MERCADOLIBRE INC
Form 10-Q
November 02, 2018
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2018

-OR-

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

Commission file number 001-33647

MercadoLibre, Inc.

(Exact name of Registrant as specified in its Charter)

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

Arias 3751, 7th Floor

Buenos Aires, C1430CRG, Argentina

(Address of registrant's principal executive offices)

(+5411) 4640-8000

(Registrant's telephone number, including area code)

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

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

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

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

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

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

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

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.

45,202,859 shares of the issuer's common stock, $0.001 par value, outstanding as of October 31, 2018.

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MercadoLibre, Inc.

Interim Condensed Consolidated Financial Statements

as of September 30, 2018 and December 31, 2017

and for the nine and three-month periods

ended September 30, 2018 and 2017

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MercadoLibre, Inc.

Interim Condensed Consolidated Balance Sheets

As of September 30, 2018 and December 31, 2017

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

(Unaudited)

	September 30, 2018		December 31, 2017	
Assets				
Current assets:				
Cash and cash equivalents	$	1,028,579	$	388,260
Restricted cash and cash equivalents	49,151		—	
Short-term investments	67,041		209,432	
Accounts receivable, net	27,141		28,168	
Credit cards receivables, net	266,461		521,130	
Loans receivable, net	90,827		73,409	
Prepaid expenses	11,013		5,864	
Inventory	7,395		2,549	
Other assets	54,071		58,107	
Total current assets	1,601,679		1,286,919	
Non-current assets:				
Long-term investments	2,823		34,720	
Property and equipment, net	138,417		114,837	
Goodwill	88,650		92,279	
Intangible assets, net	18,719		23,174	
Deferred tax assets	125,521		57,324	
Other assets	42,542		63,934	
Total non-current assets	416,672		386,268	
Total assets	$	2,018,351	$	1,673,187
Liabilities and Equity				
Current liabilities:				
Accounts payable and accrued expenses	$	230,999	$	221,095
Funds payable to customers	525,089		583,107	
Salaries and social security payable	57,372		65,053	
Taxes payable	22,740		32,150	
Loans payable and other financial liabilities	141,502		56,325	
Other liabilities	11,830		3,678	
Dividends payable	—		6,624	

Total current liabilities	989,532		968,032	
Non-current liabilities:				
Salaries and social security payable	23,389		25,002	
Loans payable and other financial liabilities	554,830		312,089	
Deferred tax liabilities	92,322		23,819	
Other liabilities	16,526		18,466	
Total non-current liabilities	687,067		379,376	
Total liabilities	$	1,676,599	$	1,347,408
Equity:				
Common stock, $0.001 par value, 110,000,000 shares authorized, 45,201,662 and 44,157,364 shares issued and outstanding at September 30, 2018 and December 31, 2017	$	45	$	44
Additional paid-in capital	221,719		70,661	
Retained earnings	505,768		537,925	
Accumulated other comprehensive loss	(385,780)		(282,851)	
Total Equity	341,752		325,779	
Total Liabilities and Equity	$	2,018,351	$	1,673,187

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

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MercadoLibre, Inc.

Interim Condensed Consolidated Statements of Income

For the nine and three-month periods ended September 30, 2018 and 2017

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

(Unaudited)

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2018	2017	2018	2017
Net revenues	$ 1,011,634	$ 858,479	$ 355,281	$ 304,921
Cost of net revenues	(519,410)	(342,241)	(185,563)	(129,094)
Gross profit	492,224	516,238	169,718	175,827
Operating expenses:				
Product and technology development	(107,311)	(93,019)	(35,478)	(32,380)
Sales and marketing	(342,382)	(207,925)	(110,443)	(84,139)
General and administrative	(111,195)	(91,575)	(34,800)	(31,766)
Impairment of Long-Lived Assets	—	(2,837)	—	—
Total operating expenses	(560,888)	(395,356)	(180,721)	(148,285)
(Loss) income from operations	(68,664)	120,882	(11,003)	27,542
Other income (expenses):				
Interest income and other financial gains	27,746	37,020	8,636	14,200
Interest expense and other financial losses	(39,805)	(19,686)	(15,869)	(6,709)
Foreign currency gains (losses)	22,102	(19,475)	3,924	1,622
Net (loss) income before income tax gain (expense)	(58,621)	118,741	(14,312)	36,655
	24,372	(37,241)	4,234	(8,989)

Income tax gain (expense)								
Net (loss) income	$	(34,249)	$	81,500	$	(10,078)	$	27,666

	Nine Months Ended September 30,				Three Months Ended September 30,			
	2018		2017		2018		2017	
Basic EPS								
Basic net (loss) income Available to shareholders per common share	$	(0.77)	$	1.85	$	(0.23)	$	0.63
Weighted average of outstanding common shares	44,302,724		44,157,364		44,588,704		44,157,364	
Diluted EPS								
Diluted net (loss) income Available to shareholders per common share	$	(0.77)	$	1.85	$	(0.23)	$	0.63
Weighted average of outstanding common shares	44,302,724		44,157,364		44,588,704		44,157,364	
Cash Dividends declared (per share)	—		0.450		—		0.150	

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

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MercadoLibre, Inc.

Interim Condensed Consolidated Statements of Comprehensive Income

For the nine and three-month periods ended September 30, 2018 and 2017

(In thousands of U.S. dollars)

(Unaudited)

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2018	2017	2018	2017
Net (loss) income	$ (34,249)	$ 81,500	$ (10,078)	$ 27,666
Other comprehensive (loss) income, net of income tax:				
Currency translation adjustment	(101,980)	(17,945)	550	(5,180)
Unrealized gains on hedging activities	2,406	—	1,494	—
Unrealized net gains on available for sale investments	142	340	77	(1,413)
Less: Reclassification adjustment for gains (losses) from accumulated other comprehensive income	3,497	(587)	1,779	—
Net change in accumulated other comprehensive (loss) income, net of income tax	(102,929)	(17,018)	342	(6,593)
Total Comprehensive (loss) income	$ (137,178)	$ 64,482	$ (9,736)	$ 21,073

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

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MercadoLibre, Inc.

Interim Condensed Consolidated Statements of Cash Flow

For the nine month periods ended September 30, 2018 and 2017

(In thousands of U.S. dollars)

(Unaudited)

	Nine Months Ended September 30,	
	2018	2017
Cash flows from operations:		
Net (loss) income	$ (34,249)	$ 81,500
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Unrealized devaluation loss, net	9,262	28,463
Impairment of Long-Lived Assets	—	2,837
Depreciation and amortization	33,861	29,953
Accrued interest	(11,258)	(16,391)
Non cash interest and convertible notes amortization of debt discount and amortization of debt issuance costs	18,386	9,234
LTRP accrued compensation	27,706	28,734
Deferred income taxes	(75,275)	(14,769)
Changes in assets and liabilities:		
Accounts receivable	(14,891)	(13,380)
Credit card receivables	121,896	(113,514)
Prepaid expenses	(6,810)	6,800
Inventory	(6,015)	(1,172)
Other assets	(17,463)	(31,528)
Accounts payable and accrued expenses	50,979	71,794
Funds payable to customers	82,909	151,635
Other liabilities	6,077	3,703
Interest received from investments	10,986	18,490
Net cash provided by operating activities	196,101	242,389
Cash flows from investing activities:		
Purchase of investments	(1,814,416)	(3,180,633)
Proceeds from sale and maturity of investments	1,964,480	3,371,543
Payment for acquired businesses, net of cash acquired	(2,281)	—
Purchases of intangible assets	(217)	(84)
Advance for property and equipment	(4,426)	(12,777)

