dollar to 628 BsF per U.S. dollar, a 130% increase in the exchange rate. As a consequence of the local currency devaluation, the Company recorded a foreign exchange loss of $4.9 million during the second quarter of 2016.

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

Until 2010 we were able to obtain U.S. dollars for any purpose, including dividend distributions, using alternative mechanisms other than through the Commission for the Administration of Foreign Exchange Control (CADIVI). Those U.S. dollars, obtained at a higher exchange rate than the one offered by CADIVI and held in balance at U.S. bank accounts of our Venezuelan subsidiaries, were used for dividend distributions from our Venezuelan subsidiaries. Our Venezuelan subsidiaries have not requested authorization since 2012 to acquire U.S. dollars to make dividend distributions and we have not distributed dividends from our Venezuelan subsidiaries since 2011.

The following table sets forth the assets, liabilities and net assets of the our Venezuelan subsidiaries, before intercompany eliminations of a net liability of $34.3 million and $24.6 million, as of June 30, 2016 and December 31, 2015 and net revenues for the six-month periods ended June 30, 2016 and 2015:

	Six-month Periods Ended June 30,	
	2016	2015
Venezuelan operations	(In millions)	
Net Revenues	$ 19.6	$ 19.7

	June 30, 2016	December 31, 2015

	(In millions)			
Assets	54.5		65.4	
Liabilities	(39.8)		(36.3)	
Net Assets	$	14.7	$	29.1

As of June 30, 2016, the net assets (before intercompany eliminations) of our Venezuelan subsidiaries amounted to approximately 4.0% of our consolidated net assets, and cash and investments of our Venezuelan subsidiaries held in local currency in Venezuela amounted to approximately 1.0% of our consolidated cash and investments.

Our ability to obtain U.S. dollars in Venezuela is negatively affected by the exchange restrictions in Venezuela that are described above. If our access to U.S. dollars becomes widely available at a more unfavorable rate than the current SIMADI exchange rate (or if SIMADI exchange rate experiences significant devaluation in the future), and we decided to use that alternative mechanism considering that exchange rate as the one applicable for re-measurement, our results of operations, earnings and value of our net assets in Venezuela would be negatively impacted, and we cannot assure that the impact would not be material. In addition, our business and ability to obtain U.S. dollars in Venezuela would be negatively affected by any additional material devaluations or the imposition of significant additional and more stringent controls on foreign currency exchange by the Venezuelan government in the future.

Despite the current difficult macroeconomic environment in Venezuela, we continue managing, through our Venezuelan subsidiaries, our investment in Venezuela. Despite the current operating, political and economic conditions and certain other factors in Venezuela, we currently plan to continue supporting our business in Venezuela in the long run.

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In November 2013 the Venezuelan Congress approved an “enabling law” granting the president of Venezuela the authority to enact laws and regulations in certain policy areas by decree. This authority includes the ability to restrict profit margins and impose greater controls on foreign exchange and the production, import, and distribution of certain goods. Among other actions, the president has used this decree power to pass the Law of Costs, Earnings, and Fair Profits, which became effective in January 2014 and, among other provisions, authorizes the Venezuelan government to set “fair prices” and maximum profit margins in the private sector. On October 26, 2015, the decree number 2,074 was published in the Official Gazette of Venezuela, establishing certain definitions related to the determination of prices in that country.

Despite we do not expect that this law together with the decree issued by the Venezuelan Government will have a material adverse impact on our financial condition or results of operations, considering the current difficult macroeconomic environment in Venezuela, the final potential effects remains uncertain. The effects of such potential effects, if any, would be recognized in our financial statements once the mentioned uncertainty is resolved.

Allowances for doubtful accounts 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 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 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 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 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.

Impairment of long-lived assets

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. For more information, see “Description of line items—Impairment of long-lived assets” above.

Convertible Senior Notes

On June 30, 2014, we issued $330 million of 2.25% convertible senior notes due 2019 (the “Notes”). The Notes are unsecured, unsubordinated obligations of the Company, which pay interest in cash semi-annually, on January 1 and July 1, at a rate of 2.25% per annum. The 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 specific conditions, 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 $126.02 per share of common stock), 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.

The initial debt component of the Notes was valued at $283.0 million, based on the contractual cash flows discounted at an appropriate market rate for a non-convertible debt at the date of issuance, which was determined to be 5.55%. The carrying value of the permanent equity component reported in additional paid-in-capital was initially valued at $47.0 million. This amount represents the total unamortized debt discount we recorded at the time of issuance of the Notes. The aggregate debt discount, including the transaction costs related to the debt component, is amortized as interest expense over the contractual term of the Notes using the effective interest method using an interest rate of 6.1%.

In connection with the issuance of the Notes, we paid $19.7 million 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 Convertible 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 $126.02 per share of common stock, which corresponds to the initial conversion price of the Notes and is subject to anti-dilution adjustments substantially similar to those applicable to the conversion rate of the Notes, and have a cap price of $155.78 per share of common stock .

