UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K/A

Amendment No. 1

(Mark One)

☐ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2019

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ________ to ________

Commission file number 001-33647

MercadoLibre, Inc.
(Exact name of Registrant as specified in its Charter)

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

Posta 4789, 6th Floor
Buenos Aires, Argentina, C1430CRG
(Address of registrant's principal executive offices) (Zip Code)

Arias 3751, 7th Floor, Buenos Aires, Argentina, C1430CRG
(Former Address) (Zip Code)

(+5411) 4640-8000
(Registrant's telephone number, including area code)

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

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

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☐

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, a smaller reporting company, or an emerging growth company. See definitions 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 has filed a report on and attestation to its management’s assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C.7262(b)) by the registered public accounting firm that prepared or issued its audit report. Yes ☐ No ☐

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

The aggregate market value of the registrant’s Common Stock, $0.001 par value per share, at June 30, 2020, held by those persons deemed by the registrant to be non-affiliates (based upon the closing sale price of the Common Stock on the Nasdaq Global Select Market on June 30, 2020) was approximately $44,862,706,175. Shares of the registrant’s Common Stock held by each executive officer and director and by each entity or person that, to the registrant’s knowledge, owned 10% or more of the registrant’s outstanding common stock as of June 30, 2020 have been excluded from this number because these persons may be deemed affiliates of the registrant. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of December 21, 2020, there were 49,869,727 shares of the registrant’s Common Stock, $0.001 par value per share, outstanding.

Documents Incorporated By Reference

None.

MERCADOLIBRE, INC.
FORM 10-K/A
FOR FISCAL YEAR ENDED DECEMBER 31, 2019

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EXPLANATORY NOTE

This Amendment No. 1 on Form 10-K/A (this "Form 10-K/A") amends our Annual Report on Form 10-K for the fiscal year ended December 31, 2019, filed with the U.S. Securities and Exchange Commission (the "SEC") on February 14, 2020 (the "2019 Form 10-K"). The purpose of this Form 10/K-A is to (1) amend and revise Item 9A of Part II, "Controls and Procedures," with respect to our conclusions regarding the effectiveness of our disclosure controls and procedures and our internal control over financial reporting to reflect the identification of the material weaknesses in internal control over financial reporting and (2) amend and revise Item 15(a) of Part IV, "Financial Statements," solely for the purpose of amending DELOITTE & Co. S.A.'s audit report regarding the effectiveness of our internal control over financial reporting

Pursuant to Rule 12b-15 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), new certifications of our principal executive officer and principal financial officer are also being filed as exhibits to this Amendment. Except as otherwise expressly noted above, this Form 10-K/A does not amend any other information set forth in the 2019 Form 10-K. This Form 10 K/A continues to speak as of the date of the 2019 Form 10-K and does not include any changes to the consolidated financial statements. Except where expressly noted, we have not updated disclosures contained herein or therein to reflect any events that occurred at a date subsequent to the date of the 2019 Form 10-K. Accordingly, this Form 10-K/A should be read in conjunction with the 2019 Form 10-K and our other filings with the SEC.

PART II

ITEM 9A. CONTROLS AND PROCEDURES

Background

We recognized a charge of $27.0 million in the three-month period ended June 30, 2020 resulting from an accumulation of accounts receivable from an unaffiliated entity in Argentina. This entity acts as a collection agent for certain amounts credited to the accounts of our Mercado Pago customers. After conducting a review of these receivables we concluded that there were deficiencies in the timely operation of certain internal controls that constituted material weaknesses as of June 30, 2020 and December 31, 2019.

We also concluded that there were no material errors in the financial results or balances identified as a result of the material weaknesses, and therefore, no need for the restatement of prior period financial statements.

Evaluation of Disclosure Controls and Procedures

Based on the evaluation of our disclosure control and procedures as required by Rule 13a-15(b) under the Securities Exchange Act of 1934, as of the end of the period covered by this report, our Chief Executive Officer and our Chief Financial Officer had concluded on February 14, 2020 that as of December 31, 2019 our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms, and is accumulated and communicated to our management as appropriate to allow timely decisions regarding required disclosure.

However, due to the material weaknesses described below, our Chief Executive Officer and our Chief Financial Officer have subsequently revised that assessment and concluded that our disclosure controls and procedures were not effective as of December 31, 2019.

Management's Report on Internal Control over Financial Reporting (revised)

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

Our management, including our Chief Executive Officer and our Chief Financial Officer, conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control Integrated Framework updated by the Committee of Sponsoring Organizations of the Treadway Commission in 2013.

In the 2019 Form 10-K, our management expressed a conclusion that our internal control over financial reporting was effective. Subsequent to the issuance of the 2019 Form 10-K, we re-evaluated the effectiveness of our internal control over financial reporting based on the COSO framework. Based on that evaluation management determined, based upon the existence of the material weaknesses described below, that we did not maintain effective internal control over financial reporting as of December 31, 2019.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that a reasonable possibility exists that a material misstatement of our annual or interim financial statements would not be prevented or detected on a timely basis.

Specifically, our management determined that, as of December 31, 2019, we have material weaknesses in the following components of the COSO framework due to deficiencies in our means of payments controls.

Risk assessment

We did not design and implement an effective risk assessment based on the criteria established in the COSO framework, so that we would identify that:

- the change in antimonopoly regulations in Argentina towards the end of 2018 intended to foster more competition in the credit cards industry ecosystem, which starting in 2019 resulted in a change whereby entities other than consortia of banks would be able to offer multiple credit card services to shops. This modification in regulations resulted in a more open marketplace where different credit card consortia companies may operate using multiple credit card brands. That change created the need to adapt our processes, systems and controls; however, we did not fully recognize the magnitude of the effects of the change in our reconciling tools and therefore did not timely replace them with enhanced tools.

- the risk that entities involved with credit cards, and other means of payments entities, might not be able to honor their liabilities with us in connection with our users´ deposit transactions with them, including due to an accumulation of balances and the solvency of each of these entities.

Information and communication

We did not maintain adequate information and communication relating to the IT application for automated reconciliations of credit cards and other means of payments´ receivables. The IT automated reconciliation tool was not designed to receive complete collection settlements information and was not designed appropriately to address all the reconciling items, which led to an increase in the need to perform manual control activities to address the reconciling items to properly reflect the payment receivables balances.

Control activities

We did not maintain adequate controls relating to the verification that the balances of credit cards and other means of payment receivables matched detailed external information on settlements, and other internally generated transaction reports, and also to the assessment of the recoverability of credit cards receivable balances from unaffiliated entities, as explained further in the paragraphs below.

Although we had controls designed to address situations in which collections settlements details files received from entities involved with credit cards, and other means of payments entities, might fail to be received or to be automatically uploaded to our IT reconciling tool, which would allow for the reconciling items to be followed-up on and resolved in a timely manner, the control procedures performed to investigate the reconciling items did not adequately identify the cause of the differences and were limited to recording entries for the difference between the actual bank deposit amount and the corresponding amounts reported. As a result, the receivables balances were accumulating in excess of what would be deemed reasonable.

Sub-Account interface mapping errors to transfer credit card transactions information from the operating system to the ERP caused certain transactions corresponding to a third party collection entity to be computed in an incorrect collection entity which made it difficult for the control performers to develop detailed follow-up investigations without significant manual effort on a timely basis. Such unresolved differences were not challenged by management as to whether the accumulated account balance was unusually high and therefore may require correction, reserve or write-off as uncollectible.

Monitoring

Our monitoring did not operate effectively to timely identify the above-mentioned control deficiencies.

The above constituted material weaknesses in internal control over financial reporting as of December 31, 2019. We also concluded that there were no material errors in the financial results or balances as a result of the material weaknesses, and therefore, no need for the restatement of prior period financial statements.

Deloitte & Co S.A., our independent registered public accounting firm, has audited the effectiveness of our internal control over financial reporting as of December 31, 2019. Deloitte & Co S.A. is expressing an adverse opinion, as stated in their report which appears in Item 15 of this Form 10-K/A.

Remediation Plan

Our management is implementing a remediation plan to address the material weaknesses referred to above. The remediation plan includes the following: i) changes to the control owners of the specific controls impacted by the material weaknesses, ii) increasing the frequency of operation of these controls, iii) enhancing the current IT application and implementation of new IT applications to support the performance of the reconciliation controls on accounts receivable from means of payments, iv) implement new controls over outstanding accounts receivable from means of payment, v) hiring resources with the appropriate expertise to assist in the execution of our remediation plan, vi) conducting a comprehensive risk assessment which includes evaluating the impact of changes in the business, to enable us to effectively identify, develop, and implement controls and procedures to address risks on a timely basis, and vii) hiring internal audit, finance, and accounting resources and expertise to assist with the evaluation of our risk management process, detail testing of newly implemented controls and other activities related to monitoring our overall remediation efforts.

We expect that the remediation plan will be completed prior to the end of fiscal year 2020. The material weaknesses will not be considered remediated, however, until the applicable controls operate for a sufficient period of time and our management has concluded, through testing, that the controls are operating effectively.

Changes in Internal Control over Financial Reporting

There were no changes in our internal controls over financial reporting as defined in Exchange Act Rule 13a-15(f) that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Changes in internal controls are in the process of being implemented as part of the remediation of the material weaknesses mentioned above.

Inherent Limitations on Effectiveness of Controls

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls or our internal control over financial reporting will prevent or detect all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system’s objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of controls effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) **Financial Statements.** The following financial statements are included in this report:

Consolidated Financial Statements

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Report of Independent Registered Public Accounting Firm	1
Consolidated balance sheets as of December 31, 2019 and 2018	5
Consolidated statements of income for the years ended December 31, 2019, 2018 and 2017	6
Consolidated statements of comprehensive income for the years ended December 31, 2019, 2018 and 2017	7
Consolidated statements of equity for the years ended December 31, 2019, 2018 and 2017	8
Consolidated statements of cash flows for the years ended December 31, 2019, 2018 and 2017	9
Notes to consolidated financial statements	11

(b) **Exhibits.** The exhibits required by Item 601 of Regulation S-K are set forth under “Index to Exhibits” and is incorporated herein by reference.

EXHIBIT INDEX

Exhibit Number	Exhibit Description	Filed (*) or Furnished (**) Herewith
23.01	Consent of Deloitte & Co. S.A., Independent Registered Public Accounting Firm on Forms S-8 and S-3	*
31.01	Certification of Chief Executive Officer pursuant to Securities Exchange Act Rule 13a-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	*
31.02	Certification of Chief Financial Officer pursuant to Securities Exchange Act Rule 13a-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	*
32.01	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	**
32.02	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	**
101	The following financial statements filed herein, formatted in Inline XBRL: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Income, (iii) Consolidated Statements of Comprehensive Income, (iv) Consolidated Statements of Equity, (v) Consolidated Statements of Cash Flows, and (vi) Notes to Consolidated Financial Statements.	*
104	Cover Page Interactive Data File, formatted in Inline XBRL and contained in Exhibit 101	*

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MERCADOLIBRE, INC.

By: /s/ Marcos Galperin
Marcos Galperin
Chief Executive Officer

Date: December 23, 2020

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Marcos Galperin Marcos Galperin	Chief Executive Officer and Director (Principal Executive Officer)	December 23, 2020
/s/ Pedro Arnt Pedro Arnt	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	December 23, 2020
/s/ Mario Vazquez Mario Vazquez	Director	December 23, 2020
/s/ Susan Segal Susan Segal	Director	December 23, 2020
/s/ Nicolás Aguzin Nicolás Aguzin	Director	December 23, 2020
/s/ Nicolás Galperin Nicolás Galperin	Director	December 23, 2020
/s/ Emiliano Calemzuk Emiliano Calemzuk	Director	December 23, 2020
/s/ Meyer Malka Meyer Malka	Director	December 23, 2020
/s/ Roberto Balls Sallouti Roberto Balls Sallouti	Director	December 23, 2020

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the shareholders and the Board of Directors of MercadoLibre Inc.

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Mercadolibre Inc and subsidiaries (the "Company") as of December 31, 2019, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, because of the effect of the material weaknesses identified below on the achievement of the objectives of the control criteria, the Company has not maintained effective internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by COSO.

In our report dated February 14, 2020, we expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting. As described below, material weaknesses were subsequently identified as a result of the review that was conducted by management, under the direction of the Audit Committee of the Board of Directors, in connection with the accumulation of $27 million in credit card receivables which were determined to have exceeded the ordinary aging for such type of receivables and were reserved as of June 30, 2020.

Those receivables were derived from arrangements with an unaffiliated entity under which the Company´s users are able to fund their Mercado Pago accounts by depositing an equivalent amount with the unaffiliated entity. Accordingly, management has revised its assessment about the effectiveness of the Company's internal control over financial reporting and our present opinion on the effectiveness of the Company's internal control over financial reporting as of December 31, 2019, as expressed herein, is different from that expressed in our previous report.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the accompanying consolidated balance sheets of the Company as of December 31, 2019 and 2018, the related consolidated statements of income, comprehensive income, equity, and cash flows, for each of the three years in the period ended December 31, 2019, and the related notes (collectively referred to as the "financial statements", of the Company) and our report dated February 14, 2020, expressed an unqualified opinion on those financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting (revised). Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Material Weaknesses

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. The following material weaknesses have been identified and included in management's assessment, as a result of the review that was conducted by management, under the direction of the Audit Committee of the Board of Directors, in connection with the accumulation of $27 million in credit card receivables which were determined to have exceeded the ordinary aging for such type of receivables and were reserved as of June 30, 2020. These receivables were derived from arrangements with some unaffiliated entities under which the company´s users are able to fund their Mercado Pago accounts by depositing an equivalent amount with the unaffiliated entity.

Risk assessment

Management did not design and implement an effective risk assessment based on the criteria established in the COSO framework, so that they would identify that:

- the change in antimonopoly regulations in Argentina towards the end of 2018 intended to foster more competition in the credit cards industry ecosystem, which starting in 2019 resulted in a change whereby entities other than consortia of banks would be able to offer multiple credit cards services to shops. This modification in regulations resulted in a more open marketplace where different credit card consortia companies may operate using multiple credit card brands. That change created the need to adapt MercadoLibre's processes, systems and controls; however, management did not fully recognize the magnitude of the effects of the change in their reconciling tools and therefore did not timely replace them with enhanced tools.

- the risk that entities involved with credit cards, and other means of payments entities, might not be able to honor their liabilities with the Company in connection with MercadoLibre´s users´ deposit transactions with them, including due to an accumulation of balances and the solvency of each of these entities.

Information and communication

Management did not maintain adequate information and communication relating to the IT application for automated reconciliations of credit cards and other means of payments´ receivables. The IT automated reconciliation tool was not designed to receive complete collection settlements information and was not designed appropriately to address all the reconciling items, which led to an increase in the need to perform manual control activities to address the reconciling items to properly reflect the payment receivables balances.

Control activities

Management did not maintain adequate controls relating to the verification that the balances of credit cards and other means of payment receivables matched detailed external information on settlements, and other internally generated transaction reports, and also to the assessment of the recoverability of credit cards receivable balances from unaffiliated entities, as explained further in the paragraphs below.

Management had controls designed to address situations in which collections settlements details files received from entities involved with credit cards, and other means of payments entities, might fail to be received or to be automatically uploaded to the IT reconciling tool, however the control was not designed and did not operate effectively as the control procedures performed to investigate the reconciling items did not adequately identify the cause of the differences and were limited to recording entries for the difference between the actual bank deposit amount and the corresponding amounts reported. As a result, the receivables balances were accumulating in excess of what would be deemed reasonable.

There were Sub-Account interface mapping errors to transfer credit card transactions information from the operating system to the ERP which caused certain transactions corresponding to a third party collection entity to be computed in an incorrect collection entity which made it difficult for the control performers to develop detailed follow-up investigations without significant manual effort on a timely basis. Such unresolved differences were not challenged by management as to whether the accumulated account balance was unusually high and therefore may require correction, reserve or write-off as uncollectible.