Changes in principal of loans receivable, net	(55,860)	(46,951)
Purchases of property and equipment	(65,133)	(39,280)
Net cash provided by investing activities	22,147	91,818
Cash flows from financing activities:		
Funds received from the issuance of convertible notes	880,000	—
Transaction costs from the issuance of convertible notes	(16,264)	—
Purchase of convertible note capped call	(137,476)	(67,308)
Unwind of convertible note capped call	121,703	—
Payments on convertible notes	(348,123)	—
Proceeds from loans payable and other financial liabilities	156,075	13,153
Payments on loans payable and other financing liabilities	(78,705)	(4,304)
Dividends paid	(6,624)	(19,871)
Net cash provided by (used in) financing activities	570,586	(78,330)
Effect of exchange rate changes on cash, cash equivalents, restricted cash and cash equivalents	(99,364)	(28,819)
Net increase in cash, cash equivalents and restricted cash equivalents	689,470	227,058
Cash, cash equivalents and restricted cash equivalents, beginning of the period	$ 388,260	$ 234,140
Cash, cash equivalents and restricted cash equivalents, end of the period	$ 1,077,730	$ 461,198

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

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1. Nature of Business

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

Through 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 our advertising products, MercadoLibre facilitates advertising services for large retailers and brands to promote their product and services on the web; through MercadoShops, MercadoLibre allows users to set-up, manage and promote their own online webstores under a subscription-based business model; through MercadoCredito, MercadoLibre extends loans to certain merchants and consumers; and through MercadoFondo, allows users to invest funds deposited in their MercadoPago accounts. In addition, MercadoLibre develops and sells software enterprise solutions to e-commerce business clients in Brazil.

As of September 30, 2018, MercadoLibre, through its wholly-owned subsidiaries, operated online ecommerce platforms in Argentina, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Peru, Mexico, Panama, Honduras, Nicaragua, Salvador, Uruguay, Bolivia, Guatemala, Paraguay and Venezuela. Additionally, MercadoLibre operates an online payments solution in Argentina, Brazil, Mexico, Venezuela, Colombia, Chile, Peru and Uruguay. It also offers a shipping solution in Argentina, Brazil, Mexico, Colombia, Chile and Uruguay. The Company operates a real estate classified platform that covers some areas of State of Florida, in the United States of America.

2. Summary of significant accounting policies

Basis of presentation

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

Substantially all net revenues, cost of net revenues and operating expenses, are generated in the Company’s foreign operations. Long-lived assets, intangible assets and goodwill located in the foreign jurisdictions totaled $242,061 thousands and $223,134 thousands as of September 30, 2018 and December 31, 2017, respectively.

These interim condensed consolidated financial statements reflect the Company’s consolidated financial position as of September 30, 2018 and December 31, 2017. These financial statements include the Company’s consolidated statements of income and comprehensive income for the nine and three-month periods ended September 30, 2018 and 2017 and statement of cash flows for the nine-month periods ended September 30, 2018 and 2017. 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, 2017, contained in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission ("SEC"). The condensed consolidated statements of income, of comprehensive income and of cash flows for the periods presented herein are not necessarily indicative of results expected for any future period. For a more detailed discussion of the Company's significant accounting policies, see note 2 to the financial statements in the Company's Form 10-K for the year ended December 31, 2017. During the nine-month period ended September 30, 2018, there were no material updates made to the Company's significant accounting policies, except for the adoption of ASC 606 and ASU 2016-16- Income taxes (Topic 740) as of January 1, 2018 and early adoption of ASU 2017-12 Derivatives and Hedging (Topic 815) as of April 1, 2018. See Note 2 to these interim condensed consolidated financial statements for more details.

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Revenue recognition

Revenues are recognized when control of the promised services is transferred to customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those services.

Contracts with customers may include promises to transfer multiple services including discounts on current or future services. Determining whether services are considered distinct performance obligations that should be accounted for separately versus together may require significant judgment.

Revenues are recognized when each performance obligation is satisfied by transferring the promised service to the customer according to the following criteria described for each type of service:

- Revenues from the Enhanced Marketplace service include the final value fees and shipping fees charged to the Company’s customers. Because the Company acts as an agent, revenues derived from the shipping services are presented net of the respective transportation costs charged by third-party carriers and paid by the Company. As part of the Company’s business strategy, shipping costs may be fully or partially subsidized at the Company’s option.

- Revenues from the Non-Marketplace services are generated from payments fees, classifieds fees, ad sales up-front fees and fees from other ancillary businesses.

Revenue recognition criteria for the services mentioned above are described in note 2 to the consolidated financial statements in the Company’s Form 10-K for the year ended December 31, 2017.

Contract Balances

Timing of revenue recognition may differ from the timing of invoicing to customers. Receivables represent amounts invoiced and revenue recognized prior to invoicing when the Company has satisfied the performance obligation and has the unconditional right to payment. The allowance for doubtful accounts, loan receivables and chargebacks is estimated based upon our assessment of various factors including historical experience, the age of the accounts receivable balances, current economic conditions and other factors that may affect our customers’ ability to pay. The allowance for doubtful accounts, loan receivables and chargebacks was $29,980 thousands and $19,734 thousands as of September 30, 2018 and December 31, 2017, respectively.

Deferred revenue consists of fees received related to unsatisfied performance obligations at the end of the period in accordance with ASC 606 (as defined below). Due to the generally short-term duration of contracts, the majority of the performance obligations are satisfied in the following reporting period. Deferred revenue as of December 31, 2017 and 2016 was $6,116 thousands and $1,955 thousands, respectively, of which $4,913 thousands and $1,994 thousands were recognized as revenue during the nine-months periods ended September 30, 2018 and 2017, respectively.

As of September 30, 2018, total deferred revenue was $6,414 thousands, mainly due to fees related to listing and optional feature services billed and loyalty programs that are expected to be recognized as revenue in the coming months.

Variable Interest Entities (VIE)

A VIE is an entity that (i) has insufficient equity to permit the entity to finance its activities without additional subordinated financial support, (ii) has equity investors who lack the characteristics of a controlling financial interest or (iii) in which the voting rights of some equity investors are disproportionate to their obligation to absorb losses or their right to receive returns, and substantially all of the entity’s activities are conducted on behalf of the equity investors with disproportionately few voting rights. The Company consolidates VIEs of which it is the primary beneficiary. The Company is considered to be the primary beneficiary of a VIE when it has both the power to direct the activities that most significantly impact the entity’s economic performance and the obligation to absorb losses or the right to receive benefits from the entity that could potentially be significant to the VIE. Please see Note 12 to these unaudited interim consolidated financial statements for additional detail on the VIEs used for securitization purposes.

Foreign currency translation

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

Highly inflationary status in Argentina

In May 2018, the International Practices Task Force ("IPTF") discussed the highly inflationary status of the Argentine economy. Historically, the IPTF has used the Consumer Price Index ("CPI") when considering the inflationary status of the Argentine economy. Given that the CPI was considered flawed by the current Argentine Government until December 2015 and the new CPI was published as from June 2016, the IPTF considered alternative indices to determine the three-year cumulative inflation.

A highly inflationary economy is one that has cumulative inflation of approximately 100% or more over a three-year period. The alternative three-year cumulative indices at June 30, 2018 exceeded 100%. The Company transitioned its Argentinian operations to highly inflationary status as of July 1, 2018, in accordance with U.S. GAAP, and changed the functional currency for Argentine subsidiaries from Argentine Pesos to U.S. dollars, which is the functional currency of their immediate parent company.