The $19.7 million cost of the capped call transactions, which net of deferred income tax effect amounts to $12.8 million, 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, 2016 compared to the three-month period ended March 3 1 , 201 5 — Debt”.

Results of operations for the six-month period ended June 30, 2016 compared to the six-month period ended June 30, 2015 and the three-month period ended June 30, 2016 as compared to the three-month period ended June 30, 2015

The selected financial data for the six and three-month periods ended June 30, 2016 and 2015 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 six and three-month periods ended June 30, 2016 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2016 or for any other period.

Statement of income data

	Six-months Periods Ended June 30,		Three-month Periods Ended June 30,	
(In millions)	2016 (*)	2015 (*)	2016 (*)	2015 (*)
	(Unaudited)		(Unaudited)	

Net revenues	$357.3	$302.4	$199.6	$154.3
Cost of net revenues	(128.8)	(95.0)	(73.3)	(50.3)
Gross profit	228.5	207.4	126.3	104.0
Operating expenses:				
Product and technology development	(46.2)	(36.9)	(24.2)	(19.6)
Sales and marketing	(68.0)	(55.3)	(35.3)	(29.1)
General and administrative	(37.9)	(38.8)	(20.8)	(20.6)
Impairment of Long-Lived Assets	(13.7)	(16.2)	(13.7)	-
Total operating expenses	(165.8)	(147.2)	(94.1)	(69.4)
Income from operations	62.7	60.2	32.2	34.6
Other income (expenses):				
Interest income and other financial gains	15.3	9.0	8.0	4.6
Interest expense and other financial charges	(12.3)	(10.2)	(6.6)	(5.2)
Foreign currency gain loss	(0.2)	(9.2)	(5.4)	(0.6)

Net income before income / asset tax expense	65.4	49.9	28.2	33.5
Income / asset tax expense	(19.3)	(28.7)	(12.4)	(14.0)
	$46.1	$21.2	$15.9	$19.5

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

Principal trends in results of operations

Growth in net revenues

Since our inception, we have consistently generated revenue growth from our Marketplace and Non-Marketplace streams, driven by the strong growth of our key operational metrics. Our net revenues grew 18.1% in the six-month period ended June 30, 2016 as compared to the same period in 2015. Our successful items sold and total payment volume increased 42.2% and 42.3%, respectively, in the six-month period ended June 30, 2016 as compared to the same period in 2015. Additionally, our number of confirmed registered users was a 19.9% higher as of June 30, 2016 as compared to the number of confirmed registered users as of June 30, 2015. Furthermore, our GMV increased 14.6% in the six-month period ended June 30, 2016 as compared to the same period in 2015.

Our net revenues grew 29.4% in the three-month period ended June 30, 2016 as compared to the same period in 2015. Our successful items sold and total payment volume increased 44.7% and 50.6%, respectively, in the three-month period ended June 30, 2016 as compared to the same period in 2015. Additionally, our number of confirmed registered users was a 19.9% higher as of June 30, 2016 as compared to the number of confirmed registered users as of June 30, 2015. Furthermore, our GMV increased 21.2% in the three-month period ended June 30, 2016 as compared to the same period in 2015.

We believe that the growth in net revenues should continue in the future. However, despite this positive historical trend, current weak global macro-economic environment, coupled with devaluations of certain local currencies in Latin America versus the U.S. dollar, the effects of Venezuelan translations of local currencies into U.S. dollar, Venezuelan Government limits to prices and high interest rates in those countries, could cause a decline year-to-year of our net revenues, particularly as measured in U.S. dollars.

Gross profit margins

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

Our gross profit margins were 64.0% and 68.6% for the six-month periods ended June 30, 2016 and 2015, respectively. For the three-month periods ended June 30, 2016 and 2015, our gross profit margins were 63.3% and 67.4%, respectively. The decrease in our gross profit margins resulted primarily from:

(i) Higher penetration of our payments and shipping solution into our Argentine, Brazilian and Mexican marketplaces. For the six and three-month period ended June 30, 2016, total payment volume ("TPV") represented 84.3% and 90.6% of our total gross merchandise volume ("GMV") (excluding motor vehicles, vessels, aircraft and real estate), respectively; as compared to 67.9% and 72.9% for the six and three-month period ended June 30, 2015, respectively. Additionally, for the six and three-month period ended June 30, 2016, our total number of items shipped through our shipping solution represented 45.8% and 46.6% of our total number of successful items sold, respectively; as compared to 31.3% and 33.0% for the six and three-month period ended June 30, 2015, respectively. Transactions that include such services intrinsically incur incremental costs such as collection fees, which result in lower gross profit margins. In addition, our financing and shipping revenues are disclosed net of third party provider's costs while sales taxes are paid on the gross amount of revenues, thus, decreasing our gross profit margins. For the six-month period ended June 30, 2016, collection fees and sales taxes increased $14.7 million and $8.1 million, respectively, as compared to the six-month period ended June 30, 2015. For the three-month period ended June 30, 2016, collection fees and sales taxes increased $10.0 million and $5.9 million, respectively, as compared to the same period in 2015.