Monitoring

Management's monitoring did not operate effectively to timely identify the above-mentioned control deficiencies.

These material weaknesses were considered in determining the nature, timing, and extent of audit tests applied in our audit of the consolidated financial statements as of and for the year ended December 31, 2019 of the Company, and this report does not affect our report on such financial statements.

/s/ Deloitte & Co S.A.

Buenos Aires, February 14, 2020 (December 23, 2020 as to the effects of the material weaknesses)

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the shareholders and the Board of Directors of MercadoLibre, Inc.

We have audited the accompanying consolidated balance sheets of MercadoLibre Inc. and its subsidiaries (the "Company") as of December 31, 2019 and 2018, the related consolidated statements of income, comprehensive income, equity, and cash flows, for each of the three years in the period ended December 31, 2019, and the related notes (collectively referred to as the "financial statements"). We also have audited the Company’s internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated February 14, 2020 (December 23, 2020 as to the effects of the material weaknesses described therein) expressed an adverse opinion on the Company's internal control over financial reporting because of the material weaknesses.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, in conformity with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 2 to the consolidated financial statements, the Company has changed its method for accounting for leases in 2019 due to the adoption of ASU No. 2016-02, Leases (Topic 842).

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB. We conducted our audits in accordance with the standards of the PCAOB and in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current-period audit of the financial statements that was communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Goodwill — Mexico Reporting Unit — Refer to Notes 2 and 6 to the financial statements

Critical Audit Matter Description

The Company’s evaluation of goodwill for impairment involves the comparison of the fair value of each reporting unit to its carrying value. The Company used the discounted cash flow model to estimate fair value, which requires management to make significant estimates and assumptions related to forecasts of future revenues and operating margins and selection of the discount rate. Changes in these assumptions could have a significant impact on either the fair value, the amount of any goodwill impairment charge, or both. The goodwill balance was $87.6 million as of December 31, 2019, of which $32.2 million was allocated to the Mexico Reporting Unit. The fair value of Mexico Reporting Unit exceeded its carrying value as of the measurement date and, therefore, no impairment was recognized.

We identified goodwill of the Mexico Reporting Unit as a critical audit matter given the subjectivity in estimating the forecasts of future revenues and operating margins and selection of the discount rate. This required a high degree of auditor judgment in evaluating the audit evidence supporting these estimates considering that the Company recently launched significant marketing initiatives in Mexico; together with the development stage of the industry and the limited historical and peer data available for the region where the Company operates.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to forecasts of future revenues and operating margins and selection of the discount rate for the Mexico Reporting Unit included the following, among others:

- We tested the effectiveness of controls over goodwill, including those over the forecasts of future revenue and operating margins, and selection of the discount rate.
- We tested the mathematical accuracy and completeness of the calculation of the underlying cash flows used to determine the fair value of the Mexico Reporting Unit.
- We evaluated management's ability to accurately forecast future revenues and operating margins by comparing actual results to management's historical forecasts.
- We evaluated the reasonableness of management's revenue and operating margins forecasts by comparing the forecasts to:
  - Historical revenues and operating margins.
  - Forecasted information included in Company press releases as well as in analyst and industry reports for the Company.
  - Reports containing analysis and expected trends in the industry for Mexico and Latin America.
- With the assistance of our fair value specialists, we evaluated the reasonableness of the (1) valuation methodology, (2) projection of certain key assumptions underlying the fair value estimate and (3) discount rate by (i) testing the source information underlying the determination of the discount rate and the mathematical accuracy of the calculation, and (ii) developing a range of independent estimates and comparing those to the discount rate selected by management.

We assessed the impact of changing the key assumptions related to forecasts of future revenue and operating margins, and selection of the discount rate, on the underlying fair value estimate.

/s/ DELOITTE & Co. S.A.

Buenos Aires, Argentina
February 14, 2020

We have served as the Company's auditor since 2010.

MercadoLibre, Inc.
Consolidated Balance Sheets
As of December 31, 2019 and 2018
(In thousands of U.S. dollars, except par value)

	December 31, 2019	December 31, 2018
Assets		
Current assets:		
Cash and cash equivalents	$ 1,384,740	$ 440,332
Restricted cash and cash equivalents	66,684	24,363
Short-term investments (522,798 and 284,317 held in guarantee - see Note 4)	1,597,241	461,541
Accounts receivable, net	35,446	35,153
Credit cards receivable, net	379,969	360,298
Loans receivable, net	182,105	95,778
Prepaid expenses	45,309	27,477
Inventory	8,626	4,612
Other assets	88,736	61,569
Total current assets	3,788,856	1,511,123
Non-current assets:		
Long-term investments	263,983	276,136
Loans receivable, net	6,439	—
Property and equipment, net	244,257	165,614
Operating lease right-of-use assets	200,449	—
Goodwill	87,609	88,883
Intangible assets, net	14,275	18,581
Deferred tax assets	117,582	141,438
Other assets	58,241	37,744
Total non-current assets	992,835	728,396
Total assets	$ 4,781,691	$ 2,239,519
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses	$ 372,309	$ 266,759
Funds payable to customers	894,057	640,954
Salaries and social security payable	101,841	60,406
Taxes payable	60,247	31,058
Loans payable and other financial liabilities	186,138	132,949
Operating lease liabilities	23,259	—
Other liabilities	114,469	34,098
Total current liabilities	1,752,320	1,166,224
Non-current liabilities:		
Salaries and social security payable	26,803	23,161
Loans payable and other financial liabilities	631,353	602,228
Operating lease liabilities	176,673	—
Deferred tax liabilities	99,952	91,698
Other liabilities	12,627	19,508
Total non-current liabilities	947,408	736,595
Total liabilities	$ 2,699,728	$ 1,902,819
Commitments and contingencies (Note 13)		
Redeemable convertible preferred stock, $0.001 par value, 40,000,000 shares authorized, 100,000 shares issued and outstanding at December 31, 2019	$ 98,843	$ —
Equity		
Common stock, $0.001 par value, 110,000,000 shares authorized, 49,709,955 and 45,202,859 shares issued and outstanding at December 31, 2019 and December 31, 2018	$ 50	$ 45
Additional paid-in capital	2,067,869	224,800
Treasury stock	(720)	—
Retained earnings	322,592	503,432
Accumulated other comprehensive loss	(406,671)	(391,577)
Total Equity	1,983,120	336,700
Total Liabilities, Redeemable convertible preferred stock and Equity	$ 4,781,691	$ 2,239,519

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

MercadoLibre, Inc.
Consolidated Statements of Income
For the years ended December 31, 2019, 2018 and 2017
(In thousands of U.S. dollars, except for share data)

	Year Ended December 31,		
	2019	2018	2017
Net revenues	$ 2,296,314	$ 1,439,653	$ 1,216,542
Cost of net revenues	(1,194,191)	(742,645)	(496,942)
Gross profit	1,102,123	697,008	719,600
Operating expenses:			
Product and technology development	(223,807)	(146,273)	(127,160)
Sales and marketing	(834,022)	(482,447)	(325,375)
General and administrative	(197,455)	(137,770)	(122,194)
Impairment of Long-Lived Assets	—	—	(2,837)
Loss on deconsolidation of Venezuelan subsidiaries	—	—	(85,761)
Total operating expenses	(1,255,284)	(766,490)	(663,327)
(Loss) income from operations	(153,161)	(69,482)	56,273
Other income (expenses):			
Interest income and other financial gains	113,523	42,039	45,901
Interest expense and other financial losses	(65,876)	(56,249)	(26,469)
Foreign currency (losses) gains	(1,732)	18,240	(21,635)
Net (loss) income before income tax (expense) gain	(107,246)	(65,452)	54,070
Income tax (expense) gain	(64,753)	28,867	(40,290)
Net (loss) income	$ (171,999)	$ (36,585)	$ 13,780

	Year Ended December 31,		
	2019	2018	2017
Basic EPS			
Basic net (loss) income			
Available to shareholders per common share	$ (3.71)	$ (0.82)	$ 0.31
Weighted average of outstanding common shares	48,692,906	44,529,614	44,157,364
Diluted EPS			
Diluted net (loss) income			
Available to shareholders per common share	$ (3.71)	$ (0.82)	$ 0.31
Weighted average of outstanding common shares	48,692,906	44,529,614	44,157,364
Cash Dividends declared (per share)	—	—	0.600

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

MercadoLibre, Inc.
Consolidated Statements of Comprehensive Income
For the years ended December 31, 2019, 2018 and 2017
(In thousands of U.S. dollars)

	Year Ended December 31,		
	2019	2018	2017
Net (loss) income	$ (171,999)	$ (36,585)	$ 13,780
Other comprehensive loss, net of income tax:			
Currency translation adjustment	(13,793)	(110,659)	(41,731)
Reclassification of currency translation adjustment due to deconsolidation of Venezuelan subsidiaries	—	—	17,310
Unrealized (losses) gains on hedging activities	(164)	1,533	—
Unrealized net gains on available for sale investments	1,592	2,729	796
Less: Reclassification adjustment for gains (losses) from accumulated other comprehensive income	2,729	2,329	(587)
Net change in accumulated other comprehensive loss, net of income tax	(15,094)	(108,726)	(23,038)
Total Comprehensive loss	$ (187,093)	$ (145,311)	$ (9,258)

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

MercadoLibre, Inc.
Consolidated Statement of Equity
For the years ended December 31, 2019, 2018 and 2017
(In thousands of U.S. dollars)

	Common stock		Additional paid-in capital	Treasury Stock	Retained Earnings	Accumulated other comprehensive loss	Total Equity
	Shares	Amount					
Balance as of December 31, 2016	44,157	$ 44	$ 137,982	$ —	$ 550,641	$ (259,813)	$ 428,854
Exercise of Convertible Notes	—	—	(13)	—	—	—	(13)
Dividend distribution	—	—	—	—	(26,496)	—	(26,496)
Capped Call	—	—	(67,308)	—	—	—	(67,308)
Net income	—	—	—	—	13,780	—	13,780
Other comprehensive loss	—	—	—	—	—	(23,038)	(23,038)
Balance as of December 31, 2017	44,157	$ 44	$ 70,661	$ —	$ 537,925	$ (282,851)	$ 325,779
Common Stock Issued in exchange of 2019 Notes	1,045	1	342,999	—	—	—	343,000
Exercise of Convertible Notes	1	—	(8)	—	—	—	(8)
Repurchase of 2019 Notes Conversion Option	—	—	(433,289)	—	—	—	(433,289)
Convertible notes - 2028 Notes Equity Component	—	—	257,277	—	—	—	257,277
Unwind Capped Call	—	—	136,108	—	—	—	136,108
Capped Call	—	—	(148,948)	—	—	—	(148,948)
Changes in accounting standards	—	—	—	—	2,092	—	2,092
Net Loss	—	—	—	—	(36,585)	—	(36,585)
Other comprehensive loss	—	—	—	—	—	(108,726)	(108,726)
Balance as of December 31, 2018	45,203	$ 45	$ 224,800	$ —	$ 503,432	$ (391,577)	$ 336,700
Common Stock Issued	4,116	4	1,867,211	—	—	—	1,867,215
Exercise of Convertible Notes	523	1	65,956	—	—	—	65,957
Exercise of capped call option - shares retirement	(132)	—	30	—	—	—	30
Unwind Capped Call	—	—	3	—	—	—	3
Capped Call	—	—	(96,367)	—	—	—	(96,367)
Redeemable convertible preferred stock dividend distribution ($9.99 per share)	—	—	—	—	(3,000)	—	(3,000)
Stock-based compensation — restricted shares issued	1	—	395	—	—	—	395
Common Stock repurchased	(1)	—	—	(720)	—	—	(720)
Net loss	—	—	—	—	(171,999)	—	(171,999)
Amortization of Preferred Stock discount	—	—	5,841	—	(5,841)	—	—
Other comprehensive loss	—	—	—	—	—	(15,094)	(15,094)
Balance as of December 31, 2019	49,710	$ 50	$ 2,067,869	$ (720)	$ 322,592	$ (406,671)	$ 1,983,120

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

MercadoLibre, Inc.
Consolidated Statement of Cash Flows
For the years ended December 31, 2019, 2018 and 2017
(In thousands of U.S. dollars)

	Year Ended December 31,		
	2019	2018	2017
Cash flows from operations:			
Net (loss) income	$ (171,999)	$ (36,585)	$ 13,780
Adjustments to reconcile net (loss) income to net cash provided by operating activities:			
Unrealized devaluation loss, net	44,326	11,131	28,463
Impairment of Long-Lived Assets	—	—	2,837
Loss on deconsolidation of Venezuelan subsidiaries	—	—	85,761
Depreciation and amortization	73,320	45,792	40,921
Accrued interest	(54,309)	(17,811)	(20,192)
Non cash interest, convertible notes amortization of debt discount and amortization of debt issuance costs and other charges	86,694	11,408	10,855
Stock-based compensation expense - restricted shares	395	—	—
LTRP accrued compensation	51,662	27,525	35,719
Deferred income taxes	16,453	(92,585)	(24,575)
Changes in assets and liabilities:			
Accounts receivable	(507)	(27,105)	(21,817)
Credit cards receivable	(29,315)	42,655	(257,563)
Prepaid expenses	(17,956)	(23,342)	8,670
Inventory	(4,148)	(3,015)	(1,549)
Other assets	(49,390)	(17,617)	(54,780)
Payables and accrued expenses	143,495	90,123	150,215
Funds payable to customers	267,293	175,398	242,037
Other liabilities	45,452	28,202	7,680
Interest received from investments	49,625	16,733	22,548
Net cash provided by operating activities	451,091	230,907	269,010
Cash flows from investing activities:			
Purchase of investments	(4,490,678)	(3,176,078)	(4,553,649)
Proceeds from sale and maturity of investments	3,353,606	2,662,800	4,713,934
Payment for acquired businesses, net of cash acquired	—	(4,195)	(8,568)
Reduction of cash due to Venezuela deconsolidation	—	—	(27,230)
Purchases of intangible assets	(72)	(192)	(33)
Changes in principal loans receivable, net	(173,848)	(57,232)	(72,244)
Advance for property and equipment	—	(4,426)	(19,695)
Purchases of property and equipment	(136,798)	(93,136)	(55,156)
Net cash used in investing activities	(1,447,790)	(672,459)	(22,641)
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)	—
Payments on convertible note	(25)	(348,123)	—
Purchase of convertible note capped calls	(96,367)	(148,943)	(67,308)
Unwind of convertible note capped calls	—	136,108	—
Proceeds from loans payable and other financial liabilities	629,891	236,873	47,905
Payments on loans payable and other financing liabilities	(472,897)	(123,822)	(5,004)
Dividends paid	—	(6,624)	(26,496)
Payment of finance lease obligations	(1,929)	(323)	—
Common Stock repurchased	(720)	—	—
Dividends paid of preferred stock	(2,844)	—	—
Proceeds from issuance of convertible redeemable preferred stock, net	98,688	—	—
Proceeds from issuance of common stock, net	1,867,215	—	—
Net cash provided by (used in) financing activities	2,021,012	608,882	(50,903)
Effect of exchange rate changes on cash, cash equivalents, restricted cash and cash equivalents	(37,584)	(90,895)	(41,346)
Net increase in cash, cash equivalents, restricted cash and cash equivalents	986,729	76,435	154,120
Cash, cash equivalents, restricted cash and cash equivalents, beginning of the year	464,695	388,260	234,140
Cash, cash equivalents, restricted cash and cash equivalents, end of the year	$ 1,451,424	$ 464,695	$ 388,260

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

MercadoLibre, Inc.
Consolidated Statement of Cash Flows
For the years ended December 31, 2019, 2018 and 2017
(In thousands of U.S. dollars)

	Year Ended December 31,					
	2019		2018		2017	
Supplemental cash flow information:						
Cash paid for interest	$	40,523	$	19,511	$	7,734
Cash paid for income tax	$	94,954	$	99,488	$	110,913
Non-cash financing activities:						
Common Stock Issued in exchange of 2019 Notes	$	—	$	343,000	$	—
Stock-based compensation — restricted shares issued	$	1	$	—	$	—
Exercise of convertible notes	$	65,957	$	1	$	—
Finance lease obligations	$	2,567	$	7,125	$	—
Non-cash investing activities:						
Contingent considerations and escrows from acquired business	$	—	$	5,206	$	—
Property and equipment acquired under finance leases	$	4,496	$	7,448	$	—

Acquisition of business	2019		2018 (1)		2017 (2)	
Cash and cash equivalents	$	—	$	507	$	165
Accounts receivable		—		1,145		471
Tax credits		—		—		—
Other current assets		—		202		18
Fixed Assets		—		90		1
Total assets acquired		—		1,944		655
Accounts payable and accrued expenses		—		149		26
Other liabilities		—		1,341		429
Total liabilities assumed		—		1,490		455
Net assets acquired		—		454		200
Goodwill, Identifiable Intangible Assets and deferred tax liabilities		—		7,022		5,966
Trademarks		—		1,020		328
Customer lists		—		475		1,280
Software		—		—		709
Non Compete and Non Solicitation Agreement		—		937		250
Total purchase price		—		9,908		8,733
Cash and cash equivalents acquired		—		507		165
Payment for acquired businesses, net of cash acquired	$	—	$	9,401	$	8,568

(1) Related to the acquisition of software development and machine-learning companies in Argentina – See Note 6.
(2) Related to the acquisition of software development companies in Brazil.