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

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

Venezuelan deconsolidation

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

Beginning December 1, 2017, the Company no longer includes the results of the Venezuelan subsidiaries in its consolidated financial statements.

Derivative Financial Instruments

The Company’s operations are in various foreign currencies and consequently are exposed to foreign currency risk. The Company uses derivative instruments to reduce the volatility of earnings and cash flows. All outstanding derivatives are recognized in the Company’s consolidated balance sheet at fair value. The effective portion of a designated derivative’s gain or loss is initially reported as a component of accumulated other comprehensive income (loss) and is subsequently reclassified into the financial statement line item in which the variability of the hedged item is recorded in the period the hedging transaction affects earnings.

The Company also hedges its economic exposure to foreign currency risk related to foreign currency denominated monetary assets and liabilities with foreign derivative currency contracts. The gains and losses on the foreign exchange derivative contracts economically offset gains and losses on certain foreign currency denominated monetary assets and liabilities recognized in earnings. Accordingly, these outstanding non-designated derivatives are recognized in the Company’s consolidated balance sheet at fair value, and changes in fair value from these contracts are recorded in other income (expense), net in the consolidated statement of income.

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2.00% Convertible Senior Notes due 2028 – Debt Exchange

On August 24, 2018, the Company issued $800 million of 2.00% Convertible Senior Notes due 2028 and on August 31, 2018 the Company issued an additional $80 million of notes pursuant to the partial exercise of the initial purchasers' option to purchase such additional notes, resulting in an aggregate principal amount of $880 million of 2% Convertible Senior Notes due 2028 (collectively, the "2028 Notes"). In connection with the issuance of the 2028 Notes, the Company paid $91,784 thousands (including transaction expenses) to enter into capped call transactions with respect to its common shares (the " 2028 Notes Capped Call Transactions"), with certain financial institutions. For more detailed information in relation to the 2028 Notes and the 2028 Notes Capped Call Transactions, see Note 9 to these unaudited interim condensed consolidated financial statements.

The convertible debt instrument 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 similar debt without the conversion feature. As of the issuance date the Company determined the fair value of the liability component of the 2028 Notes based on market data that was available for senior, unsecured non-convertible corporate bonds issued by comparable companies. Assumptions used in the estimate represent what market participants would use in pricing the liability component, including market interest rates, credit standing, and yield curves, all of which are defined as level 2 observable inputs. 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 2028 Notes was valued at $546,532 thousands, based on the contractual cash flows discounted at an appropriate market rate for non-convertible debt at the date of issuance, which was determined to be 7.44%. The carrying value of the permanent equity component reported in additional paid-in-capital was initially valued at $333,468 thousands. The effective interest rate after allocation of transaction costs to the liability component is 7.66% and is used to amortize the debt discount and transaction costs. Additionally, the Company recorded a deferred tax liability related to the additional paid-in capital component of the 2028 Notes of $70,028 thousands.

In connection with the 2028 Notes issued, the Company used a portion of the net proceeds to repurchase or exchange $263,724 thousands principal amount of its 2019 Notes out of which $131,602 thousands were exchanged through a private exchange agreement. The Company assessed whether the instruments subject to exchange are substantially different from each other, considering qualitative aspects such as currency, term, rate, among others, and quantitative aspects, in which is assessed whether i) the present value of discounted cash flows under the conditions of the new instrument and original instrument is at least 10% different and ii) the change in the fair value of the embedded conversion option is at least 10% of the carrying amount of the original debt immediately prior to the exchange. In this regard the Company has recognized as extinguishment the exchange of the Notes due to the fact that instruments subject to exchange are substantially different.

Income tax

The Company is subject to U.S. and foreign income taxes. The Company accounts for income taxes following the liability method of accounting which requires the recognition of deferred tax liabilities and assets for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred tax assets are also recognized for tax loss carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets or liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is recorded when,

based on the available evidence, it is more likely than not that all or a portion of the Company's deferred tax assets will not be realized. The Company's income tax expense consists of taxes currently payable, if any, plus the change during the period in the Company's deferred tax assets and liabilities.

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

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

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The benefits to the Company under the software development law will expire on December 31, 2019. As a result of the Company's eligibility under the new law, it recorded an income tax benefit of $18,474 thousands and $7,912 thousands during the nine and three-month periods ended September 30, 2018, respectively. Aggregate per share effect of the Argentine tax holiday amounted to $0.42 and $0.18 for the nine and three-month periods ended September 30, 2018, respectively. Furthermore, the Company recorded a labor cost benefit of $5,415 thousands and $1,681 thousands during the nine and three-month periods ended September 30, 2018, respectively. Additionally, $1,438 thousands and $437 thousands were accrued to pay software development law audit fees during the nine and three-month periods ended September 30, 2018, respectively. During the nine and three-month periods ended September 30, 2017, the Company recorded an income tax benefit of $17,672 thousands and $6,367 thousands, respectively. Aggregate per share effect of the Argentine tax holiday amounted to $0.40 and $0.14 for the nine and three-month periods ended September 30, 2017, respectively. Furthermore, the Company recorded a labor cost benefit of $5,513 thousands and $2,016 thousands during the nine and three-month periods ended September 30, 2017, respectively. Additionally, $1,623 thousands and $587 thousands were accrued to pay software development law audit fees during the nine and three-month periods ended September 30, 2017, respectively.

Tax reform

Argentina

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

USA

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

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

The Deemed Repatriation Transition Tax (Transition Tax) is a tax on previously untaxed accumulated and current earnings and profits (E&P) of certain of our foreign subsidiaries. To determine the amount of the Transition Tax, the Company must determine, in addition to other factors, the amount of post-1986 E&P of the relevant subsidiaries, as

well as the amount of non-U.S. income taxes paid on such earnings. The Company filed its 2017 U.S. Federal Income Tax return in October 2018, and in connection with that filing finalized its calculation of the Transition Tax and determined that no tax duty resulted from the Transition Tax since the tax was offset in its entirety with available foreign tax credits as of December 31, 2017. Because the final calculation was consistent with the Company's previous estimate of the Transition Tax, the Company has not recorded any adjustments as a result of finalizing the calculation.

The Company assessed whether its valuation allowance analysis is affected by various aspects of the Tax Act (including the deemed repatriation of deferred foreign income, GILTI inclusions and new categories of FTCs). As a consequence of such analysis, the Company recorded an increase in valuation allowance of $12,097 thousands to fully reserve the outstanding foreign tax credits as of December 31, 2017.

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

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Under U.S. GAAP, the Company was allowed to make an accounting policy choice of either (1) treating taxes due on future U.S. inclusions in taxable income related to GILTI as a current-period expense when incurred (the "period cost method") or (2) factoring such amounts into a company's measurement of its deferred taxes (the "deferred method"). The Company selected the period cost method. Accordingly, the Company has not recorded any impact in connection with the potential GILTI tax as of September 30, 2018 and December 31, 2017.

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

As of September 30, 2018 and December 31, 2017, the Company had included under non-current deferred tax assets the foreign tax credits related to the dividend distributions received from its subsidiaries for a total amount of $12,659 thousands and $12,097 thousands, respectively. As of September 30, 2018 and December 31, 2017, the Company recorded a valuation allowance of $12,659 thousands and $12,097 thousands, respectively, to fully impair the outstanding foreign tax credits.