(ii) Increased customer support costs of $4.9 million and $2.8 million for the six and three-month period ended June 30, 2016 as compared with the same period in 2015; mainly as a consequence of salaries and wages. The number of employees related to customer support were 1,557 as of June 30, 2016 as compared with 1,162 as of June 30, 2015.

In the future, gross profit margins could decline if the penetration of our payment solution and shipping grows faster than our marketplace.

Operating income margins

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For the six-month period ended June 30, 2016 as compared to the same period in 2015, our operating income margin decreased from 19.9% to 17.5%, as a consequence of increases in costs of net revenues, as described in Gross profit margins section above, increases in product and technology development expenses (driven mainly salaries and wages and maintenance expenses) and in sales and marketing (driven mainly by portal deals and buyer protection program expenses). For the three-month period ended June 30, 2016 as compared to the same period in 2015, our operating income margin decreased from 22.4% to 16.1%, as a consequence of the impairment of long-lived assets recorded during the second quarter of 2016, increases in costs of net revenues, as described in Gross profit margins section above, increases in product and technology development expenses (driven mainly salaries and wages and maintenance expenses) and in sales and marketing (driven mainly by portal deals and buyer protection program expenses).

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 income margins, and at some point we could continue experiencing decreases in operating income margins.

Other Data

	Six-months Periods Ended June 30,		Three-month Periods Ended June 30,	
(in millions)	2016 (*)	2015 (*)	2016 (*)	2015 (*)
Number of confirmed registered users at end of period (1)	158.6	132.3	158.6	132.3
Number of confirmed new registered users during period (2)	14.0	11.3	7.1	5.6
Gross merchandise volume (3)	$ 3,785.7	$ 3,302.6	$ 2,004.7	$ 1,653.5
Number of successful items sold (4)	82.0	57.7	43.7	30.2
Number of items shipped (5)	37.6	18.0	20.3	10.0
Total payment volume (6)	$ 3,192.9	$ 2,243.4	$ 1,816.9	$ 1,206.0
Total payment transactions (7)	59.5	33.0	31.9	18.1
Capital expenditures	$ 44.9	$ 70.2	$ 27.6	$ 61.9
Depreciation and amortization	$ 13.2	$ 11.0	$ 6.9	$ 5.9

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

Net revenues

	Six-month Periods Ended June 30,		Change from 2015 to 2016 (*)		Three-month Periods Ended June 30,		Change from 2015 to 2016 (*)	
	2016	2015	in Dollars	in %	2016	2015	in Dollars	in %
	(in millions, except percentages)				(in millions, except percentages)			
Total Net Revenues	$ 357.3	$ 302.4	$ 54.9	18.1%	$ 199.6	$ 154.3	$ 45.3	29.4%
As a percentage of net revenues (*)	100.0%	100.0%			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.

	Six-month Periods Ended June 30,			Change from 2015 to 2016 (**)		Three-month Periods Ended June 30,		Change to 2016
Consolidated Net Revenues by revenue stream	2016	2015	2010	in Dollars	in %	2016	2015	in Dolla
	(in millions, except percentages)					(in millions, except percentages)		
Brazil								
Marketplace	$ 97.9	$ 81.2		$ 16.7	20.5%	$ 54.2	$ 40.5	$ 13
Non-Marketplace	82.5	60.1		22.4	37.2%	48.7	32.4	16.3
	180.4	141.4		39.1	27.6%	102.9	72.9	30.0
Argentina								
Marketplace	$ 71.6	$ 67.7		$ 3.9	5.8%	$ 41.7	$ 37.4	$ 4
Non-Marketplace	44.3	36.6		7.7	21.2%	26.0	19.5	6.5
	115.9	104.3		11.6	11.2%	67.7	56.8	10.9
Mexico								
Marketplace	$ 12.4	$ 12.3		$ 0.1	0.7%	$ 6.6	$ 6.0	$ 0
Non-Marketplace	10.2	7.1		3.1	43.0%	4.9	4.0	0.9
	22.6	19.4		3.1	16.2%	11.5	10.0	1.5
Venezuela								
Marketplace	$ 17.9	$ 17.9		$ 0.0	0.0%	$ 6.7	$ 5.1	$ 1
Non-Marketplace	1.7	1.8		(0.1)	-5.9%	0.7	0.6	0.1
	19.6	19.7		(0.1)	-0.5%	7.5	5.7	1.7
Other countries								
Marketplace	$ 7.6	$ 8.8						