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

1. Nature of Business

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

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

As of December 31, 2019, MercadoLibre, through its wholly-owned subsidiaries, operated online ecommerce platforms directed towards Argentina, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Peru, Mexico, Panama, Honduras, Nicaragua, El Salvador, Uruguay, Bolivia, Guatemala, Paraguay and Venezuela. Additionally, MercadoLibre operates its FinTech solution in Argentina, Brazil, Mexico, Colombia, Chile, Peru and Uruguay. It also offers a shipping solution directed towards Argentina, Brazil, Mexico, Colombia, Chile and Uruguay.

2. Summary of significant accounting policies

Principles of consolidation

The accompanying 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 consolidated financial statements are stated in U.S. dollars, except for amounts otherwise indicated. Intercompany transactions and balances have been eliminated for consolidation purposes.

The Company determined that, effective December 1, 2017, evolving conditions in Venezuela have caused the Company to no longer meet the accounting criteria for control over its Venezuelan subsidiaries. The Venezuela’s selective default determination, restrictive exchange controls and suspension of foreign exchange market that severely incremented the lack of access to U.S. dollars through official currency exchange mechanisms, plus the worsening in Venezuela macroeconomic environment, has resulted in other-than-temporary lack of exchangeability between the Venezuelan bolivar and the U.S. dollar, and restricted the Company’s ability to pay dividends and satisfy other obligations denominated in U.S. dollars. The currency controls in Venezuela have significantly limited the Company’s ability to realize the benefits from earnings and to access to resulting liquidity of those operations. For accounting purposes, this lack of exchangeability has resulted in lack of control over Venezuelan subsidiaries. Therefore, in accordance to 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. Accordingly, since December 1, 2017, the Company no longer includes the results of its Venezuelan operations and recorded an impairment of $85,761 thousands as of December 31, 2017.

Under the cost method of accounting, if cash were to be received from the Venezuela entity in future periods from its operations, dividends or royalties, income would be recognized. The Company does not anticipate dividend or royalty payments being made in the foreseeable future and has no outstanding receivables or payables with the Venezuelan entity. The factors that led to the Company’s conclusion to deconsolidate its Venezuelan subsidiaries as of December 1, 2017 continued to exist through the date of this report. Despite the Venezuelan macroeconomic context, the Company will continue its operations in Venezuela for the foreseeable future. Further, the Company only recognizes revenue from intercompany service allocations to Venezuelan subsidiaries to the extent the Company collects the respective receivables.

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 $345,204 thousands and $270,073 thousands as of December 31, 2019 and 2018, respectively.

2. Summary of significant accounting policies (continued)

Principles of consolidation (continued)

Cash and cash equivalents, restricted cash and cash equivalents, short-term and long-term investments, amounted to $3,312,648 thousands and $1,202,372 thousands as of December 31, 2019 and 2018, respectively. As of December 31, 2019, 67% of those assets are located in the United States of America and 33% are located in foreign locations, mainly Brazil, Mexico and Argentina. As of December 31, 2018, 45% of those assets were located in the United States of America and 55% were in foreign locations, mainly Brazil, Mexico and Argentina.

Use of estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates are used for, but not limited to, accounting for allowance for doubtful accounts and chargeback provisions, allowance for loans receivable, recoverability of goodwill, intangible assets with indefinite useful lives and deferred tax assets, impairment of short-term and long-term investments, impairment of long-lived assets, compensation costs relating to the Company's long term retention plan, fair value of convertible debt, fair value of investments, fair value of derivative instruments, recognition of income taxes and contingencies and determination of the incremental borrowing rate at commencement date of lease operating agreements. Actual results could differ from those estimates.

Cash and cash equivalents

The Company considers all highly liquid investments with an original maturity of three months or less when purchased, consisting primarily of money market funds, to be cash equivalents.

Cash, cash equivalents and restricted cash and cash equivalents of $1,451,424 thousands as reported in the consolidated statements of cash flows for the year ended December 31, 2019 is the sum of $1,384,740 thousands and $66,684 thousands shown in lines Cash and cash equivalents and Restricted cash and cash equivalents, respectively, of the consolidated balance sheet.

Money market funds and sovereign debt securities are valued at fair value. See Note 8 "Fair Value Measurement of Assets and Liabilities" for further details.

Investments

Time deposits are valued at amortized cost plus accrued interest. Debt securities classified as available-for-sale are recorded at fair value. Unrealized gains and losses on available-for-sale securities are reported as a component of other comprehensive (loss), net of the related tax provisions or benefits.

Investments are classified as current or non-current depending on their maturity dates and when it is expected to be converted into cash.

The Company assesses whether an other-than-temporary impairment loss on its investments has occurred due to declines in fair value or other market conditions. With respect to debt securities, this assessment takes into account the intent to sell the security, whether it is more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis, and if the Company does not expect to recover the entire amortized cost basis of the security (that is, a credit loss exists). The Company did not recognize any other-than-temporary impairment on the investments in 2019, 2018 and 2017.

Corporate and sovereign debt securities (including Central Bank of Brazil mandatory guarantee) are valued at fair value. See Note 8 "Fair Value Measurement of Assets and Liabilities" for further details.

Fair value option applied to certain financial instruments

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

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

2. Summary of significant accounting policies (continued)

Investments (continued)

The Company's election of the fair value option applies to the: i) Brazilian federal government bonds and ii) U.S. treasury notes. As result of the election of the fair value option, the Company recognized gains in interest income and other financial gains of $2,295 thousands as of December 31, 2019.

Credit cards receivables and funds payable to customers

Credit cards receivables mainly relate to the Company's payments solution and arise due to the time taken to clear transactions through external payment networks either during the time required to collect the installments or during the period of time until those credit cards receivables are sold to financial institutions.

Credit cards receivables are presented net of the related provision for chargebacks. As of December 31, 2019 and 2018, there are no material past due credit cards receivables.

Funds payable to customers relate also to the Company's payments solution and are originated by the amounts due to users held by the Company. Funds, net of any amount due to the Company by the user, are maintained in the user's current account until withdrawl is requested by the user. See Note 4 "Short-term and long-term investments" for additional information on regulations in Brazil.

Loans receivable, net

Loans receivable represents loans granted to certain merchants and consumers through the Company's Mercado Credito solution.

Loans receivable are reported at their outstanding principal balances plus estimated collectible interest, net of allowances. Loans receivable are presented net of the allowance for uncollectible accounts, which represent Management's best estimate of probable incurred losses inherent in the Company's portfolio of loans receivable. Allowances are based upon several factors including, but not limited to, historical experience and the current aging of customers. The Company places loans on non-accrual status at 90 days past due.

Through the Company's Mercado Credito solution, merchants can borrow a certain percentage of their monthly sales volume and are charged with a fixed interest rate based on the overall credit assessment of the merchant. Merchant and consumers credits are repaid in a period ranging between 3 and 24 months.

The Company closely monitors credit quality for all loans receivable on a recurring basis. To assess a merchant and consumers seeking a loan under the Mercado Credito solution, the Company uses, among other indicators, a risk model internally developed, as a credit quality indicator to help predict the merchant's ability to repay the principal balance and interest related to the credit. The risk model uses multiple variables as predictors of the merchant's ability to repay the credit, including external and internal indicators. Internal indicators consider merchant's annual sales volume, claims history, prior repayment history, and other measures. Based on internal scoring, merchants are rated from A (Prime) to F (Upper medium grade). In addition, the Company considers external bureau information to enhance the scoring model and the decision making process. The internal rating and the bureau credit score are combined in a risk matrix, which is also used to price the loans based on the risk profile.

Transfer of financial assets

The Company may sell credit cards coupons to financial institutions, included within "Credit cards receivables". These transactions are accounted for as a true sale. Accounting guidance on transfer of financial assets establishes that the transferor has surrendered control over transferred assets if and only if all of the following conditions are met: (1) the transferred assets have been isolated from the transferor, (2) each transferee has the right to pledge or exchange the assets it received and (3) the transferor does not maintain effective control over the transferred assets. When all the conditions are met, the Company derecognizes the corresponding financial asset from its balance sheet. As of December 31, 2019 and 2018, there is no continuing involvement with transferred credit card coupons to commercial banks. Based on historical experience to date the Company assessed that it does not hold a significant credit risk exposure in relation to transfer of financial assets with recourse. The aggregate gain included in net revenues arising from these financing transactions, net of the costs recognized on sale of credit card coupons, is $359,037 thousands, $258,595 thousands and $185,469 thousands, for the years ended December 31, 2019, 2018 and 2017, respectively.

2. Summary of significant accounting policies (continued)

Concentration of credit risk

Cash and cash equivalents, restricted cash and cash equivalents, short-term and long-term investments, credit cards receivable, accounts receivable and loans receivable are potentially subject to concentration of credit risk. Cash and cash equivalents, restricted cash and cash equivalents and investments are placed with financial institutions and financial instruments that Management believes are of high credit quality. Accounts receivable are derived from revenue earned from customers located internationally. Accounts receivable balances are settled through customer credit cards, debit cards and Mercado Pago accounts, with the majority of accounts receivable collected upon processing of credit card transactions. Loans receivable are granted to several loyal merchants and certain loyalty buyers. The Company maintains an allowance for doubtful accounts receivable, loans receivable and credit cards receivables based upon its historical experience and current aging of customers. Historically, such charges have been within Management expectations. However, unexpected or significant future changes in trends could result in a material impact to future statements of income or cash flows. Due to the relatively small dollar amount of individual accounts receivable and loans receivable, the Company generally does not require collateral on these balances. The allowance for doubtful accounts is recorded as a charge to sales and marketing expense.

During the years ended December 31, 2019, 2018 and 2017, no single customer accounted for more than 5% of net revenues. As of December 31, 2019 and 2018, no single customer, except for high credit quality credit card processing companies, accounted for more than 5% of accounts receivable and loans receivable.

Allowances for doubtful accounts

The Company maintains allowances for doubtful accounts and loans receivable, for Management's estimate of probable losses that may result if customers do not make the required payments. Allowances are based upon several factors including, but not limited to, historical experience and the current aging of customers.

The Company writes-off accounts receivable and loans receivable when the customer balance becomes 180 and 90 days past due, respectively.

Provision for chargebacks

The Company is exposed to losses due to credit card fraud and other payment misuse. Provisions for these items represent the Company's estimate of actual losses based on its historical experience, as well as economic conditions.

Provision for buyer protection program

The Company provides consumers with a buyer protection program ("BPP") for all transactions completed through the Company's online payment solution ("Mercado Pago"). The Company is exposed to losses under this program due to this program is designed to protect buyers in the Marketplace from losses due primarily to fraud or counterparty non-performance. Provisions for BPP represent the Company's estimate of probable losses based on its historical experience.

Inventory

Inventory, consisting of products and mobile point of sale ("MPOS") devices available for sale, are accounted for using the weighted average price method, and are valued at the lower of cost or market value. Third-party sellers whose products are stored at the Company's fulfillment centers, maintain the ownership of their inventory hence these products are not included in Company's inventory.

2. Summary of significant accounting policies (continued)

Property and equipment, net

Property and equipment are recorded at their acquisition cost and depreciated over their estimated useful lives using the straight-line method. Repair and maintenance costs are expensed as incurred.

Costs related to the planning and post implementation phases of website development are recorded as an operating expense. Direct costs incurred in the development phase of website are capitalized and amortized using the straight-line method over an estimated useful life of three years. During 2019 and 2018, the Company capitalized $59,602 thousands and $38,412 thousands, respectively.

Buildings, excluding lands, are depreciated from the date when they are ready to be used, using the straight-line depreciation method over a 50-year depreciable life.

Goodwill and intangible assets

Goodwill represents the excess of the purchase price over the fair value of the net assets acquired in a business combination.

Intangible assets consist of customer lists, trademarks, licenses, software, non-solicitation and non-compete agreements acquired in business combinations and valued at fair value at the acquisition date. Intangible assets with definite useful life are amortized over the period of estimated benefit to be generated by those assets and using the straight-line method; their estimated useful lives ranges from three to ten years. Trademarks with indefinite useful life are not subject to amortization, but are subject to an annual impairment test, by comparing their carrying amount with their corresponding fair value. For any given intangible asset with indefinite useful life, if its fair value exceeds its carrying amount no impairment loss shall be recognized.

Impairment of long-lived assets

The Company reviews long-lived assets for impairments whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Recoverability of assets to be held and used is measured by comparing the carrying amount of an asset to the undiscounted future net cash flows expected to be generated by the asset. If such asset is considered to be impaired on this basis, the impairment loss to be recognized is measured by the amount by which the carrying amount of the asset exceeds the fair value of such asset.

Impairment of goodwill and intangible assets with indefinite useful life

Goodwill and intangible assets with indefinite useful life are reviewed at the end of the year for impairment or more frequently, if events or changes in circumstances indicate that the carrying value may not be recoverable. Goodwill is tested for impairment at the reporting unit level (considering each segment of the Company as a reporting unit) by comparing the reporting unit's carrying amount, including goodwill, to the fair value of such reporting unit.

As of December 31, 2019 and 2018, the Company elected to perform the quantitative impairment test for both goodwill and intangible assets with indefinite useful life.

For the year ended December 31, 2019, the fair values of the reporting units were estimated using the income approach. Cash flow projections used were based on financial budgets approved by Management. The Company uses discount rates to each reporting unit in the range of 15.4% to 20.0%. The average discount rate used for 2019 was 17.3%. That rate reflected the Company's estimated weighted average cost of capital. Key drivers in the analysis include Average Selling Price ("ASP"), Take Rate defined as marketplace revenues as a percentage of Gross Merchadise Volumem ("GMV"), Total Payment Volume Off Platform ("TPV Off"), Off Platform Take Rate defined as off platform revenues as a percentage of TPV Off, Wallet and Point TPV per Payer, Wallet Users over Total Population and Active Point devices. In addition, the analysis includes a business to e-commerce rate, which represents growth of e-commerce as a percentage of Gross Domestic Product, Internet penetration rates as well as trends in the Company's market share.

If the carrying amount of the reporting unit exceeds its fair value, goodwill is considered impaired and the second step is performed to measure the amount of impairment loss, if any. No impairment loss has been recognized in the years ended December 31, 2019, 2018 and 2017 as Management's assessment of the fair value of each reporting unit exceeds its carrying value.

Intangible assets with indefinite useful life are considered impaired if the carrying amount of the intangible asset exceeds its fair value. No impairment loss has been recognized in the years ended December 31, 2019, 2018 and 2017.