Accumulated other comprehensive loss

The following table sets forth the Company's accumulated other comprehensive loss as of September 30, 2018 and December 31, 2017:

	September 30, 2018 (In thousands)		December 31, 2017	
Accumulated other comprehensive loss:				
Foreign currency translation	$	(385,627)	$	(283,647)
Unrealized gains on investments	161		1,211	
Unrealized losses on hedging activities	(295)		—	
Estimated tax loss on unrealized gains on investments	(19)		(415)	
	$	(385,780)	$	(282,851)

The following tables summarize the changes in accumulated balances of other comprehensive loss for the nine-month period ended September 30, 2018:

	Unrealized (Losses) Gains on hedging activities, net	Unrealized (Losses) Gains on Investments	Foreign Currency Translation	Estimated tax (expense) benefit

		(In thousands)		
Balances as of December 31, 2017	$ —	$ 1,211	$ (283,647)	$ (4
Other comprehensive income (loss) before reclassifications	2,406	161	(101,980)	(19)
Amount of loss (gain) reclassified from accumulated other comprehensive loss	(2,701)	(1,211)	—	415
Net current period other comprehensive income (loss)	(295)	(1,050)	(101,980)	396
Ending balance	$ (295)	$ 161	$ (385,627)	$ (

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Details about Accumulated Other Comprehensive Loss Components	Amount of (Loss) Gain Reclassified from Accumulated Other Comprehensive Loss (In thousands)		Affected Line Item in the Statement of Income
Unrealized gains on investments	$	1,211	Interest income and other financial gains
Unrealized gains on hedging activities	2,701		Foreign currency gains (losses)
Estimated tax gain on unrealized losses on investments	(415)		Income tax loss
Total reclassifications for the period	$	3,497	Total, net of income taxes

Use of estimates

The preparation of interim condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates are used for, but not limited to accounting for allowances for doubtful accounts, loan receivables and chargebacks, 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 note debt, fair value of investments, fair value of derivative instruments, recognition of income taxes and contingencies. Actual results could differ from those estimates.

Recently Adopted Accounting Standards

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

In connection with the MercadoEnvios service, the Company has identified a performance obligation with the seller to arrange for the transportation of the merchandise sold to the buyer using third-party carriers. As the Company acts as agent, upon adoption of ASC 606, the revenues derived from the shipping services are presented net of the respective transportation costs charged by third-party carriers and paid by the Company. As part of the business strategy, the Company may fully or partially subsidize the cost of shipping at the Company’s option. Under the current guidance the Company must account for the subsidized cost of shipping netting of revenues rather than as cost of net sales. For the nine and three-month periods ended September 30, 2018, the Company incurred $316,705 thousands and $107,555 thousands, respectively, of subsidized shipping costs that have been incurred and included as a reduction of revenues. For the nine and three-month periods ended September 30, 2017, the Company incurred $102,638 thousands and $65,740 thousands, respectively, of subsidized shipping costs that have been included as a reduction of revenues.

Under the full retrospective method, the Company retrospectively applied ASC 606 to the nine and three-month periods ended September 30, 2017. The total impact resulting from the change in presentation of shipping subsidies was a decrease in Net revenues and Cost of net revenues of $102,638 thousands and $65,740 thousands in the Interim Condensed Consolidated Statement of Income for the nine and three-month periods ended September 30, 2017, respectively. Additionally, the adoption of ASC 606 did not modify the carrying amount of assets or liabilities as of the beginning of the first period presented, thus, there was no effect on the opening balance of retained earnings as of January 1, 2017.

Furthermore, the adoption did not have a material impact on the Consolidated Balance Sheets as of September 30, 2018 and December 31, 2017, on Net (loss) income for the nine and three-month periods ended September 30, 2018 and 2017 and on the Statements of Cash Flows for the nine-month periods ended September 30, 2018 and 2017.

In October 2016, the FASB issued Accounting Standards Update No. 2016-16 (ASU 2016-16) "Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other than Inventory." ASU 2016-16 generally accelerates the recognition of income tax consequences for asset transfers between entities under common control. The Company adopted ASU 2016-16 as of January 1, 2018 using a modified retrospective transition method, resulting in a $2,092 thousands increase to the opening balance of retained earnings.

In August 2017, the FASB issued Accounting Standards Update No. 2017-12 (ASU 2017-12) "Derivatives and Hedging (Topic 815): Target improvements to accounting for hedging activities." ASU 2017-12 expands and refines hedge accounting for both non-financial and financial risk components and align the recognition and presentation effects of the hedging instrument and the hedged item in the financial statements. The amendments also make certain improvements to simplify the hedge accounting guidance and ease the administrative burden of hedge documentation requirements and assessing hedge effectiveness. The Company early-adopted ASU 2017-12 as of April 1, 2018. The adoption did not have impact on the Company's financial statements for prior periods, as the Company did not engage in hedging activities during any of the comparative periods presented. Please see Note 11 to the Company's unaudited condensed consolidated financial statements for additional detail on hedging activities.

Recently issued accounting pronouncements not yet adopted

On February 25, 2016 the FASB issued ASU 2016-02. The amendments in this update create Topic 842, Leases, which supersedes Topic 840, Leases. The core principle of Topic 842 is that a lessee should recognize the assets and liabilities that arise from leases. Previous GAAP did not require lease assets and lease liabilities to be recognized for most leases. A lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. Topic 842 retains a distinction between finance leases and operating leases. The classification criteria for distinguishing between finance leases and operating leases are substantially similar to the classification criteria for distinguishing between capital leases and operating leases in the previous leases guidance. The result of retaining a distinction between finance leases and operating leases is that under the lessee accounting model in Topic 842, the effect of leases in the statement of comprehensive income and the statement of cash flows is largely unchanged from previous GAAP. Based on existing leases currently classified as operating leases, the Company expects to recognize on the statements of financial position right-of-use assets and lease liabilities. The amendments in this update are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Additionally, on July 30, 2018 the FASB issued ASU 2018-11 which includes a new guidance related to a new alternative transition method for the implementation of ASC 842, Leases. Under this new alternative transition method, comparative periods presented in financial statements in the period of adoption will not need to be restated and lessors may elect not to separate lease and non-lease components when certain conditions are met. The Company is assessing the effects that the adoption of this accounting pronouncement may have on the Company's financial statements and expects the ASU will have a material impact, primarily to the consolidated balance sheets and related disclosures.

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

On August 28, 2018 the FASB issued the ASU 2018-13 "Fair value measurement (Topic 820): Disclosure Framework—Changes to the disclosure requirements for fair value measurement". This update modified the disclosure requirements on fair value measurements based on concepts in the FASB Concepts Statement. The amendments in

this update are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The adoption of this standard is not expected to have a material impact on the Company's financial statements.

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

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3. Net (loss) income per share

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

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

The denominator for diluted net (loss) income per share for the nine and three-month periods ended September 30, 2018 and 2017 does not include any effect from the 2019 Notes Capped Call Transactions (as defined in Note 9) or the 2028 Notes Capped Call Transactions because it would be antidilutive. In the event of conversion of any or all of the 2019 Notes or the 2028 Notes, the shares that would be delivered to the Company under the Capped Call Transactions (as defined in Note 9) are designed to partially neutralize the dilutive effect of the shares that the Company would issue under the Notes. See Note 9 to these interim condensed consolidated financial statements and Note 17 of the financial statements as of December 31, 2017 on Form 10-K for more details.

For the nine and three-month periods ended September 30, 2018 and 2017, the effects of the Capped Call Transactions would have been antidilutive and, as a consequence, they were not factored into the calculation of diluted earnings per share.