2. Summary of significant accounting policies (continued)

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 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:

a) *Enhanced Marketplace services:*

- Revenues from intermediation services derived from listing and final value fees paid by sellers. Revenues related to final value fees are recognized at the time that the transaction is successfully concluded.

- Revenues from shipping services are generated when a buyer elects to receive the item through the Company's shipping service and the service is rendered to the customer. When the Company acts as an agent, revenues derived from the shipping services are presented net of the transportation costs charged by third-party carriers and when the Company acts as principal, revenues derived from the shipping services are presented in gross basis. As part of the Company's business strategy, shipping costs may be fully or partially subsidized at the Company's option.

b) *Non-Marketplace services:*

- Revenues from commissions we charge to sellers for transactions off-platform derived from the use of the Company's on-line payments solution, are recognized once the transaction is considered completed, when the payment is processed by the Company, net of rebates granted. The Company also earns revenues as a result of offering financing to its Mercado Pago users, either when the Company finances the transactions directly or when the Company sells the corresponding financial assets to financial institutions. When the Company finances the transactions directly, it recognizes financing revenue ratably over the period of the financing. When the Company sells the corresponding financial assets to financial institutions, the result of such sale is accounted for as financing revenues net of financing costs at the time of transfer of the financial assets.

- Classified advertising services, are recorded as revenue ratably during the listing period. Those fees are charged at the time the listing is uploaded onto the Company's platform and is not subject to successful sale of the items listed.

- Advertising revenues such as the sale of banners are recognized on accrual basis during the average advertising period, and remaining advertising services such as sponsorship of sites and improved search standing are recognized based on "per-click" (which are generated each time users on the Company's websites click through text-based advertisements to an advertiser's designated website) values and as the "impressions" (i.e., the number of times that an advertisement appears in pages viewed by users of the Company's websites) are delivered.

- Revenues from inventory sales are generated when control of the good is transferred to the Company's customers.

- Revenues from interest earned on loans and advances granted to merchants and consumers are recognized over the period of the loan and are based on effective interest rates. The Company places loans on non-accrual status at 90 days past due.

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 the Company's assessment of various factors, including historical experience, the age of the accounts receivable balances, current economic conditions and other factors that may affect its customers' ability to pay. The allowance for doubtful accounts, loans receivable and chargebacks was $38,079 thousands and $23,411 thousands as of December 31, 2019 and 2018, respectively.

2. Summary of significant accounting policies (continued)

Revenue recognition (continued)

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

As of December 31, 2019, total deferred revenue was $16,590 thousands, mainly due to fees related to listing and optional feature services billed and loyalty program points that are expected to be accrued as revenue in the coming months.

Share-based payments

The liability related to the variable portion of the long term retention plans is remeasured at fair value. (See Note 14 “Long Term Retention Plan” for more details).

Sales tax

The Company’s subsidiaries in Brazil, Argentina, Venezuela and Colombia are subject to certain sales taxes which are classified as cost of net revenues and totaled $189,313 thousands, $139,433 thousands and $106,980 thousands for the years ended December 31, 2019, 2018 and 2017, respectively. Venezuelan result have been deconsolidated since December 1, 2017, therefore, 2019 and 2018 results do not include Venezuelan segment results.

Advertising costs

The Company expenses the costs of advertisements in the period during which the advertising space or airtime is used as sales and marketing expense. Internet advertising expenses are recognized based on the terms of the individual agreements, which is generally over the greater of the ratio of the number of clicks delivered over the total number of contracted clicks, on a pay-per-click basis, or on a straight-line basis over the term of the contract.

Comprehensive (loss) income

Comprehensive (loss) income is comprised of two components, net (loss) income and other comprehensive (loss) income. This last component is defined as all other changes in the equity of the Company that result from transactions other than with shareholders. Other comprehensive (loss) income includes the cumulative adjustment relating to the translation of the financial statements of the Company’s foreign subsidiaries, unrealized gains and losses on investments classified as available-for-sale and on hedging activities. Total comprehensive (loss) income for the years ended December 31, 2019, 2018 and 2017 amounted to $(187,093) thousands, $(145,311) thousands and $(9,258) thousands, respectively.

Variable Interest Entities (VIE)

A VIE is an entity (i) that has insufficient equity to permit the entity to finance its activities without additional subordinated financial support, (ii) that 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 20 to these consolidated financial statements for additional detail on the VIEs used for securitization purposes.

2. Summary of significant accounting policies (continued)

Foreign currency translation

All of the Company's foreign operations have determined the local currency to be their functional currency, except for Argentina, which has used the U.S. dollar as its functional currency since July 1, 2018. Accordingly, the foreign subsidiaries with local currency as functional currency translate assets and liabilities from their local currencies into U.S. dollars by using year-end exchange rates while income and expense accounts are translated at the average monthly rates in effect during the year, unless exchange rates fluctuate significantly during the period, in which case the exchange rates at the date of the transaction are used. The resulting translation adjustment is recorded as a component of other comprehensive loss. Gains and losses resulting from transactions denominated in non-functional currencies are recognized in earnings. Net foreign currency transaction results are included in the consolidated financial statements of income under the caption "Foreign currency (losses) gains" and amounted to $(1,732) thousands, $18,240 thousands and $(21,635) thousands for the years ended December 31, 2019, 2018 and 2017, respectively.

Argentine currency status

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

Pursuant to the change in the functional currency, local 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).

During 2019, the Argentine Peso exchange rate increased by 59% against the U.S. dollar to 59.89 Argentine Pesos per U.S. dollar as of December 31, 2019. In a context of local currency volatility, in September 2019 the Argentine government implemented foreign exchange control regulations which implied restrictions to access to foreign exchange market.

Argentina is the second largest principal market of the Company's business, as measured by net revenue (see Note 7 – Segment Reporting). Recently, the economic environment in Argentina has been volatile with weak economic conditions, devaluation of local currency, high interest rates and high level of inflation and indebtedness.

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 which were designated as hedges. 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 in a cash flow hedge is initially reported as a component of accumulated other comprehensive (loss) income 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 which were not designated as hedges. 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.

Leases

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

2. Summary of significant accounting policies (continued)

Leases (continued)

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

Income taxes

The Company is subject to U.S. and foreign income taxes. The Company accounts for income taxes following the liability method of accounting which requires the recognition of deferred tax liabilities and assets for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred tax assets are also recognized for tax loss 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.

Under U.S. GAAP, the Company is allowed to make an accounting policy choice of either (1) treating taxes due on future U.S. inclusions in taxable income related to global intangible low-taxed income (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 was not required to record any impact in connection with the potential GILTI tax as of December 31, 2019 and 2018, respectively.

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

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

As a result of the Company's eligibility under the law, it recorded an income tax benefit of $12,007 thousands, $19,988 thousands and $22,919 thousands during 2019, 2018 and 2017, respectively. Furthermore, the Company recorded a labor cost benefit of $7,970 thousands, $6,801 thousands and $7,605 thousands during 2019, 2018 and 2017. Additionally, $1,398 thousands, $1,875 thousands and $2,137 thousands were accrued to pay software development law audit fees during 2019, 2018 and 2017, respectively. Aggregate per share effect of the Argentine tax holiday amounted to $0.25, $0.45 and $0.52 for the years ended December 31, 2019, 2018 and 2017, respectively.

On June 10, 2019, the Argentine government enacted Law No. 27,506 (knowledge-based economy promotional regime), which established a regime that provides certain tax benefits for companies that meet specific criteria, such as companies that derive at least 70% of their revenues from certain specified activities. Law No. 27,506 allows companies currently benefiting from the software development law, to apply for tax benefits under Law No. 27,506, which will be effective from January 1, 2020 to December 31, 2029. Eligible companies are entitled to i) a 15% corporate income tax rate (instead of the otherwise applicable 30% corporate income tax rate), ii) a freeze on the taxpayer's overall federal tax burden, iii) a reduction in employer social security contributions and iv) a tax credit in the amount of 1.6 times the amount payable as social security contributions. The tax credit may be used to offset federal taxes, such as value-added tax and income tax.

The mentioned regime was suspended on January 20, 2020 through a new resolution issued by Argentina's Ministry of Productive Development until new rules for the application of the knowledge-based economy promotial regime are issued. The Company will analyze whether it will be eligible to benefit from the law and its related tax benefits once the new regulations are issued.

Uncertainty in income taxes

The Company recognizes, if any, uncertainty in income taxes by applying the accounting prescribed by U.S. GAAP, for which a more likely than not recognition threshold and measurement attribute for the financial statement recognition and measurement of an income tax position taken or expected to be taken in a tax return should be considered. It also provides guidance on de-recognition, classification of a liability for unrecognized tax benefits, accounting for interest and penalties, accounting in interim periods and expanded income tax disclosures. The Company classifies interest and penalties, if any, within income taxes expense, in the statement of income.

2. Summary of significant accounting policies (continued)

Uncertainty in income taxes (continued)

The Company is subject to taxation in the U.S. and various foreign jurisdictions. The material jurisdictions that are subject to examination by tax authorities for tax years after 2013 primarily include the U.S., Argentina, Brazil and Mexico.

2.00% Convertible Senior Notes due 2028 – Debt Exchange

On August 24, 2018, the Company issued $800,000 thousands of 2.00% Convertible Senior Notes due 2028 and on August 31, 2018 the Company issued an additional $80,000 thousands of notes pursuant to the partial exercise of the initial purchasers' option to purchase such additional notes, resulting in an aggregate principal amount of $880 million of 2.00% Convertible Senior Notes due 2028 (collectively, the "2028 Notes"). For more detailed information in relation to the 2028 Notes, see Note 15 to these 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, $131,602 thousands of which were exchanged through a private exchange agreement. The Company assessed whether the instruments subject to exchange were substantially different, considering both qualitative (e.g., currency, term, and rate) and quantitative aspects, and 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 recognizes the exchange of the Notes as an extinguishment due to the fact that the instruments subject to exchange are substantially different.

Redeemable Convertible Preferred Stock

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

The Company determined that the shares of Preferred Stock should be classified as mezzanine equity upon their issuance since they are contingently redeemable as explained in Note 21. The Company also determined that there is a beneficial conversion feature of $5,841 thousands attributable to the Preferred Stock because the initial conversion price was lower than the fair value of MercadoLibre's common stock on March 29, 2019 (the commitment date). The beneficial conversion feature was fully amortized at issuance, increasing the Preferred Stock's carrying amount, since the shares of Preferred Stock are perpetual and the holders of Preferred Stock have the right to convert immediately.

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

2. Summary of significant accounting policies (continued)

Recently Adopted Accounting Standards

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

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

The standard had a material impact on the Company's consolidated balance sheets. The most significant impact was the recognition of $118,029 thousands of ROU assets and $119,631 thousands of lease liabilities for operating leases, while the accounting for existing finance leases remains substantially unchanged.

Accounting Pronouncements Not Yet Adopted

On June 16, 2016 the FASB issued the ASU 2016-13 "Financial Instruments-Credit Losses (Topic 326): Measurement of credit losses on financial instruments". This update amends guidance on reporting credit losses for assets held at amortized cost basis and available for sale debt securities. For assets held at amortized cost basis, this update eliminates the probable initial recognition threshold in current GAAP and, instead, requires an entity to reflect its current estimate of all expected credit losses. For available for sale debt securities, credit losses should be measured in a manner similar to current GAAP, however this topic will require that credit losses be presented as an allowance rather than as a write-down. The new standard is effective for fiscal years beginning after December 15, 2019. The Company will adopt the new guidance effective January 1, 2020 and will apply its provisions through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is adopted (modified-retrospective approach). The Company has completed its analysis of the impact of this guidance and the adoption of this standard will not have a material impact on the Company's consolidated 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 adoption of this standard will not have a material impact on the Company's financial statements.

On December 18, 2019 the FASB issued the ASU 2019-12 "Income taxes (Topic 740)—Simplifying the accounting for income taxes". The amendments in this update simplify the accounting for income taxes by removing certain exceptions to the general principles and also improve consistent application by clarifying and amending existing guidance, such as franchise taxes and interim recognition of enactment of tax laws or rate changes. The amendments in this update are effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. The Company is assessing the effects that the adoption of this accounting pronouncement may have on its financial statements.

3. Net (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 year.

On June 30, 2014, the Company issued $330,000 thousands 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 $880,000 thousands of 2.00% Convertible Senior Notes due 2028 (please refer to Note 15 to these consolidated financial statements for discussion regarding these debt notes). Additionaly, on March 29, 2019 the Company issued Preferred stock (see Note 21). The conversion of these debt notes and preferred stock are considered for diluted earnings per share utilizing the "if converted" method, the effect of that conversion 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 years ended on December 31, 2019, 2018 and 2017 does not include any effect from the 2019 Notes Capped Call Transactions or the 2028 Notes Capped Call Transactions (as defined in Note 15) because it would be antidilutive. In the event of conversion of any or all of the 2028 Notes, the shares that would be delivered to the Company under The Capped Call Transactions (as defined in Note 15) are designed to partially neutralize the dilutive effect of the shares that the Company would issue under the Notes.

For the years ended December 31, 2019, 2018 and 2017, the effects of the conversion of the Notes and the redeemable convertible preferred stock on diluted earnings per share were antidilutive and, as a consequence, they were not computed for diluted earnings per share.

Net (loss) income per share of common stock is as follows for the years ended December 31, 2019, 2018 and 2017:

	Year Ended December 31, (In thousands)					
	2019		2018		2017	
	Basic	Diluted	Basic	Diluted	Basic	Diluted
Net (loss) income per common share	$ (3.71)	$ (3.71)	$ (0.82)	$ (0.82)	$ 0.31	$ 0.31
Numerator:						
Net (loss) income	$ (171,999)	$ (171,999)	$ (36,585)	$ (36,585)	$ 13,780	$ 13,780
Amortization of redeemable convertible preferred stock	(5,841)	(5,841)	—	—	—	—
Dividends on preferred stock	(3,000)	(3,000)	—	—	—	—
Net loss corresponding to common stock	$ (180,840)	$ (180,840)	$ (36,585)	$ (36,585)	$ 13,780	$ 13,780
Denominator:						
Weighted average of common stock outstanding for Basic earnings per share	48,692,906	—	44,529,614	—	44,157,364	—
Adjusted weighted average of common stock outstanding for Diluted earnings per share	—	48,692,906	—	44,529,614	—	44,157,364

4. Short-term and long-term investments

The composition of short-term and long-term investments is as follows:

	December 31, 2019	December 31, 2018
	(In thousands)	
Short-term investments		
Time Deposits	$ 189,660	$ 20,056
Sovereign Debt Securities (Central Bank of Brazil mandatory guarantee)	506,175	284,317
Sovereign Debt Securities (*)	901,343	157,147
Corporate Debt Securities	63	21
Total	$ 1,597,241	$ 461,541
Long-term investments		
Sovereign Debt Securities	$ 260,320	$ 272,455
Corporate Debt Securities	173	241
Others Investments	3,490	3,440
Total	$ 263,983	$ 276,136

(*) $16,623 thousands held by the Company's Argentine subsidiary in guarantee for secured lines of credit. (See Note 15 – Loans payable and other financial liabilities).

Unrealized gains of available-for-sale securities, net of tax, were $1,592 thousands, $2,729 thousands and $796 thousands for the years ended December 31, 2019, 2018 and 2017, respectively.

As of December 31, 2019 and 2018, the Company has no securities considered held-to-maturity.

Sovereign Debt Securities (Central Bank of Brazil mandatory guarantee)

On November 1, 2018, the Company obtained approval from the Central Bank of Brazil to operate as an authorized payment institution. With this authorization, Mercado Pago in Brazil is subject to the supervision of the Central Bank of Brazil and must fully comply with all obligations established by current regulations. Among other obligations, the regulations require authorized payment institutions to hold any electronic balance in a payment institution account in either a specific account of the Central Bank of Brazil that does not pay interest or Brazilian federal government bonds registered with the "Sistema Especial de Liquidacao e Custodia." The percentage of electronic funds that were required to be deposited was 100% and 80% as of December 31, 2019 and 2018, respectively. As of December 31, 2019 and 2018, in accordance with the regulation, the Company held $506,175 thousands and $284,317 thousands deposited in Brazilian federal government bonds, respectively, as a mandatory guarantee.