Net (loss) income per share of common stock is as follows for the nine and three-month periods ended September 30, 2018 and 2017:

	Nine Months Ended September 30,				Three Months E
	2018		2017		2018
	(In thousands)				(In thousands)
	Basic	Diluted	Basic	Diluted	Basic
Net (loss) income per common share	$ (0.77)	$ (0.77)	$ 1.85	$ 1.85	$ ((
Numerator:					
Net (loss) income	$ (34,249)	$ (34,249)	$ 81,500	$ 81,500	$ (10,
Denominator:					

Weighted average of common stock outstanding for Basic earnings per share	44,302,724	—	44,157,364	—	44,588,704
Adjusted weighted average of common stock outstanding for Diluted earnings per share	—	44,302,724	—	44,157,364	—

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4. Goodwill and intangible assets

Business combinations

Acquisition of a machine learning company in Argentina

On September 6, 2018, the Company, through its subsidiaries Meli Participaciones S.L. and Marketplace Investment LLC, completed the acquisition of 100% of the equity interest of Machinalis S.R.L., a company that develops machine-learning tools located and organized under the laws of Argentina. The objective of the acquisition was to enhance the capabilities of the Company in machine-learning tools.

The aggregate purchase price for the acquisition was $5,855 thousands, measured at its fair value amount which included: (i) the total cash payment of $2,566 thousands at the time of closing; (ii) an escrow of $2,096 thousands and (iii) a contingent additional cash consideration up to $1,193 thousands.

The Company's consolidated statement of income includes the results of operations of the acquired business as from September 6, 2018. The net income before intercompany eliminations of the acquired Company included in the Company's consolidated statement of income since the acquisition amounted to $8 thousands.

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

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

	Machinalis S.R.L. In thousands of U.S. dollars
Cash and cash equivalents	$ 285
Other net tangible liabilities	(47)
Total net tangible assets acquired	238
Customer lists	100
Trademark	299
Non-solicitation and Non-compete agreements	239
Goodwill	4,979
Purchase Price	$ 5,855

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 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, non-compete and non-solicitation agreements for a total amount of $638 thousands. Management of the Company estimates that customer lists, trademark and non-compete agreements will be amortized over a three-year period, while non-solicitation agreements will be amortized over a five-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 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 segment. Goodwill arising from this acquisition is not deductible for tax purposes.

The results of operations for periods prior to the acquisitions, individually and in the aggregate, were not material to the consolidated statements of operations of the Company and, accordingly, pro forma information has not been presented.

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Goodwill and intangible assets

The composition of goodwill and intangible assets is as follows:

	September 30, 2018 (In thousands)		December 31, 2017	
Goodwill	$	88,650	$	92,279
Intangible assets with indefinite lives				
- Trademarks	9,439		11,587	
Amortizable intangible assets				
- Licenses and others	5,692		6,175	
- Non-compete agreement	2,338		2,689	
- Customer list	14,851		16,584	
- Trademarks	3,570		1,772	
Total intangible assets	$	35,890	$	38,807
Accumulated amortization	(17,171)		(15,633)	
Total intangible assets, net	$	18,719	$	23,174

Goodwill

The changes in the carrying amount of goodwill for the nine-month period ended September 30, 2018 and the year ended December 31, 2017 are as follows:

	Period ended September 30, 2018									
	Brazil (In thousands)		Argentina		Mexico		Chile		Colombia	
Balance, beginning of the period	$	32,492	$	5,761	$	30,396	$	18,805	$	3,632
- Business acquisitions	3,110		1,132		543		61		80	
- Effect of exchange rates changes	(6,360)		(1,990)		1,895		(2,027)		(73)	

Balance, end of the period	$	29,242	$	4,903	$	32,834	$	16,839	$	3,639

	Year ended December 31, 2017										
	Brazil		Argentina		Mexico		Chile		Venezuela		Colombia
	(In thousands)										
Balance, beginning of the year	$	27,660	$	6,587	$	29,342	$	17,388	$	5,989	$
- Business acquisitions	5,966		—		—		—		—		—
- Effect of exchange rates changes	(1,134)		(826)		1,054		1,417		—		(11)
- Deconsolidation of Venezuelan subsidiaries	—		—		—		—		(5,989)		—
Balance, end of the year	$	32,492	$	5,761	$	30,396	$	18,805	$	—	$

Intangible assets with definite useful life

Intangible assets with definite useful life are comprised of customer lists, non-compete and non-solicitation agreements, acquired software licenses, other acquired intangible assets including developed technologies and trademarks. Aggregate amortization expense for intangible assets totaled $1,368 thousands and $1,182 thousands for the three-month periods ended September 30, 2018 and 2017, respectively, while aggregate amortization expense for intangible assets for the nine-month periods ended September 30, 2018 and 2017 amounted to $4,696 thousands and $3,247 thousands, respectively.

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The following table summarizes the remaining amortization of intangible assets (in thousands of U.S. dollars) with definite useful life as of September 30, 2018:

For year ended 12/31/2018	$	1,282
For year ended 12/31/2019	2,755	
For year ended 12/31/2020	1,711	
For year ended 12/31/2021	1,291	
Thereafter	2,241	
	$	9,280

5. Segment reporting

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

Segment reporting is based on geography as the main basis of segment breakdown in accordance with the criteria used for evaluation of the Company's performance as determined by management. The Company's segments include Brazil, Argentina, Mexico and other countries (which includes Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Panama, Honduras, Nicaragua, Salvador, Bolivia, Guatemala, Paraguay, Peru, Uruguay and the United States of America). As of September 30, 2017, the Company's segments included Brazil, Argentina, Mexico, Venezuela and other countries.

Direct contribution (loss) consists of net revenues from external customers less direct costs and includes 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 and third-party fees. All corporate related costs have been excluded from the Company's direct contribution.

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

As a consequence of the implementation of ASC 606 further described in Note 2, the Company reassessed the definition of its customers for each service, which resulted in a change of the information presented for net revenues by similar services. As from January 1, 2018, net revenues from shipping services are included as part of our Enhanced Marketplace Services. Such change has been applied retroactively for comparative purposes.

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

	Nine Months Ended September 30, 2018									
	Brazil		Argentina		Mexico		Other Countries		Total	
	(In thousands)									
Net revenues	$	600,822	$	285,763	$	63,567	$	61,482	$	1,0
Direct costs	(544,139)		(185,755)		(101,086)		(57,183)		(888,163)	
Direct contribution (loss)	56,683		100,008		(37,519)		4,299		123,471	
Operating expenses and indirect costs of net revenues									(192,135)	
Loss from operations									(68,664)	
Other income (expenses):										
Interest income and other financial gains									27,746	
Interest expense and other financial losses									(39,805)	
Foreign currency gains									22,102	
Net loss before income tax gain									$	(

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	Nine Months Ended September 30, 2017				
	Brazil	Argentina	Mexico	Venezuela	Other Countries
	(In thousands)				
Net revenues	$ 493,508	$ 250,692	$ 33,618	$ 38,329	$ 42,332
Direct costs	(314,196)	(150,973)	(70,977)	(16,841)	(34,932)
Impairment of Long-lived Assets	-	-	-	(2,837)	-
Direct contribution (loss)	179,312	99,719	(37,359)	18,651	7,400
Operating expenses and indirect costs of net revenues					
Income from operations					
Other income (expenses):					
Interest income and other financial gains					
Interest expense and other financial losses					