5. Balance sheet components

	December 31, 2019	December 31, 2018
	(In thousands)	
Accounts receivable, net:		
Users	$ 27,340	$ 32,148
Advertising	9,452	7,061
Others debtors	4,979	4,646
	41,771	43,855
Allowance for doubtful accounts	(6,325)	(8,702)
	$ 35,446	$ 35,153

	December 31, 2019	December 31, 2018
	(In thousands)	
Credit cards receivable, net		
Credit cards and other means of payments	$ 391,279	$ 368,371
Allowance for chargebacks	(11,310)	(8,073)
	$ 379,969	$ 360,298

	December 31, 2019	December 31, 2018
	(In thousands)	
Current loans receivable, net		
Loans receivable	$ 202,489	$ 102,414
Allowance for uncollectible accounts	(20,384)	(6,636)
	$ 182,105	$ 95,778

	December 31, 2019	December 31, 2018
	(In thousands)	
Non current loans receivable, net		
Loans receivable	$ 6,499	$ —
Allowance for uncollectible accounts	(60)	—
	$ 6,439	$ —

	December 31, 2019	December 31, 2018
	(In thousands)	
Current other assets:		
VAT credits	$ 16,997	$ 19,656
Income tax credits	57,844	26,304
Sales tax	442	5,307
Other	13,453	10,302
	$ 88,736	$ 61,569

5. Balance sheet components (continued)

	December 31, 2019	December 31, 2018
	(In thousands)	
Non current other assets:		
Judicial deposits	51,364	32,421
Other	6,877	5,323
	$ 58,241	$ 37,744

	Estimated useful life (years)	December 31, 2019	December 31, 2018
		(In thousands)	
Property and equipment, net:			
Equipment	3-5	$ 83,961	$ 68,526
Land & Building	50 (1)	80,832	68,607
Furniture and fixtures	3-5	83,810	20,732
Software	3	179,211	139,611
Cars	3	4,442	—
		432,256	297,476
Accumulated depreciation		(187,999)	(131,862)
		$ 244,257	$ 165,614

(1) Estimated useful life attributable to "Buildings".

	Year Ended December 31, 2019	2018	2017
	(In thousands)		
Depreciation and amortization:			
Cost of net revenues	$ 8,873	$ 4,332	$ 3,737
Product and technology development	40,920	31,852	29,092
Sales and marketing	2,076	1,643	2,071
General and administrative	7,517	7,965	6,021
	$ 59,386	$ 45,792	$ 40,921

	December 31, 2019	December 31, 2018
	(In thousands)	
Accounts payable and accrued expenses:		
Accounts payable	$ 331,140	$ 243,307
Accrued expenses		
Advertising	33,118	16,083
Buyer protection program provision	3,808	4,146
Professional fees	2,485	1,242
Other expense provisions	1,758	1,888
Other current liabilities	—	93
	$ 372,309	$ 266,759

5. Balance sheet components (continued)

	December 31, 2019	December 31, 2018
	(In thousands)	
Current other liabilities:		
Advanced Collections	$ 81,045	$ 20,465
Deferred revenue	16,590	5,918
Provisions and contingencies	5,123	5,992
Contingent considerations and escrows from acquisitions	792	1,124
Customer advances	9,621	—
Other	1,298	599
	$ 114,469	$ 34,098

	December 31, 2019	December 31, 2018
	(In thousands)	
Non current other liabilities:		
Provisions and contingencies	$ 7,972	$ 12,591
Contingent considerations and escrows from acquisitions	4,470	4,942
Other	185	1,975
	$ 12,627	$ 19,508

	December 31, 2019	December 31, 2018	December 31, 2017
		(In thousands)	
Accumulated other comprehensive loss:			
Foreign currency translation	$ (408,099)	$ (394,306)	$ (283,647)
Unrealized gains on investments	2,029	3,345	1,211
Estimated tax loss on unrealized gains	(351)	(616)	(415)
Unrealized losses on hedging activities	(250)	—	—
	$ (406,671)	$ (391,577)	$ (282,851)

5. Balance sheet components (continued)

The following table summarizes the changes in accumulated balances of other comprehensive loss for the year December 31, 2019:

	Unrealized (Loss) Gains on hedging activities, net	Unrealized (Losses) Gains on Investments	Foreign Currency Translation	Estimated tax (expense) benefit	Total 2019	Total 2018
				(In thousands)		
Balances as of December 31, 2018	$ —	$ 3,345	$ (394,306)	$ (616)	$ (391,577)	$ (282,851)
Other comprehensive (loss) income before reclassifications	(250)	2,029	(13,793)	(351)	(12,365)	(106,397)
Amount of (gain) loss reclassified from accumulated other comprehensive (loss) income	—	(3,345)	—	616	(2,729)	(2,329)
Net current period other comprehensive (loss) income	(250)	(1,316)	(13,793)	265	(15,094)	(108,726)
Ending balance	$ (250)	$ 2,029	$ (408,099)	$ (351)	$ (406,671)	$ (391,577)

The following table provides details about reclassifications out of accumulated other comprehensive loss for the year ended December 31, 2019:

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

6. Business combinations, goodwill and intangible assets

Business combinations

Acquisition of a software development company in Argentina

In October 2018, the Company, through its subsidiaries Meli Participaciones S.L. and Marketplace Investment LLC, completed the acquisition of 100% of the equity interest of Kaitzen S.A. and Kinexo S.A. (K&K), which are software development companies located and organized under the laws of Argentina. The objective of the acquisition was to enhance the capabilities of the Company in terms of software development.

The aggregate purchase price for the acquisition was $4,053 thousands, measured at its fair value amount, which included: (i) the total cash payment of $2,136 thousands at the time of closing; (ii) an escrow of $1,051 thousands and (iii) a contingent additional cash consideration up to $866 thousands.

The Company's consolidated statement of income includes the results of operations of the acquired business as from October 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 $419 thousands for the year ended December 31, 2018.

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:

	K&K In thousands of U.S. dollars	
Cash and cash equivalents	$	222
Other net tangible liabilities		(6)
Total net tangible assets acquired		216
Customer lists		375
Trademark		721
Non-solicitation and Non-compete agreements		698
Goodwill		2,043
Purchase Price	$	4,053

The purchase price was allocated based on the measurement of the fair value of assets acquired and liabilities assumed considering the information available as of the initial accounting date. 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 $1,794 thousands. Management of the Company estimates that customer lists, trademark and non-compete agreements will be amortized over a three years period, while non-solicitation agreements will be amortized over a five years period.

The Company recognized goodwill for this acquisition based on Management's expectation that the acquired business will improve the Company's business. Arising goodwill was allocated to the Argentinean segment identified by the Company's Management, considering the synergies expected from this acquisition and it is expected that the acquiree will contribute to the earnings generation process of such segment. Goodwill arising from this acquisition is 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 Company's consolidated statements of income and, accordingly, pro forma information has not been presented.

Acquisition of a machine learning company in Argentina

In September 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.

6. Business combinations, goodwill and intangible assets (continued)

Business combinations (continued)

Acquisition of a machine learning company in Argentina (continued)

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 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 $113 thousands for the year ended December 31, 2018.

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 measurement of the fair value of assets acquired and liabilities assumed considering the information available as of the initial accounting date. 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 years period, while non-solicitation agreements will be amortized over a five years 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 Company's consolidated statements of income and, accordingly, pro forma information has not been presented.

6. Business combinations, goodwill and intangible assets (continued)

Goodwill and intangible assets

The composition of goodwill and intangible assets is as follows:

	December 31, 2019	December 31, 2018
	(In thousands)	
Goodwill	$ 87,609	$ 88,883
Intangible assets with indefinite lives		
- Trademarks	8,366	8,584
Amortizable intangible assets		
- Licenses and others	5,320	5,406
- Non-compete agreement	2,703	3,028
- Customer list	13,900	14,897
- Trademarks	4,723	4,565
Total intangible assets	$ 35,012	$ 36,480
Accumulated amortization	(20,737)	(17,899)
Total intangible assets, net	$ 14,275	$ 18,581

6. **Business combinations, goodwill and intangible assets (continued)**

Goodwill

The changes in the carrying amount of goodwill for the years ended December 31, 2019 and 2018 are as follows:

	Year ended December 31, 2019						
	Brazil	Argentina	Mexico	Chile	Colombia	Other Countries	Total
	(In thousands)						
Balance, beginning of the period	$ 30,069	$ 6,946	$ 31,340	$ 16,014	$ 3,339	$ 1,175	$ 88,883
- Purchase price allocations adjustments	—	45	—	—	—	—	45
- Effect of exchange rates changes	(997)	—	856	(1,142)	(27)	(9)	(1,319)
Balance, end of the year	$ 29,072	$ 6,991	$ 32,196	$ 14,872	$ 3,312	$ 1,166	$ 87,609

	Year ended December 31, 2018						
	Brazil	Argentina	Mexico	Chile	Colombia	Other Countries	Total
	(In thousands)						
Balance, beginning of the year	$ 32,492	$ 5,761	$ 30,396	$ 18,805	$ 3,632	$ 1,193	$ 92,279
- Business acquisitions	3,110	3,175	543	61	80	53	7,022
- Effect of exchange rates changes	(5,533)	(1,990)	401	(2,852)	(373)	(71)	(10,418)
Balance, end of the year	$ 30,069	$ 6,946	$ 31,340	$ 16,014	$ 3,339	$ 1,175	$ 88,883

6. Business combinations, goodwill and intangible assets (continued)

Intangible assets with definite useful life

Intangible assets with definite useful life are comprised of customer lists and user base, non-compete and non-solicitation agreements, acquired software licenses and other acquired intangible assets including developed technologies and trademarks. Aggregate amortization expense for intangible assets totaled $3,912 thousands, $6,102 thousands and $4,402 thousands for the years ended December 31, 2019, 2018 and 2017, respectively.

The following table summarizes the remaining amortization of intangible assets with definite useful life as of December 31, 2019:

For year ended 12/31/2020	$	2,435
For year ended 12/31/2021		1,737
For year ended 12/31/2022		965
For year ended 12/31/2023		580
Thereafter		192
	$	5,909

7. Segments

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

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

Direct contribution consists of net revenues from external customers less direct costs and includes any impairment of long lived assets and the impact of deconsolidation of Venezuela (excluding intercompany balances write-down). Direct costs include specific 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.

7. Segments (continued)

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

	Year Ended December 31, 2019				
	Brazil	Argentina	Mexico	Other Countries	Total
	(In thousands)				
Net revenues	$ 1,461,509	$ 456,332	$ 275,133	$ 103,340	$ 2,296,314
Direct costs	(1,245,382)	(347,733)	(390,158)	(104,975)	(2,088,248)
Direct contribution	216,127	108,599	(115,025)	(1,635)	208,066
Operating expenses and indirect costs of net revenues					(361,227)
Loss from operations					(153,161)
Other income (expenses):					
Interest income and other financial gains					113,523
Interest expense and other financial losses					(65,876)
Foreign currency losses					(1,732)
Net loss before income tax expense					$ (107,246)

	Year Ended December 31, 2018				
	Brazil	Argentina	Mexico	Other Countries	Total
	(In thousands)				
Net revenues	$ 866,175	$ 376,563	$ 109,096	$ 87,819	$ 1,439,653
Direct costs	(762,636)	(254,539)	(164,637)	(79,581)	(1,261,393)
Direct contribution	103,539	122,024	(55,541)	8,238	178,260
Operating expenses and indirect costs of net revenues					(247,742)
Loss from operations					(69,482)
Other income (expenses):					
Interest income and other financial gains					42,039
Interest expense and other financial losses					(56,249)
Foreign currency gains					18,240
Net loss before income tax gain					$ (65,452)

7. Segments (continued)

	Year Ended December 31, 2017					
	Brazil	Argentina	Mexico	Venezuela (*)	Other Countries	Total
	(In thousands)					
Net revenues	$ 690,808	$ 359,357	$ 51,335	$ 54,327	$ 60,715	$ 1,216,542
Direct costs	(471,588)	(215,831)	(107,408)	(22,101)	(53,201)	(870,129)
Impairment of Long-lived Assets	-	-	-	(2,837)	-	(2,837)
Loss on deconsolidation of Venezuelan subsidiary	-	-	-	(76,617)	-	(76,617)
Direct contribution	219,220	143,526	(56,073)	(47,228)	7,514	266,959
Operating expenses and indirect costs of net revenues						(201,542)
Loss on Deconsolidation of Venezuelan's Intercompany balances						(9,144)
Income from operations						56,273
Other income (expenses):						
Interest income and other financial gains						45,901
Interest expense and other financial losses						(26,469)
Foreign currency losses						(21,635)
Net income before income tax expense						$ 54,070

(*)Excludes results of operations for Venezuela for the month of December 2017. Please refer to Note 2 of these audited consolidated financial statements for additional detail.

The following table summarizes the allocation of the long-lived tangible assets based on geography:

	December 31, 2019	December 31, 2018
	(In thousands)	
US property and equipment, net	$ 937	$ 2,959
Other countries		
Argentina	100,536	58,358
Brazil	103,571	78,227
Mexico	30,131	16,497
Other countries	9,082	9,573
	$ 243,320	$ 162,655
Total property and equipment, net	$ 244,257	$ 165,614

7. Segments (continued)

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

	December 31, 2019	December 31, 2018
	(In thousands)	
US intangible assets	$ —	$ 46
Other countries goodwill and intangible assets		
Argentina	8,632	9,050
Brazil	30,142	32,955
Mexico	36,003	35,993
Chile	22,237	24,638
Other countries	4,870	4,782
	$ 101,884	$ 107,418
Total goodwill and intangible assets	$ 101,884	$ 107,464

Consolidated net revenues by similar products and services for the years ended December 31, 2019, 2018 and 2017 were as follows:

Consolidated Net Revenues	2019	2018	2017
		(In thousands)	
Enhanced Marketplace (*)	$ 1,199,166	$ 702,379	$ 737,465
Non-marketplace (**)(***)	$ 1,097,148	$ 737,274	$ 479,077
Total	$ 2,296,314	$ 1,439,653	$ 1,216,542

(*) Includes Final Value Fees and Shipping fees.
(**) Includes, among other things, Ad Sales, Classified Fees, Payment Fees and other ancillary services.
(***) Includes an amount of $949,869 thousands, $601,021 thousands and $356,417 thousands of Payment Fees for the year ended December 31, 2019, 2018 and 2017, respectively.

8. 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 December 31, 2019 and 2018:

Description	Balances as of December 31, 2019	Quoted Prices in active markets for identical Assets (Level 1)	Significant other observable inputs (Level 2)	Unobservable inputs (Level 3)	Balances as of December 31, 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	$ 688,760	$ 688,760	$ —	$ —	$ 179,252	$ 179,252	$ —	$ —
Sovereign Debt Securities	32,874	32,874	—	—	—	—	—	—
Restricted Cash and Cash Equivalents:								
Money Market Funds	32,829	32,829	—	—	24,363	24,363	—	—
Sovereign Debt Securities	29,260	29,260	—	—	—	—	—	—
Investments:								
Sovereign Debt Securities (Central Bank of Brazil mandatory guarantee)	506,175	506,175	—	—	284,317	284,317	—	—
Sovereign Debt Securities	1,161,663	1,161,663	—	—	429,602	429,602	—	—
Corporate Debt Securities	236	178	58	—	262	237	25	—
Other Assets:					—	—	—	—
Derivative Instruments	1,249	—	—	1,249	—	—	—	—
Total Financial Assets	$ 2,453,046	$ 2,451,739	$ 58	$ 1,249	$ 917,796	$ 917,771	$ 25	$ —
Liabilities:								
Contingent considerations	$ 2,201	$ —	$ —	$ 2,201	$ 2,097	$ —	$ —	$ 2,097
Long-term retention plan	60,958	—	60,958	—	42,625	—	42,625	—
Derivative Instruments	251	—	—	251	—	—	—	—
Total Financial Liabilities	$ 63,410	$ —	$ 60,958	$ 2,452	$ 44,722	$ —	$ 42,625	$ 2,097

As of December 31, 2019 and 2018, the Company's financial assets valued at fair value consisted of assets valued using i) Level 1 inputs: unadjusted quoted prices in active markets (Level 1 instrument valuations are obtained from observable inputs that reflect quoted prices (unadjusted) for identical assets in active markets); ii) Level 2 inputs: obtained from readily-available pricing sources for comparable instruments as well as instruments with inactive markets at the measurement date; and iii) Level 3 inputs: valuations based on unobservable inputs reflecting Company assumptions. Fair value of derivative instruments are determined considering the prevailing risk free interest rate and spot exchange rate.

8. Fair value measurement of assets and liabilities (continued)

As of December 31, 2019 and 2018, the Company's liabilities were valued at fair value using level 2 inputs and level 3 inputs (valuations based on unobservable inputs reflecting Company own assumptions). Fair value of contingent considerations are determined based on the probability of achievement of the performance targets arising from each acquisition, as well as the Company's historical experience with similar arrangements. For the year ended December 31, 2019, the Company assumed contingent considerations for an amount of $2,201 thousands.

The unrealized net gains or losses on short-term and long-term investments for which the Company has not elected the fair value option 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 December 31, 2019 and 2018, the carrying value of the Company's financial assets and liabilities measured at amortized cost approximated their fair value mainly because of its short term maturity. These assets and liabilities included cash, cash equivalents, restricted cash and cash equivalents and short-term investments (excluding money markets funds and debt securities), 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 consideration and derivative instruments). As of December 31, 2019 the estimated fair value of the 2028 Notes (liability component), which is based on Level 2 inputs, is $686,366 thousands and was determined based on market interest rates. As of December 31, 2018, the carrying values of the 2019 Notes (liability component) and the 2028 Notes (liability component) approximated their fair value because the discount rates used for the initial accouting were not materially different from market interest rates. The rest of the loans payable and other financial liabilities approximate their fair value because the interest rates are not materially different from market interest rates.

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

	Balances as of December 31, 2019	Significant other observable inputs (Level 2)	Balances as of December 31, 2018	Significant other observable inputs (Level 2)
	(In thousands)			
Assets				
Time Deposits	$ 189,660	189,660	$ 20,056	$ 20,056
Accounts receivable, net	35,446	35,446	35,153	35,153
Credit Cards receivable, net	379,969	379,969	360,298	360,298
Loans receivable, net	188,544	188,544	95,778	95,778
Other assets	149,218	149,218	102,753	102,753
Total Assets	$ 942,837	$ 942,837	$ 614,038	$ 614,038
Liabilities				
Accounts payable and accrued expenses	$ 372,309	$ 372,309	$ 266,759	$ 266,759
Funds payable to customers	894,057	894,057	640,954	640,954
Salaries and social security payable	67,686	67,686	40,942	40,942
Taxes payable	60,247	60,247	31,058	31,058
Loans payable and other financial liabilities (*)	817,491	927,903	735,177	735,177
Other liabilities	124,644	124,644	51,509	51,509
Total Liabilities	$ 2,336,434	$ 2,446,846	$ 1,766,399	$ 1,766,399

(*) The fair value of the 2028 Notes (including the equity component) is disclosed in Note 15.

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

8. Fair value measurement of assets and liabilities (continued)

As of December 31, 2019 and 2018, the fair value of money market funds, sovereign and corporate debt securities classified as available for sale securities are as follows:

	December 31, 2019					
	Cost	Gross Unrealized Gains (1)	Gross Unrealized Losses (1)	Financial Gains	Financial Losses	Estimated Fair Value
	(In thousands)					
Cash and cash equivalents						
Money Market Funds	$ 688,760	$ —	$ —	$ —	$ —	$ 688,760
Sovereign Debt Securities	$ 32,851	$ —	$ —	$ 23	$ —	$ 32,874
Total Cash and cash equivalents	$ 721,611	$ —	$ —	$ 23	$ —	$ 721,634
Restricted Cash and cash equivalents						
Money Market Funds	$ 32,829	$ —	$ —	$ —	$ —	$ 32,829
Sovereign Debt Securities (2)	29,227	—	—	33	—	29,260
Total Restricted Cash and cash equivalents	$ 62,056	$ —	$ —	$ 33	$ —	$ 62,089
Short-term investments						
Sovereign Debt Securities (Central Bank of Brazil mandatory guarantee) (3)	$ 504,195	$ —	$ —	$ 1,980	$ —	$ 506,175
Sovereign Debt Securities (4)	898,922	2,080	—	400	(59)	901,343
Corporate Debt Securities	63	—	—	—	—	63
Total Short-term investments	$ 1,403,180	$ 2,080	$ —	$ 2,380	$ (59)	$ 1,407,581
Long-term investments						
Sovereign Debt Securities (5)	$ 260,400	$ 2	$ —	$ 1	$ (83)	$ 260,320
Corporate Debt Securities	170	3	—	—	—	173
Total Long-term investments	$ 260,570	$ 5	$ —	$ 1	$ (83)	$ 260,493
Total	$ 2,447,417	$ 2,085	$ —	$ 2,437	$ (142)	$ 2,451,797

(1) Unrealized gains 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 December 31, 2019.

(2) Held by the Company's Argentine subsidiary in guarantee for secured lines of credit. (See Note 15 – Loans payable and other financial liabilities).

(3) Brazilian government bonds measured at fair value with impact on the consolidated statement of income for the application of the fair value option. (See Note 2 – Investments - Fair value option applied to certain financial instruments).

(4) Includes $627,842 thousands of U.S treasury notes measured at fair value with impact on the consolidated statement of income for the application of the fair value option (See Note 2 – Investments - Fair value option applied to certain financial instruments) and $16,623 thousands held by the Company's Argentine subsidiary in guarantee for secured lines of credit. (See Note 15 – Loans payable and other financial liabilities).

(5) Includes $260,230 thousands of U.S treasury notes measured at fair value with impact on the consolidated statement of income for the application of the fair value option (See Note 2 –Investments - Fair value option applied to certain financial instruments).

8. Fair value measurement of assets and liabilities (continued)

	December 31, 2018			
	Cost	Gross Unrealized Gains (1)	Gross Unrealized Losses (1)	Estimated Fair Value
	(In thousands)			
Cash and cash equivalents				
Money Market Funds	$ 179,252	$ —	$ —	$ 179,252
Total Cash and cash equivalents	$ 179,252	$ —	$ —	$ 179,252
Restricted Cash and cash equivalents				
Money Market Funds	$ 24,363	$ —	$ —	$ 24,363
Total Restricted Cash and cash equivalents	$ 24,363	$ —	$ —	$ 24,363
Short-term investments				
Sovereign Debt Securities (Central Bank of Brazil mandatory guarantee) (2)	$ 282,752	$ 1,565	$ —	$ 284,317
Sovereign Debt Securities	156,910	237	—	157,147
Corporate Debt Securities	21	—	—	21
Total Short-term investments	$ 439,683	$ 1,802	$ —	$ 441,485
Long-term investments				
Sovereign Debt Securities	$ 271,024	$ 1,431	$ —	$ 272,455
Corporate Debt Securities	244	—	(3)	241
Total Long-term investments	$ 271,268	$ 1,431	$ (3)	$ 272,696
Total	$ 914,566	$ 3,233	$ (3)	$ 917,796

(1) Unrealized gains (losses) from securities are attributable to market price movements, net foreign exchange losses and foreign currency translation. Management does not believe any remaining significant unrealized losses represent other-than-temporary impairments based on the evaluation of available evidence including the credit rating of the investments, as of December 31, 2018.
(2) Brazilian government bonds measured at fair value with impact on the consolidated statement of income for the application of the fair value option. (See Note 2 – Investments - Fair value option applied to certain financial instruments.)

The material portion of the Sovereign Debt Securities are U.S. Treasury Notes and Brazilian federal government bonds with no significant risk associated.

As of December 31, 2019, the estimated fair values (in thousands of U.S. dollars) of money market funds, sovereign and corporate debt securities classified by its effective maturities or Management expectation to convert the investments into cash are as follows:

One year or less	2,191,304
One year to two years	260,284
Two years to three years	67
Three years to four years	121
Four years to five years	21
Total	$ 2,451,797

9. Common stock

Authorized, issued and outstanding shares

As of December 31, 2019 and 2018, as stated in the Company's Fourth Amended and Restated Certificate of Incorporation (the "Fourth Amended Certificate of Incorporation"), the Company has authorized 110,000,000 shares of Common Stock, par value $0.001 per share (" Common Stock ").

As of December 31, 2019 and 2018, there were 49,709,955 and 45,202,859 shares of common stock issued and outstanding with a par value of $0.001 per share.

Voting rights

Each outstanding share of common stock, is entitled to one vote on all matters submitted to a vote of holders of common stock, except for stockholders that beneficially own more than 20% of the shares of the outstanding common stock, in which case the board of directors (the "Board") may declare that any shares of stock above such 20% do not have voting rights. The holders of common stock do not have cumulative voting rights in the election of directors.

10. Mandatorily redeemable convertible preferred stock

Pursuant to the Fourth Amended Certificate of Incorporation, the Company authorized preferred stock consisting of 40,000,000 shares of preferred stock, par value $0.001 per share. As of December 31, 2019, the Company has 100,000 shares of preferred stock issued and outstanding.

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

11. Equity compensation plan and restricted shares

On June 10, 2019, at the Annual Shareholders' Meeting, the Company's shareholders approved the adoption of the Amended and Restated 2009 Equity Compensation Plan (the "Amended and Restated 2009 Plan"), which contains terms substantially similar to the terms of the "2009 Equity Compensation Plan" (the "2009 Plan") that expired in 2019. As of December 31, 2019, there are 1,000,000 shares of common stock available for grant under the Amended and Restated 2009 Plan.

Equity compensation awards granted under the Amended and Restated 2009 Plan are at the discretion of the Company's board of directors and may be in the form of either incentive or nonqualified stock options. As of December 31, 2019, there are no outstanding options granted under the Plan.

There was no granting during the period from January 1, 2007 to December 31, 2019.

12. Income taxes

The components of pretax (loss) income in consolidated companies for the years ended December 31, 2019, 2018 and 2017 are as follows:

	Year Ended December 31,		
	2019	2018	2017
		(In thousands)	
United States	$ 2,900	$ (19,461)	$ (29,895)
Brazil	25,693	(38,778)	104,641
Argentina	61,217	107,913	132,913
Mexico	(168,310)	(91,681)	(78,778)
Venezuela(*)	—	—	(8,890)
Other Countries(**)	(28,746)	(23,445)	(65,921)
	$ (107,246)	**$ (65,452)**	**$ 54,070**

(*) In 2017, corresponds to the pretax loss for the eleven-month period until deconsolidation occurred (Note 2).
(**) In 2017, includes $58,179 thousands of impairment from deconsolidation of Venezuelan subsidiaries reported by a holding subsidiary incorporated in Spain.

Income tax is composed of the following:

	Year Ended December 31,		
	2019	2018	2017
		(In thousands)	
Income Tax:			
Current:			
U.S.	$ 8,705	$ (10)	$ 22
Non-U.S.	39,595	64,028	64,843
	48,300	**64,018**	**64,865**
Deferred:			
U.S.	(13,566)	(3,618)	1,827
Non-U.S.	30,019	(89,267)	(26,402)
	16,453	**(92,885)**	**(24,575)**
Income tax expense (gain)	**64,753**	**(28,867)**	**40,290**

12. Income taxes (continued)

The following is a reconciliation of the difference between the actual provision for income taxes and the provision computed by applying the effective income tax rate for 2019, 2018 and 2017 to income before taxes:

	Year Ended December 31,		
	2019	2018	2017
	(In thousands)		
Net (loss) income before income tax	$ (107,246)	$ (65,452)	$ 54,070
Income tax rate	21%	21%	35%
Expected income tax gain (expense)	$ (22,522)	$ (13,745)	$ 18,925
Permanent differences:			
Federal and assets taxes	203	7	14
Transfer pricing adjustments	1,161	1,818	1,634
Non-deductible tax	683	1,043	800
Non-deductible expenses	9,309	6,982	5,704
Loss on deconsolidation of Venezuelan subsidiaries	—	—	21,006
Dividend distributions	2,594	1,085	5,342
Impairment of Venezuela property and equipment	—	—	888
Non-taxable income **(*)**	(15,418)	(31,562)	(27,602)
Effect of rates different than statutory	(11,521)	3,020	10,039
Currency translation	(4,201)	3,866	(202)
Change in valuation allowance	113,426	3,130	14,040
Reversal of outside basis dividends	—	—	(12,097)
Argentine tax reform (including changes in income tax rate)	(2,175)	1,217	1,828
U.S. tax reform	—	—	(840)
Colombian tax reform	—	442	—
Deferred tax reversed by merger	—	(3,994)	—
Exchange of convertible note	—	(1,756)	—
Tax Inflation Adjustments	(4,940)	—	—
Deferred tax reversed by spin-off	(886)	—	—
True up	(960)	(420)	811
Income tax expense (gain)	**$ 64,753**	**$ (28,867)**	**$ 40,290**

(*) Includes Argentine Tax holiday described in Note 2 “Income taxes”

12. Income taxes (continued)

Deferred tax assets and liabilities are recognized for the future tax consequences of differences between the carrying amounts of assets and liabilities and their respective tax bases using enacted tax rates in effect for the year in which the differences are expected to reverse. The following table summarizes the composition of deferred tax assets and liabilities for the years ended December 31, 2019 and 2018:

	December 31, 2019	December 31, 2018
	(In thousands)	
Deferred tax assets		
Allowance for doubtful accounts	$ 7,601	$ 8,191
Unrealized net gains on investments	92	—
Property and equipment, net	5,467	4,472
Accounts payable and accrued expenses	2,202	2,324
Payroll and social security payable	10,255	6,374
Foreign exchange effect	1,846	1,233
Taxes payable	984	781
Non compete agreement	155	114
Provisions and non-deductible interest	40,593	9,901
Foreign tax credit	12,841	11,207
Tax loss carryforwards	167,420	112,565
Customer Lists	220	—
Trademarks	24	—
Tax inflation adjustments	6,757	—
Total deferred tax assets	256,457	157,162
Valuation allowance	(138,875)	(15,724)
Total deferred tax assets, net	117,582	141,438
Deferred tax liabilities		
Property and equipment, net	(26,761)	(17,265)
Customer lists	(1,043)	(1,296)
Non compete agreement	—	(100)
Unrealized net losses on investments	(1,160)	(462)
Trademarks	(87)	(1,074)
Goodwill	(4,392)	(3,199)
Convertible notes and Capped Call	(63,258)	(68,302)
Accounts payable and accrued expenses	(1,914)	—
Payroll and social security payable	(313)	—
Provisions	(884)	—
Non Solicitation Agreement	(137)	—
Foreign exchange effect	(3)	—
Total deferred tax liabilities	$ (99,952)	$ (91,698)

As of December 31, 2019, consolidated loss carryforwards for income tax purposes were $167,420 thousands. If not utilized, tax loss carryforwards will begin to expire as follows:

2023	$ 1,545
2024	5
2025	1,792
2026	4,331
2027	21,556
Thereafter	82,749
Without due dates	55,442
Total	$ 167,420

12. Income taxes (continued)

Tax reform in Argentina

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

In addition, in September 2018, the Argentine Government issued the Decree 793/2018 which established a temporary withholding on exports of 12% with a maximum limit of 4 Argentine Pesos per each US dollar of the amount of the export invoice. This withholding on exports is applicable for exports of years 2019 and 2020.