Foreign currency losses	
Net income before income tax expense	

	Three Months Ended September 30, 2018				
	Brazil	Argentina	Mexico	Other Countries	T
	(In thousands)				
Net revenues	$ 220,828	$ 83,714	$ 28,962	$ 21,777	$
Direct costs	(190,172)	(60,409)	(35,229)	(18,822)	(
Direct contribution (loss)	30,656	23,305	(6,267)	2,955	5
Operating expenses and indirect costs of net revenues					(
Loss from operations					(
Other income (expenses):					
Interest income and other financial gains					8
Interest expense and other financial losses					(
Foreign currency					3

gains
Net loss
before
income
tax gain $

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	Three Months Ended September 30, 2017								
	Brazil		Argentina		Mexico		Venezuela		Other Coun
	(In thousands)								
Net revenues	$	176,575	$	91,308	$	11,489	$	9,751	$
Direct costs	(129,958)		(56,210)		(24,923)		(4,582)		(12,684)
Direct contribution (loss)	46,617		35,098		(13,434)		5,169		3,114
Operating expenses and indirect costs of net revenues									
Income from operations									
Other income (expenses):									
Interest income and other financial gains									
Interest expense and other financial losses									
Foreign currency gains									
Net income before income									

tax
expense

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

	September 30, 2018		December 31, 2017	
	(In thousands)			
US property and equipment, net	$	3,667	$	7,037
Other countries				
Argentina	46,646		26,028	
Brazil	70,394		68,796	
Mexico	7,458		3,570	
Other countries	10,252		9,406	
	$	134,750	$	107,800
Total property and equipment, net	$	138,417	$	114,837

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

	September 30, 2018		December 31, 2017	
	(In thousands)			
US intangible assets	$	58	$	119
Other countries goodwill and intangible assets				
Argentina	5,091		6,059	
Brazil	31,879		36,462	
Mexico	38,280		38,600	
Chile	26,026		28,985	
Other countries	6,035		5,228	
	$	107,311	$	115,334
Total goodwill and intangible assets	$	107,369	$	115,453

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Consolidated net revenues by similar products and services for the nine and three-month periods ended September 30, 2018 and 2017 were as follows:

	Nine months Ended September 30,				Three months Ended September 30,			
Consolidated Net Revenues	2018 (In thousands)		2017		2018 (In thousands)		2017	
Enhanced Marketplace (*)	$	477,216	$	539,079	$	180,319	$	181,140
Non-marketplace (**) (***)	534,418		319,400		174,962		123,781	
Total	$	1,011,634	$	858,479	$	355,281	$	304,921

(*) Includes Final Value Fees and Shipping fees.

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

(***) Includes $432,603 thousands and $232,426 thousands of Payment Fees for the nine-month periods ended September 30, 2018 and 2017, respectively. Includes an amount of $143,925 thousands and $92,254 thousands of Payment Fees for the three-month periods ended September 30, 2018 and 2017, respectively.

6. Fair value measurement of assets and liabilities

The following table summarizes the Company's financial assets and liabilities measured at fair value on a recurring basis as of September 30, 2018 and December 31, 2017:

Description	Balances as of September 30, 2018	Quoted Prices in active markets for identical Assets (Level 1)	Significant other observable inputs (Level 2)	Unobservable inputs (Level 3)

	(In thousands)						
Assets							
Cash and Cash Equivalents:							
Money Market Funds	$	272,258	$	272,258	$	—	$
Restricted Cash and cash equivalents:							
Money Market Funds	$	49,151	49,151		—		
Investments:							
Sovereign Debt Securities	$	200	$	200	$	—	$
Corporate Debt Securities	294		289		5		—
Other Assets:							
Derivative Instruments	$	3,144	$	—	$	3,144	—
Total Financial Assets	$	325,047	$	321,898	$	3,149	$
Liabilities:							
Contingent considerations	$	1,193	$	—	$	—	$
Long-term retention plan	44,167		—		44,167		—
Total Financial Liabilities	$	45,360	$	—	$	44,167	$

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As of September 30, 2018 and December 31, 2017, 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 September 30, 2018 and December 31, 2017, the Company´s liabilities were valued at fair value using level 2 inputs and level 3 inputs (valuations based on unobservable inputs reflecting Company assumptions). Fair value of contingent considerations are determined based on the probability of achievement of the performance targets arising from each acquisition, as well as the Company's historical experience with similar arrangements. During the nine-month period ended September 30, 2018, the Company assumed contingent considerations for an amount of $1,193 thousands.

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

As of September 30, 2018 and December 31, 2017, the carrying value of the Company's financial assets and liabilities measured at amortized cost approximated their fair value mainly because of their short-term maturity. These assets and liabilities included cash, cash equivalents, restricted cash and cash equivalents and short-term investments (excluding money markets funds and corporate debt security), accounts receivable, credit cards receivable, loans receivable, funds payable to customers, other assets (excluding derivative instruments), accounts payable, salaries and social security payable (excluding variable LTRP), taxes payable, provisions and other liabilities (excluding contingent considerations). The carrying values of the 2019 Notes (liability component) and the 2028 Notes (liability component) approximate their fair value because the discount rates used for the initial accounting are not materially different from market interest rates. The rest of the loans payable and other financial liabilities approximate their fair value because the contractual interest rates are not materially different from market interest rates.

The following table summarizes the fair value level for those financial assets and liabilities of the Company measured at amortized cost as of September 30, 2018 and December 31, 2017:

	Balances as of September 30, 2018 (In thousands)	Significant other observable inputs (Level 2)	Balances as of December 31, 2017	Significant other observable inputs (Level 2)
Assets				
Time Deposits	$ 66,980	$ 66,980	$ 202,820	$ 202,820
Accounts receivable	27,141	27,141	28,168	28,168
	266,461	266,461	521,130	521,130

Credit Cards receivable								
Loans receivable, net	90,827		90,827		73,409		73,409	
Other assets	94,777		94,777		101,552		101,552	
Total Assets	$	546,186	$	546,186	$	927,079	$	927,079
Liabilities								
Accounts payable and accrued expenses	$	230,999	$	230,999	$	221,095	$	221,095
Funds payable to customers	525,089		525,089		583,107		583,107	
Salaries and social security payable	36,594		36,594		46,828		46,828	
Taxes payable	22,740		22,740		32,150		32,150	
Dividends payable	—		—		6,624		6,624	
Loans payable and other financial liabilities (*)	696,332		696,332		368,414		379,500	
Other liabilities	27,163		27,163		22,144		22,144	
Total Liabilities	$	1,538,917	$	1,538,917	$	1,280,362	$	1,291,448

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

As of September 30, 2018 and December 31, 2017, the Company held no direct investments in auction rate securities and does not have any non-financial assets or liabilities measured at fair value.