On December 23, 2019 the Argentine congress enacted a law which maintains corporate income tax rate of 30% for two more years, instead of reducing the rate to 25% as established under the previous law. The law also maintains the dividend withholding tax rate of 7% for two more years for profits accrued during fiscal year starting on January 1, 2020, instead of applying the 13% rate as previously established. In regard to withholding on exports, the new law reduced the percentage from 12% (considering the mentioned limit, the effective tax rate was equivalent to 6.7% as of December 31, 2019) to 5% without limit and extended the application of withholdings on exports until December 31, 2021.

Valuation allowances on deferred tax assets

Management periodically assesses the need to establish a valuation allowance for deferred tax assets considering positive and negative objective evidence related to the realization of the deferred tax assets. Management's judgments related to this assessment consider, among other factors, the nature, frequency and magnitude of current and cumulative losses on an individual subsidiary basis, projections of future taxable income, the duration of statutory carryforward periods, as well as feasible tax planning strategies, which would be employed by the Company to prevent tax loss carryforwards from expiring unutilized. Based on Management's assessment of available objective evidence, the Company accounted for a valuation allowance on deferred tax assets of $138,875 thousands and $15,724 thousands as of December 31, 2019 and 2018, respectively. This valuation allowance includes $12,841 thousands and $11,207 thousands to fully reserve the outstanding U.S. foreign tax credits as of December 31, 2019 and 2018, respectively.

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

13. 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 December 31, 2019, the Company had accounted for estimated liabilities involving proceeding-related contingencies and other estimated contingencies of $7,972 thousands to cover legal actions against the Company in which its Management has assessed the likelihood of a final adverse outcome as probable. Expected legal costs related to litigations are accrued when the legal service is actually provided. In addition, as of December 31, 2019, the Company and its subsidiaries are subject to certain legal actions considered by the Company's Management and its legal counsels to be reasonably possible for an aggregate amount up to $19,326 thousands. No loss amounts have been accrued for such reasonably possible legal actions, the most significant of which are described below.

13. Commitments and Contingencies (continued)

Litigation and Other Legal Matters (continued)

Tax Claims

On September 2, 2011, the Brazilian Federal tax authority asserted taxes and fines against the Brazilian subsidiary, Mercadolivre.com, relating to the income tax for the 2006 period in an approximate amount of $ 0.6 million according to the exchange rate in effect as of December 31, 2019. On September 30, 2011, the Company presented administrative defenses against the authorities' claim. On August 24, 2012, the Company presented its appeal to the Board of Tax Appeals (CARF—Conselho Administrativo de Recursos Fiscais) against the tax authorities' claims. On December 5, 2013, the Board of Tax Appeals ruled against MercadoLivre's appeal. The same Board of Tax Appeals recognized as due part of the tax compensation made by the Company, partially decreasing the outstanding debt. On November 21, 2014, the Company appealed to the Board of Tax Appeals, which rejected the appeal on September 8, 2016. The Company filed an appeal against the decision, and the Câmara Superior de Recursos Fiscais (Superior Administrative Court of Tax Appeals) ruled against the Company to uphold the claimed taxes and fines. This decision marked the end of the administrative stage. On July 28, 2017, the Company filed an annulment court action against the federal tax authority, which is now in its evidentiary phase. In December 2017, the Company also posted a bank security bond in the amount of $ 0.5 million according to the exchange rate as of December 31, 2019. The judge granted accounting expert evidence and on June 18, 2019, the Company introduced questions to the evidence presented. The Company´s management, based on the opinion of external legal counsel, believes that the tax position adopted is more likely than not, based on the technical merits of the tax position. For that reason, the Company has not recorded any expense or liability for the controversial amounts.

Brazilian preliminary injunction against the Brazilian tax authorities

On November 6, 2014, the Brazilian subsidiaries Mercadolivre.com, Ebazar and Mercado Pago filed a writ of mandamus and requested a preliminary injunction with the Federal Court of Osasco against the federal tax authority to avoid the IR (income tax) withholding over payments remitted by the Brazilian subsidiaries to the Argentine subsidiary (Mercado Libre S.R.L.) for the provision of IT support and assistance services by the latter, and requested reimbursement of the amounts improperly withheld over the course of the preceding five (5) years. The preliminary injunction was granted on the grounds that such withholding violated the convention signed between Brazil and Argentina that prevents double taxation. In August 2015, the injunction was revoked by the first instance judge in its award, which was favorable to the tax authority. The Company filed an appeal in September 2015, which is pending judgment. As a result, the Company has started making deposits in court for the disputed amounts (in a total amount of $51.4 million as of December 31, 2019). Management's opinion, based on the opinion of external legal counsel, is that the Company's position is more likely than not to succeed in court, based on the technical merits of the tax position and the existence of favorable decisions issued by the Federal Regional Courts. For that reason, the Company has not recorded any expense or liability for the disputed amounts.

Administrative tax claims

On November 9, 2016, São Paulo tax authorities asserted taxes and fines against its Brazilian subsidiary, Ebazar, relating to the entitlement of PIS and COFINS credits from 2012 in an approximate amount of $0.8 million, according to the exchange rate as of December 31, 2019. The Company presented administrative defenses against the authorities' claim, which is pending judgment. The opinion of the Company´s management, based on the opinion of external legal counsel, is that the risk of losing the case is reasonably possible, but not probable.

On December 27, 2016, São Paulo tax authorities assessed taxes and fines against its Brazilian subsidiary MercadoPago.com Representações Ltda., relating to the entitlement of PIS and COFINS credits from 2012 in an approximate amount of $3.0 million according to the exchange rate as of December 31, 2019. On February 1, 2017, the Company presented administrative defenses against the authorities' claim. On October 9, 2017, a judgment was handed down recognizing that expenses with credit card companies are essential for payment institutions. On September 22, 2017, the award rendered was partially favorable to the Company, reducing the value of the tax assessment notice by approximately 60%. The Company filed an administrative appeal, which is pending judgment. Management's opinion, based on the opinion of external legal counsel, is that the risk of losing the case is reasonably possible but not probable.

On July 12, 2017, São Paulo tax authorities assessed taxes and fines against the Brazilian subsidiary IBazar relating to "ICMS" (tax on commerce and services) for the period from July 2012 to December 2013 in an amount of $3.0 million according to the exchange rate as of December 31, 2019. The Company filed administrative defenses against the claim, but the São Paulo authorities ruled against the Company and upheld the claimed taxes and fines. On October 30, 2017, the Company filed an appeal with the *Tribunal de Impostos e Taxas de São Paulo* (São Paulo Tax Administrative Court), which granted the appeal on February 23, 2018**.** The tax authorities filed a special appeal with the *Câmara Superior* (Superior Chamber of the Administrative Court), which was admitted on August 1, 2018 and is now pending judgment. Management's opinion, based on the opinion of external legal counsel, is that the risk of losing the case is reasonably possible, but not probable.

13. Commitments and Contingencies (continued)

Litigation and Other Legal Matters (continued)

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

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

As of December 31, 2019 and 2018, Management's estimate of the maximum potential exposure related to the Company's buyer protection program is $1,365,815 thousands and $988,664 thousands, respectively, for which the Company recorded a provision of $3,808 thousands and $4,146 thousands, respectively.

Commitments

As of December 31, 2019, the Company entered into a purchase commitment with a U.S. supplier for a total amount of $30,000 thousands to be fully paid off between November 24, 2019 and March 23, 2023.

14. Long term retention plan

On March 29, 2019, the Board of Directors, upon the recommendation of the Compensation Committee, adopted the 2019 Long-Term Retention Plan (“2019 LTRP”). In addition to the annual salary and bonus of each employee, certain employees (“Eligible Employees”) are eligible to participate in the 2019 LTRP, which provides for the grant to an Eligible Employee of a cash-settled fixed (a “2019 LTRP Fixed Award”) and cash-settled variable award, (a “2019 LTRP Variable Award”, and together with any 2019 LTRP Fixed Award, the “2019 LTRP Awards”). In order to receive payment in respect of the 2019 LTRP Awards, each Eligible Employee must remain employed as of each applicable payment date. The 2019 LTRP award is payable as follows:

- the eligible employee will receive 16.66% of half of his or her target 2019 LTRP bonus once a year for a period of six years, with the first payment occurring during the first quarter of 2020 (the “2019 Annual Fixed Payment”); and
- on each date the Company pays the Annual Fixed payment to the eligible employee, he or she will also receive a payment (the “2019 LTRP Variable Payment”) equal to the product of (i) 16.66% of the applicable 2019 LTRP Variable Award and (ii) the quotient of (a) divided by (b), where (a), the numerator, equals the Applicable Year Stock Price (as defined below) and (b), the denominator, equals the 2018 Stock Price (as defined below). For purposes of the 2019 LTRP, the “2018 Stock Price” shall equal $322.91 (the average closing price of the Company’s common stock on the NASDAQ Global Select Market during the final 60 -trading days of 2018) and the “Applicable Year Stock Price” shall equal the average closing price of the Company’s common stock on the NASDAQ Global Select Market during the final 60-trading days of the year preceding the applicable payment date for so long as the Company’s common stock is listed on the NASDAQ.

The rest of LTRP outstanding as of December 31, 2019, follows similar calculation method as explained above for 2019 LTRP, except that the 2010, 2011, 2012, 2013, 2014, 2015, 2016, 2017 and 2018 LTRP have performance conditions established by the Board of Directors that must be achieved at the first year-end of each plan. Similar to the 2019 LTRP, the rest of the outstanding LTRPs additionally have eligibility conditions to be achieved at each year-end and require the employee remain employed by the Company as of each payment date.

The following tables summarize the 2010, 2011, 2012, 2013, 2014, 2015, 2016, 2017, 2018 and 2019 LTRP Variable Award contractual obligation for the years ended December 31, 2019, 2018 and 2017:

	December 31, 2019		December 31, 2018		December 31, 2017	
	Aggregate Intrinsic value	Weighted-average remaining contractual life (years)	Aggregate Intrinsic value	Weighted-average remaining contractual life (years)	Aggregate Intrinsic value	Weighted-average remaining contractual life (years)
	(In thousands)					
Outstanding LTRP 2010	-	-	-	-	1,721	0.25
Outstanding LTRP 2011	-	-	1,738	0.25	3,023	0.75
Outstanding LTRP 2012	2,861	0.25	3,460	0.75	4,469	1.25
Outstanding LTRP 2013	-	-	4,318	0.25	7,524	0.75
Outstanding LTRP 2014	5,086	0.25	6,037	0.75	7,900	1.25
Outstanding LTRP 2015	10,484	0.75	9,398	1.25	11,022	1.75
Outstanding LTRP 2016	19,091	1.25	15,343	1.75	16,949	2.25
Outstanding LTRP 2017	19,654	1.75	14,860	2.25	15,652	2.75
Outstanding LTRP 2018	10,727	2.25	8,135	2.88	-	-
Outstanding LTRP 2019	56,322	2.75	-	-	-	-

14. Long term retention plan (continued)

The following tables summarize the LTRP accrued compensation expense for the years ended December 31, 2019, 2018 and 2017:

	Year ended December 31,		
	2019	2018	2017
		(In thousands)	
LTRP 2009	-	-	29
LTRP 2010	-	24	1,050
LTRP 2011	26	766	1,668
LTRP 2012	1,755	1,398	2,300
LTRP 2013	97	2,416	4,554
LTRP 2014	3,743	2,921	4,591
LTRP 2015	6,266	3,984	5,766
LTRP 2016	9,838	5,975	8,350
LTRP 2017	9,737	6,639	7,411
LTRP 2018	5,089	3,402	-
LTRP 2019	15,111	-	-
	$ 51,662	$ 27,525	$ 35,719

15. Loans payable and other financial liabilities

The following table summarizes the Company's Loans payable and other financial liabilities as of December 31, 2019 and 2018:

Type of instrument	Currency	Interest	Weighted Average Interest Rate	Maturity	Book value as of December 31, 2019	December 31, 2018
					(In thousands)	
Current loans payable and other financial liabilities:						
Loans from banks						
Chilean Subsidiary	Chilean Pesos	Fixed	2.53 %	January 2020	$ 38,780	$ 30,065
Secured lines of credit						
Argentine Subsidiary	Argentine Pesos	Fixed	41.24 %	January 2020	49,499	-
Unsecured lines of credit						
Uruguayan Subsidiary	Uruguayan Pesos	Fixed	9.11 %	January 2020	16,435	13,462
Argentine Subsidiary	Argentine Pesos	Fixed	-%	-	-	8,579
Argentine Subsidiary	Argentine Pesos	Fixed	55.00 %	January 2020	9,645	4,942
Chilean Subsidiary	Chilean Pesos	Fixed	2.47 %	January 2020	1,951	1,185
Brazilian Subsidiary	Brazilian Reais		-%	-	-	875
Convertible notes					6,649	64,748
Finance lease obligations					2,008	1,464
Credit card collateralized debt					17,309	-
Collateralized debt					43,862	7,539
Other lines of credit					-	90
					$ 186,138	$ 132,949
Non Current loans payable and other financial liabilities:						
Convertible notes					569,305	550,126
Finance lease obligations					7,368	5,661
Collateralized debt					54,680	46,441
					$ 631,353	$ 602,228

See Notes 20 and 22 to these consolidated financial statements for details regarding the Company's collateralized debt securitization transactions and finance lease obligations, respectively.

15. Loans payable and other financial liabilities (continued)

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

Holders were able to 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.

During the fourth quarter of 2019, the conversion threshold was met and the Notes become convertible between January 1, 2020 and March 31, 2020. The determination of whether or not the Notes are convertible must continue to be performed on a quarterly basis. Upon conversion, the Company will pay or deliver, as the case may be, cash, shares of the Company's common stock or a combination of cash and shares of the Company's common stock, at the Company's election. The intention of the Company is to share-settle the total amount due upon conversion of the Notes.

In connection with the issuance of the 2028 Notes, the Company paid $91,784 thousands, $11,472 thousands, $88,362 thousands (including transaction expenses) in August 2018, November 2018 and June 2019, respectively, to enter into capped call transactions with respect to shares of the common stock with certain financial institutions (the "2028 Notes Capped Call Transactions"). In addition, the Company paid $8,005 thousands in November 2019 to amend the strike and cap prices of the capped call transaction purchased in November 2018. The 2028 Notes Capped Call Transactions are expected generally to reduce the potential dilution upon conversion of the 2028 Notes in the event that the market price of the Company's common stock is greater than the strike price of the 2028 Notes Capped Call Transactions. The cost of the 2028 Notes Capped Call Transactions is included as a net reduction to additional paid-in capital in the stockholders' equity section of the consolidated balance sheets.

The total estimated fair value of the 2028 Notes was $1,338,014 thousands as of December 31, 2019. 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 December 31, 2019 to be a Level 2 measurement. The fair value of the 2028 Notes is primarily affected by the trading price of the Company's common stock and market interest rates. Based on the $571.94 closing price of the Company's common stock on December 31, 2019, the if-converted value of the 2028 Notes exceed their principal amount by $255,109 thousands. The intention of the Company is to share-settle the excess conversion value upon conversion of the 2028 Notes.

15. Loans payable and other financial liabilities (continued)

The following table presents the carrying amounts of the liability and equity components related to the 2028 Notes as of December 31, 2019 and 2018:

	December 31, 2019	December 31, 2018
	(In thousands)	
Amount of the equity component (1)	$ 327,305	$ 327,305
2.00% Convertible Senior Notes due 2028	$ 880,000	$ 880,000
Unamortized debt discount (2)	(301,227)	(325,783)
Unamortized transaction costs related to the debt component	(9,468)	(9,958)
Contractual coupon interest accrual	23,809	5,867
Contractual coupon interest payment	(17,160)	—
Net carrying amount	$ 575,954	$ 550,126

(1) Net of $6,163 thousands of transaction costs related to the equity component of the 2028 Notes.
(2) As of December 31, 2019, the remaining period over which the unamortized debt discount will be amortized is 8.7 years.