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As of September 30, 2018 and December 31, 2017, the fair value of money market funds, short and long-term investments classified as available for sale securities are as follows:

	September 30, 2018			
	Cost	Gross Unrealized Gains (1)	Gross Unrealized Losses (1)	Estimated Fair Value
	(In thousands)			
Cash and cash equivalents				
Money Market Funds	$ 272,258	$ —	$ —	$ 272,258
Total Cash and cash equivalents	$ 272,258	$ —	$ —	$ 272,258
Restricted cash and cash equivalents				
Money Market Funds	$ 49,151	$ —	$ —	$ 49,151
Total Restricted cash and cash equivalents	$ 49,151	$ —	$ —	$ 49,151
Short-term investments				
Sovereign Debt Securities	12	—	—	12
Corporate Debt Securities	49	—	—	49
Total Short-term investments	$ 61	$ —	$ —	$ 61

Long-term investments								
Sovereign Debt Securities	$	190	$	—$		(2)	$	188
Corporate Debt Securities	249			—	(4)		245	
Total Long-term investments	$	439	$	—$		(6)	$	433
Total	$	321,909	$	—$		(6)	$	321,903

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	December 31, 2017							
	Cost		Gross Unrealized Gains (1)		Gross Unrealized Losses (1)		Estimated Fair Value	
	(In thousands)							
Cash and cash equivalents								
Money Market Funds	$	85,337	$	—	$	—	$	85,337
Total Cash and cash equivalents	$	85,337	$	—	$	—	$	85,337
Short-term investments								
Sovereign Debt Securities	$	2,235	$	—	$	(10)	$	2,225
Corporate Debt Securities	4,396		—		(9)		4,387	
Total Short-term investments	$	6,631	$	—	$	(19)	$	6,612
Long-term investments								
Sovereign Debt Securities	$	13,821	$	—	$	(150)	$	13,671
Corporate Debt Securities	20,054		—		(128)		19,926	
Total Long-term investments	$	33,875	$	—	$	(278)	$	33,597
Total	$	125,843	$	—	$	(297)	$	125,546

(1) Unrealized gains (losses) from securities are attributable to market price movements, net foreign exchange losses and foreign currency translation. Management does not believe any remaining significant unrealized losses represent other-than-temporary impairments based on the evaluation of available evidence including the credit rating of the investments, as of September 30, 2018 and December 31, 2017.

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

As of September 30, 2018, the estimated fair values (in thousands of U.S. dollars) of cash equivalents, restricted cash and cash equivalents, short-term and long-term investments classified by their effective maturities are as follows:

One year or less	$	321,470
One year to two years	213	
Two years to three years	191	
Three years to four years	24	
Four years to five years	5	
Total	$	321,903

7. Commitments and Contingencies

Litigation and Other Legal Matters

The Company is subject to certain contingent liabilities with respect to existing or potential claims, lawsuits and other proceedings. The Company accrues liabilities when it considers probable that future costs will be incurred and such costs can be reasonably estimated. Proceeding-related liabilities are based on developments to date and historical information related to actions filed against the Company. As of September 30, 2018, the Company had accounted for estimated liabilities involving proceeding-related contingencies and other estimated contingencies of $5,440 thousand 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 September 30, 2018 the Company and its subsidiaries are subject to certain legal actions considered by the Company’s management and its legal counsels to be reasonably possible for an estimated aggregate amount up to $6,845 thousand. No loss amounts have been accrued for such reasonably possible legal actions, the most significant of which (individually or in the aggregate) are described in note 15 to the financial statements in the Form 10-K for the year ended December 31, 2017.

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City of São Paulo Tax Claim

In 2007, São Paulo tax authorities assessed taxes and fines against our Brazilian subsidiary MercadoLivre.com relating to the “Imposto sobre Serviços” for 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. On September 12, 2009, the São Paulo tax authorities ruled against the Company upholding, the previously assessed taxes and fines. Also in 2009, the Company presented an appeal to the Conselho Municipal de Tributos (São Paulo Municipal Council of Taxes), which reduced the fine. On February 11, 2011, the Company appealed this decision to the Câmaras Reunidas do Conselho Municipal de Tributos (Superior Chamber of the São Paulo Municipal Council of Taxes), which affirmed the reduction of the fine. With this decision, the administrative stage is finished. On August 15, 2011, the Company made a deposit in court of R$9.5 million and filed a lawsuit with the 8th Public Treasury Court of the City of São Paulo, State of São Paulo, Brazil, to contest the taxes and fines assessed by the tax authorities. On May 31, 2016, a lower court judge ruled in favor of the Company. On November 10, 2016, the São Paulo Municipal Council appealed that decision, and the Company presented its counter arguments. On April 12, 2018, the São Paulo Appellate Court rejected an appeal of the São Paulo Municipal Council, confirming the 2016 lower court decision in favor of the Company. On July 4, 2018, the São Paulo Appellate Court denied the admissibility of a subsequent special appeal by the São Paulo Municipal Council. As of the date of this report, the Company is waiting for a further appeal that may be filed by the São Paulo Municipal Council to seek a ruling by the Superior Court of Justice. As of the date of these interim condensed consolidated financial statements, the total amount of the claim is $3.9 million, including surcharges and interest. The opinion of the Company's management, based on the opinion of external legal counsel, is that the risk of losing the case is remote.

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

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

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

Buyer protection program

The Company provides consumers with a buyer protection program (“BPP”) for all transactions completed through the Company’s online payment solution (“MercadoPago”). This program is designed to protect buyers in the Marketplace from losses due primarily to fraud or counterparty non-performance. The Company’s BPP provides protection to consumers by reimbursing them for the total value of a purchased item and the value of any shipping service paid if it does not arrive or does not match the seller’s description. The Company is entitled to recover from the third-party carrier companies performing the shipping service certain amounts paid under the BPP. Furthermore, in some specific

circumstances (i.e. Black Friday, Hot Sale), the Company enters into insurance contracts with third-party insurance companies in order to cover contingencies that may arise from the BPP.

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

As of September 30, 2018 and December 31, 2017, management's estimate of the maximum potential exposure related to the Company’s buyer protection program is $633,660 thousands and $925,690 thousands, respectively, for which the Company recorded an allowance of $5,085 thousands and $1,087 thousands, respectively.

Loans payable and other financial liabilities

During the second quarter of 2018, the Company, through its Argentine subsidiary, obtained two lines of credit from Banco de Galicia y Buenos Aires S.A., denominated in Argentine Pesos, to be applied to working capital needs. As of September 30, 2018, the amount outstanding under these lines of credit is $28,048 thousands with maturity in November 2018, bears fixed interest at a weighted average rate of 39.25% per annum.

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During the last quarter of 2017, the Company, through its Chilean subsidiary obtained two lines of credit from Banco de Chile denominated in Chilean Pesos, to be applied to working capital needs. As of September 30, 2018, the amount outstanding under these lines of credit is $9,650 thousands and $14,690 thousands with maturity in October 2018 (renewed upon maturity) and bears interest at a fixed rate of 4.32% and 4.44% per annum, respectively.

As of September 30, 2018, the Company, through its Uruguayan subsidiary obtained an unsecured line of credit denominated in local currency for an amount of $10,865 thousands which bears interest at a fixed rate of 9.11% per annum, and through its Argentine subsidiary obtained an unsecured line of credit denominated in local currency for an amount of $8,417 thousands which bears interest at a fixed rate of 62.00% per annum. These lines of credit have maturity date within the next two months.

See Notes 9 and 12 to these interim condensed consolidated financial statements for details regarding the Company's 2019 Notes and 2028 Notes and collateralized debt securitization transactions, respectively.

8. Long term retention plan ("LTRP")

The following table summarizes the 2009, 2010, 2011, 2012, 2013, 2014, 2015, 2016, 2017 and 2018 long term retention plan accrued compensation expense for the nine and three-month periods ended September 30, 2018 and 2017, which are payable in cash according to the decisions made by the Board of Directors:

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2018	2017	2018	2017
	(In thousands)		(In thousands)	
LTRP 2009	$ -	$ 29	$ -	$ -
LTRP 2010	24	891	-	147
LTRP 2011	806	1,422	318	229
LTRP 2012	1,325	1,945	526	315
LTRP 2013	2,268	3,809	846	711
LTRP 2014	2,768	3,782	1,056	772
LTRP 2015	3,790	4,680	1,474	1,063
LTRP 2016	5,547	6,717	2,131	1,606
LTRP 2017	5,587	5,459	2,074	1,823
LTRP 2018	5,591	-	2,489	-
Total LTRP	$ 27,706	$ 28,734	$ 10,914	$ 6,666

9. Convertible Senior Notes

2.00% Convertible Senior Notes Due 2028

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

The Company will not have the right to redeem the notes prior to August 21, 2023. On or after August 21, 2023, if the last reported sale price of the Company's common stock has been at or above 130% of the conversion price during specified periods, the Company may (at its option) redeem all or any portion of the 2028 Notes for cash equal to the 2028 Notes' principal amount plus accrued and unpaid interest to, but excluding, the redemption date.