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

	Year ended December 31,	
	2019	2018
	(In thousands)	
Contractual coupon interest expense	$ 17,942	$ 5,867
Amortization of debt discount	24,556	7,686
Amortization of debt issuance costs	490	143
Total interest expense related to the 2028 Notes	$ 42,988	$ 13,696

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 were unsecured, unsubordinated obligations of the Company, which paid interest in cash semi-annually, on January 1 and July 1, at a rate of 2.25% per annum.

The 2019 Notes were convertible, 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.

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.

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 Notes Capped Call Transactions and the related unwinding of the existing hedge position, the Company received from certain financial institutions the amount of $121,703 thousands and $14,405 thousands in August 2018 and November 2018, respectively.

15. Loans payable and other financial liabilities (continued)

2.25% Convertible Senior Notes Due 2019 (continued)

The 2019 Notes matured on July 1, 2019. Holders of $65,961 thousands principal amount of the 2019 Notes elected to convert their 2019 Notes at maturity, and the Company issued 523,407 shares of common stock and paid $8 thousands in cash (because of the fraction of shares) in settlement of such conversions. $17 thousands of the principal amount of the 2019 Notes was not converted, and was repaid by the Company in cash at maturity. Also on July 1, 2019, the Company received and retired 131,994 shares of common stock in settlement of capped call agreements that the Company had previously entered into in relation to the 2019 Notes.

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

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

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

The following table presents the interest expense for the contractual interest and the accretion of debt discount:

	Year ended December 31,		
	2019	2018	2017
	(In thousands)		
Contractual coupon interest expense	$ 745	$ 5,447	$ 7,425
Amortization of debt discount	1,063	7,424	9,628
Amortization of debt issuance costs	176	1,188	1,459
Total interest expense related to the 2019 Notes	$ 1,984	$ 14,059	$ 18,512

16. Related Party Transactions

Indemnification agreements

The Company has entered into indemnification agreements with each of the directors and executive officers of its local subsidiaries. These agreements require the Company to indemnify such individuals, to the fullest extent permitted by the laws of the jurisdiction where these subsidiaries operate, for certain liabilities to which they may become subject by reason of the fact that such individuals are or were directors or executive officers of the local subsidiaries of the Company.

Transactions with Venezuelan related parties

Subsequent to Venezuelan's deconsolidation, the Company recorded allocation of expenses to the Venezuelan's subsidiaries amounting to $4,620 thousands and $9,519 thousands as of December 31, 2019 and 2018, respectively, which were expensed as incurred.

17. Valuation and qualifying accounts

The following table summarizes valuation and qualifying accounts activity during the years ended December 31, 2019, 2018 and 2017:

	Balance at beginning of year	Charged/credited to Net income/ (loss)	Charges Utilized / Currency translation adjustments / Write-offs and other adjustments	Balance at end of year
	(In thousands)			
Allowance for doubtful accounts				
Year ended December 31, 2017	10,436	12,264	(12,879)	9,821
Year ended December 31, 2018	9,821	10,968	(12,087)	8,702
Year ended December 31, 2019	8,702	5,520	(7,897)	6,325
Credit cards receivable allowance for chargebacks				
Year ended December 31, 2017	2,511	3,422	(749)	5,184
Year ended December 31, 2018	5,184	9,199	(6,310)	8,073
Year ended December 31, 2019	8,073	15,673	(12,436)	11,310
Loans receivable allowance for uncollectible accounts				
Year ended December 31, 2017	110	5,163	(543)	4,730
Year ended December 31, 2018	4,730	27,725	(25,819)	6,636
Year ended December 31, 2019	6,636	64,341	(50,533)	20,444
Tax valuation allowance				
Year ended December 31, 2017	8,971	12,173	(5,722)	15,422
Year ended December 31, 2018	15,422	3,130	(2,828)	15,724
Year ended December 31, 2019	15,724	113,426	9,725	138,875
Contingencies				
Year ended December 31, 2017	5,587	6,657	(6,342)	5,902
Year ended December 31, 2018	5,902	7,969	(8,058)	5,813
Year ended December 31, 2019	5,813	10,978	(8,819)	7,972

18. Quarterly Financial Data (unaudited)

The following tables present certain consolidated quarterly financial information for each of the last twelve quarters for the years ended December 31, 2019, 2018 and 2017:

	Quarter Ended			
	March 31,	June 30,	September 30,	December 31,
	(In thousands, except for share data)			
2019				
Net Revenues	$ 473,770	$ 545,242	$ 603,031	$ 674,271
Gross profit	237,004	272,430	284,342	308,347
Net Income (loss)	11,864	16,217	(146,082)	(53,998)
Net Income (loss) per share-basic	0.13	0.31	(2.96)	(1.11)
Net Income (loss) per share-diluted	0.13	0.31	(2.96)	(1.11)
Weighted average shares				
Basic	45,980,255	49,318,522	49,710,723	49,709,955
Diluted	45,980,255	49,318,522	49,710,723	49,709,955
2018				
Net Revenues	$ 320,976	$ 335,377	$ 355,281	$ 428,019
Gross profit	162,758	159,749	169,718	204,783
Net loss	(12,919)	(11,251)	(10,078)	(2,337)
Net loss per share-basic	(0.29)	(0.25)	(0.23)	(0.05)
Net loss per share-diluted	(0.29)	(0.25)	(0.23)	(0.05)
Weighted average shares				
Basic	44,157,364	44,157,364	44,588,704	45,202,859
Diluted	44,157,364	44,157,364	44,588,704	45,202,859
2017				
Net Revenues	$ 269,675	$ 283,882	$ 304,921	$ 358,064
Gross profit	168,856	171,554	175,827	203,363
Net Income (loss)	48,518	5,316	27,666	(67,720)
Net Income (loss) per share-basic	1.10	0.12	0.63	(1.53)
Net Income (loss) per share-diluted	1.10	0.12	0.63	(1.53)
Weighted average shares				
Basic	44,157,364	44,157,364	44,157,364	44,157,364
Diluted	44,157,364	44,157,364	44,157,364	44,157,364

19. Cash Dividend Distribution

After reviewing the Company's capital allocation process the Board of Directors has concluded that it has multiple investment opportunities that can generate greater return to shareholders through investing capital into the business over a dividend policy. Consequently, the Board of Directors suspended the payment of dividend to shareholders as from the first quarter of 2018.

20. Securitization transactions

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

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

Additionally, the Company securitizes certain credit cards receivable related to user's purchases through Argentine SPEs. According to the SPE contracts, the Company has determinated that it has no obligation to absorb losses or the right to receive benefits of the SPE that could be significant because it does not retain any equity certificate of participation or subordinated interest in the SPEs. As the Company do not control the vehicule, the assets, liabilities, and related results are not consolidated in its financial statements.

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

As of December 31, 2019, the carrying value of the Brazilian collateralized debt was $61,232 thousands, composed by: 1) $15,050 thousands bears interest at a rate of Brazilian DI plus 3.5% per annum for a term of 36 months, due in June 2021 and 2) $46,182 thousands bears interest at a rate of Brazilian DI plus 3.25% per annum for a term of 30 months, due in May 2021. The carrying value of the Argentine collateralized debt was $11,643 thousands, composed of: 1) $672 thousands bearing interest at a variable rate equivalent to the BADLAR rate plus 200 basis points with a minimum 37% and a maximum 52% nominal rate per annum for a term of 8 months, fully paid off in January 2020; 2) $1,858 thousands bearing interest at a variable rate equivalent to the BADLAR rate plus 200 basis points with a minimum 36% and a maximum 51% nominal rate per annum for a term of 9 months, due in April 2020; 3) $4,748 thousands bearing interest at a variable rate equivalent to the BADLAR rate plus 200 basis points with a minimum 33% and a maximum 48% nominal rate per annum for a term of 5 months, due in May 2020 and 4) $4,365 thousands bearing interest at a variable rate equivalent to the BADLAR rate plus 200 basis points with a minimum 40% and a maximum 50% nominal rate per annum for a term of 9 months, due in August 2020. The carrying value of the Mexican collateralized debt was $25,667 thousands bears interest at a variable rate equivalent to the equilibrium interbank interest rate published by Banco de Mexico in the Diario Oficial plus 3.34% per annum for term of 36 months, due in November 2022.

This secured debt is issued by the SPEs and includes collateralized securities used to fund Mercado Credito business. The third-party investors in the securitization transactions have legal recourse only to the assets securing the debt and do not have recourse to the Company. Additionally, the cash flows generated by the SPEs are restricted to the payment of amounts due to third-party investors, but the Company retains the right to residual cash flows.

20. Securitization transactions (continued)

The assets and liabilities of the SPEs included in the Company's consolidated financial statements as of December 31, 2019 and 2018 are as follows:

	December 31, 2019	December 31, 2018
Assets	(in thousands)	
Current assets:		
Restricted cash and cash equivalents	$ 37,424	$ 24,363
Loans receivable, net	104,419	51,471
Total current assets	141,843	75,834
Loans receivable, net	4,395	—
Total non-current assets	4,395	—
Total assets	**$ 146,238**	**$ 75,834**
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses	$ 128	$ 113
Loans payable and other financial liabilities	43,862	7,539
Total current liabilities	43,990	7,652
Non-current liabilities:		
Loans payable and other financial liabilities	54,680	46,441
Total non-current liabilities	54,680	46,441
Total liabilities	**$ 98,670**	**$ 54,093**

21. Equity Offerings

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

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

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

In the aggregate, the Company raised funds in the amount of $1,965,903 thousands net of issuance costs paid in the amount of $34,097 thousands.

22. Leases

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

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

	December 31, 2019
Operating Leases	
Operating lease right-of-use assets	$ 200,449
Operating lease liabilities	$ 199,932
Finance Leases	
Property and equipment, at cost	10,952
Accumulated depreciation	(1,563)
Property and equipment, net	$ 9,389
Loans payable and other financial liabilities	$ 9,376

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

Weighted average remaining lease term	
Operating leases	9 Years
Finance leases	4 Years
Weighted average discount rate (*)	
Operating leases	11.9 %
Finance leases	27.1 %

(*) Includes discount rates of leases in local currency and U.S dollar.

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

	December 31, 2019
Operating lease cost	$ 29,515
Finance lease cost:	
Depreciation of property and equipment	1,514
Interest on lease liabilities	1,798
Total finance lease cost	$ 3,312

22. Leases(continued)

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

		December 31, 2019
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$	25,381
Financing cash flows from finance leases		1,929
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	$	93,160
Finance leases		4,496

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

Period Ending December 31, 2019		Operating Leases		Finance Leases
One year or less	$	37,689	$	4,348
One year to two years		37,211		4,134
Two years to three years		35,004		4,134
Three years to four years		31,888		2,768
Four years to five years		31,028		722
Thereafter		135,875		—
Total lease payments	$	308,695	$	16,106
Less imputed interest		(108,763)		(6,730)
Total	$	199,932	$	9,376

23. Derivative Instruments

The Company designates certain derivatives as hedges of particular risks associated with forecasted purchases. These transactions, mainly currency forward contracts, are classified as cash flow hedges.

As of December 31, 2019 the Company used foreign currency exchange contracts to hedge the foreign currency effects related to the forecasted purchase of MPOS devices 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 $6,382 thousands in January 2020, $2,089 thousands in February 2020, $1,604 thousands in March 2020, $1,171 thousands in April 2020, $1,443 thousands in May 2020 and $1,547 thousands in June 2020, at fixed currency rates. 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 and subsequently reclassified into earnings in the same period the forecasted transaction affects earnings. As of December 31, 2019, 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.

In addition, as of December 31, 2019, the Company entered into a foreign currency exchange contracts to hedge the foreign currency fluctuations related to certain transactions denominated in U.S. dollars of a Brazilian subsidiary, whose functional currency is the Brazilian Reais, which were not designated as hedge for accounting purposes. Pursuant to these contracts, the Company will buy a notional amount of $10,000 thousands in January 2020, $23,300 thousands in February 2020, $6,200 thousands in March 2020, $10,000 thousands in June 2020 and $18,600 thousands in July 2020, at fixed currency rates.

23. Derivative Instruments (continued)

Foreign exchange contracts

The fair values of the Company's outstanding derivative instruments as of December 31, 2019 were as follows:

	Balance sheet location	December 31, 2019
		(In thousands)
Derivatives		
Foreign exchange contracts not designated as hedging instruments	Other current assets	$ 1,249
Foreign exchange contracts designated as cash flow hedges	Other current liabilities	$ 251

The effects of the outstanding Derivative Contracts and firm commitments on Consolidated Statement of Income during the year ended December 31, 2019 were as follows:

	December 31, 2019
	(In thousands)
Foreign exchange contracts not designated as hedging instruments recognized in interest and other, net	$ 301

24. Subsequent event

Regulation issued by Argentine Central Bank

In January 2020, the Central Bank of Argentina enacted a regulation relating to the payments services providers that applies to the FinTech institutions that are not financial institutions but nevertheless, provide payment services in at least one of the processes of the payments system. According to this regulation, payments services providers must register by April 1, 2020, in a new registry of payments services providers created by the Central Bank of Argentina. The regulation sets forth certain specific rules related to (i) the provision of information to users; (ii) keep the funds of the users deposited in a freely available bank account; (iii) allow the users dispose immediately the funds accredited (iv) provide information relating to the business of payments processing.

If the regulation had been in force as of December 31, 2019, the amount to be deposited in a freely available bank account would amount to $126,893 thousands.

Exhibit 23.01

Deloitte & Co. S.A.
234 Florida St, 5th floor
C1005AAF
City of Buenos Aires
Argentina

Tel.: Tel.: (+54-11) 4320-2700
Fax: (+54-11) 4325-8081/4326-7340
www.deloitte.com/ar

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statements No. 333-151063 and 333-159891 on Form S-8 and 333-230196 on Form S-3 of our report dated February 14, 2020, relating to the financial statements of MercadoLibre, Inc. and our report dated December 23, 2020 relating to the effectiveness of MercadoLibre, Inc.'s internal control over financial reporting, appearing in this Annual Report on Form 10-K/A for the year ended December 31, 2019.

/s/ DELOITTE & Co. S.A.

Buenos Aires, Argentina
December 23, 2020

Exhibit 31.01

CERTIFICATION PURSUANT TO
RULE 13a 14(a) OF THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Marcos Galperin, certify that:

1. I have reviewed this Amendment No.1 to the Annual Report on Form 10-K for the fiscal year ended December 31, 2019, of MercadoLibre, Inc. (the “registrant”);

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of registrant’s board of directors (or persons performing the equivalent function):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

December 23, 2020

By: /s/ Marcos Galperin
Marcos Galperin
President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.02

**CERTIFICATION PURSUANT TO
RULE 13a 14(a) OF THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Pedro Arnt, certify that:

1. I have reviewed this Amendment No.1 to the Annual Report on Form 10-K for the fiscal year ended December 31, 2019, of MercadoLibre, Inc. (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

December 23, 2020

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

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Amendment No. 1 to the Annual Report on Form 10-K of MercadoLibre, Inc. (the “Company”) for the year ended December 31, 2019, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Marcos Galperin, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as amended; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Marcos Galperin
Marcos Galperin
President and Chief Executive Officer
(Principal Executive Officer)
December 23, 2020

The foregoing certification is being furnished solely to accompany this report pursuant to 18 U.S.C. 1350, and is not being filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the Company whether made before or after the date hereof, regardless of any general incorporation language in such filing. A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.02

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Amendment No. 1 to the Annual Report on Form 10-K of MercadoLibre, Inc. (the "Company") for the year ended December 31, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Pedro Arnt, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Pedro Arnt
Pedro Arnt
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)
December 23, 2020

The foregoing certification is being furnished solely to accompany this report pursuant to 18 U.S.C. 1350, and is not being filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the Company whether made before or after the date hereof, regardless of any general incorporation language in such filing. A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.