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Holders may convert their 2028 Notes at their option at any time prior to February 15, 2028 only under the following circumstances: (1) during any calendar quarter commencing after the calendar quarter ending on September 30, 2018 (and only during such calendar quarter), if the last reported sale price of the common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day; (2) during the five business day period after any five consecutive trading day period (the "measurement period") in which the trading price per $1,000 principal amount of 2028 Notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of the Company's common stock and the conversion rate on each such trading day; (3) if the Company calls any or all of the 2028 Notes for redemption, at any time prior to the close of business on the scheduled trading day immediately preceding the redemption date; or (4) upon the occurrence of specified corporate events. On or after February 15, 2028 until the close of business on the second scheduled trading day immediately preceding the maturity date, holders may convert their 2028 Notes at any time, regardless of the foregoing circumstances.

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

The total estimated fair value of the 2028 Notes was $868,745 thousands as of September 30, 2018. The fair value was determined based on the closing trading price per $100 principal amount of the 2028 Notes as of the last day of trading for the period. The Company considered the fair value of the 2028 Notes as of September 30, 2018 to be a Level 2 measurement. The fair value of the 2028 Notes is primarily affected by the trading price of our common stock and market interest rates. Based on the $340.5 closing price of the Company's common stock on September 30, 2018, the if-converted value of the 2028 Notes does not exceeded their principal amount. The intention of the Company is to share-settle the excess conversion value upon conversion of the 2028 Notes.

The following table presents the carrying amounts of the liability and equity components related to the 2028 Notes as of September 30, 2018:

	September 30, 2018 (In thousands)
Amount of the equity component (1)	$ 327,305
2.00% Convertible Senior Notes due 2028	$ 880,000
Unamortized debt discount (2)	(331,547)
Unamortized transaction costs related to the debt component	(10,065)
Contractual coupon interest accrual	1,467
Net carrying amount	$ 539,855

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

(2) As of September 30, 2018, the remaining period over which the unamortized debt discount will be amortized is 10 years.

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

	Nine month periods ended September 30, 2018 (In thousands)
Contractual coupon interest expense	$ 1,467
Amortization of debt discount	1,921
Amortization of debt issuance costs	36
Total interest expense related to the 2028 Notes	$ 3,424

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2.25% Convertible Senior Notes Due 2019

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

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

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

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

During the period from October 1, 2016 through September 30, 2018, 138 Notes were converted for a total amount of $138 thousands. Additionally, during the third quarter of 2018, the conversion threshold was met again and the 2019 Notes became convertible at the holders’ option beginning on October 1, 2018 and ending on December 31, 2018. Upon conversion, the Company will pay or deliver, as the case may be, cash, shares of the Company’s common stock or a combination of cash and shares of the Company’s common stock, at the Company’s election. The intention of the

Company is to share-settle the excess conversion value due upon conversion of the 2019 Notes.

From October 1, 2018 to the date of issuance of these interim condensed consolidated financial statements, additional conversion requests for 151 Notes were made.

The total estimated fair value of the 2019 Notes was $179,114 thousands and $829,048 thousands as of September 30, 2018 and December 31, 2017, respectively. The fair value was determined based on the closing trading price per $100 principal amount of the 2019 Notes as of the last day of trading for the period. The Company considered the fair value of the 2019 Notes as of September 30, 2018 and December 31, 2017 to be a Level 2 measurement. The fair value of the 2019 Notes is primarily affected by the trading price of our common stock and market interest rates. Based on the $340.5 closing price of the Company’s common stock on September 30, 2018, the if-converted value of the 2019 Notes exceeded their principal amount by $112,549 thousands.

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The following table presents the carrying amounts of the liability and equity components related to the 2019 Notes as of September 30, 2018 and December 31, 2017:

	September 30, 2018	December 31, 2017
	(In thousands)	
Amount of the equity component (1)	$ 9,196	$ 45,808
2.25% Convertible Senior Notes due 2019	$ 66,138	$ 329,972
Unamortized debt discount (2)	(1,496)	(15,469)
Unamortized transaction costs related to the debt component	(260)	(2,509)
Contractual coupon interest accrual	5,074	7,425
Contractual coupon interest payment	(4,702)	(7,425)
Net carrying amount	$ 64,754	$ 311,994

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

(2) As of September 30, 2018, the remaining period over which the unamortized debt discount will be amortized is 0.8 years.

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

	Nine month periods ended September 30,		Three month periods ended September 30,	
	2018	2017	2018	2017
	(In thousands)	(In thousands)	(In thousands)	(In thousands)
Contractual coupon interest expense	$ 5,074	$ 5,569	$ 1,361	$ 1,856
Amortization of debt discount	6,907	7,188	1,891	2,440
Amortization of debt issuance costs	1,104	1,106	307	381
Total interest expense related to the 2019 Notes	$ 13,085	$ 13,863	$ 3,559	$ 4,677

10. Cash Dividend Distribution

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

After reviewing the Company's capital allocation process the Board of Directors has concluded that it has multiple investment opportunities that should generate greater return to shareholders through investing capital into the business as compared to a dividend policy. Consequently, the decision has been made to suspend the payment of dividend to shareholders as of the first quarter of 2018.

11. Derivative instruments

The Company's operations are in various foreign currencies and consequently are exposed to foreign currency risk. The Company uses foreign currency exchange contracts to reduce the volatility of earnings and cash flows.

As of September 30, 2018 the Company used foreign currency exchange contracts to hedge the foreign currency effects related to the principal amount of certain loans denominated in U.S. dollars owed by a Brazilian subsidiary whose functional currency is the Brazilian Reais. Pursuant to these contracts, the Company will buy a notional amount of $30,000 thousands in May 2019 and $16,500 thousands in June 2019, respectively, at a fixed currency exchange rate of 3.88 and 3.96 Brazilian Reais per U.S. dollar, respectively. The Company designated the foreign currency exchange contracts as cash flow hedges, the derivative's gain or loss is initially reported as a component of accumulated other comprehensive income ("AOCI") and subsequently reclassified into earnings in the same period the forecasted transaction affects earnings. As of September 30, 2018, the Company estimated that the whole amount of net derivative losses related to its cash flow hedges included in accumulated other comprehensive income will be reclassified into earnings within the next 12 months.

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On June 4, 2018 the Company entered into a foreign currency exchange contract to hedge the foreign currency effects related to certain transactions denominated in U.S. dollars of a Chilean subsidiary whose functional currency is the Chilean Peso. Pursuant to this contract, the Company will buy a notional amount of $20,000 thousands in December 2018, at a fixed currency exchange rate of 630.75 Chilean Pesos per U.S. dollar. This contract was not designated as hedging instrument, and changes in fair value of this contract are recorded in other income (expense), net in the consolidated statement of income.

Foreign exchange contracts

The fair values of the Company's outstanding derivative instruments as of September 30, 2018 and December 31, 2017 were as follows:

	Balance sheet location	September 30, 2018		December 31, 2017	
		(In thousands)			
Derivative Assets					
Foreign exchange contracts designated as cash flow hedges	Other current Assets	$	2,376	$	—
Foreign exchange contracts not designated as hedging instruments	Other current Assets				