

MERCADOLIBRE INC
Form 10-Q
August 03, 2012
Table of Contents

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2012

-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)

Edgar Filing: MERCADOLIBRE INC - Form 10-Q

Delaware
(State or other jurisdiction of
incorporation or organization)

98-0212790
(I.R.S. Employer
Identification Number)

Arias 3751, 7th Floor
Buenos Aires, C1430CRG, Argentina
(Address of registrant's principal executive offices)

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

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

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

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

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

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

44,150,420 shares of the issuer's common stock, \$0.001 par value, outstanding as of July 30, 2012.

Table of Contents

MERCADOLIBRE, INC.

INDEX TO FORM 10-Q

PART I. FINANCIAL INFORMATION

Item 1 Unaudited Condensed Consolidated Financial Statements

Condensed Consolidated Balance Sheets as of June 30, 2012 and December 31, 2011 2

Condensed Consolidated Statements of Income for the three and six-month periods ended June 30, 2012 and 2011 3

Condensed Consolidated Statements of Comprehensive Income for the three and six-month periods ended June 30, 2012 and 2011 4

Condensed Consolidated Statements of Changes in Equity for the three and six-month periods ended June 30, 2012 and 2011 5

Condensed Consolidated Statements of Cash Flows for the three and six-month periods ended June 30, 2012 and 2011 7

Notes to Condensed Consolidated Financial Statements 8

Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations 34

Item 3 Qualitative and Quantitative Disclosures About Market Risk 51

Item 4 Controls and Procedures 54

PART II. OTHER INFORMATION

Item 1 Legal Proceedings 54

Item 1A Risk Factors 55

Item 4 Mine safety disclosure 55

Item 6 Exhibits 56

INDEX TO EXHIBITS 57

Exhibit 3.1

Exhibit 3.2

Exhibit 10.1

Exhibit 10.17

Exhibit 31.1

Exhibit 31.2

Exhibit 32.1

Exhibit 32.2

EX-101 INSTANCE DOCUMENT

EX-101 SCHEMA DOCUMENT

EX-101 CALCULATION LINKBASE DOCUMENT

EX-101 LABELS LINKBASE DOCUMENT

EX-101 PRESENTATION LINKBASE DOCUMENT

EX-101 DEFINITION LINKBASE DOCUMENT

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Unaudited Condensed Consolidated Financial Statements

MercadoLibre, Inc.

Condensed Consolidated Financial Statements

as of June 30, 2012 and December 31, 2011

and for the three and six-month periods

ended June 30, 2012 and 2011

Table of Contents**MercadoLibre, Inc.****Condensed Consolidated Balance Sheets**

As of June 30, 2012 and December 31, 2011

| | June 30, 2012 (Unaudited) | December 31, 2011 (Audited) |
|---|---------------------------------|-----------------------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 87,595,730 | \$ 67,381,677 |
| Short-term investments | 83,016,176 | 74,928,620 |
| Accounts receivable, net | 16,559,972 | 16,815,087 |
| Credits Cards Receivables | 28,021,663 | 23,855,689 |
| Prepaid expenses | 1,940,811 | 1,269,594 |
| Deferred tax assets | 9,366,084 | 9,131,638 |
| Other assets | 7,043,968 | 6,863,250 |
| Total current assets | 233,544,404 | 200,245,555 |
| Non-current assets: | | |
| Long-term investments | 49,571,882 | 43,933,316 |
| Property and equipment, net | 35,103,153 | 30,877,719 |
| Goodwill, net | 61,112,402 | 62,093,948 |
| Intangible assets, net | 7,622,698 | 6,494,857 |
| Deferred tax assets | 5,965,641 | 6,491,646 |
| Other assets | 5,631,553 | 5,794,395 |
| Total non-current assets | 165,007,329 | 155,685,881 |
| Total assets | \$ 398,551,733 | \$ 355,931,436 |
| Liabilities and Equity | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | \$ 24,303,699 | \$ 20,251,313 |
| Funds payable to customers | 77,697,708 | 69,216,185 |
| Salaries and social security payable | 14,723,722 | 13,525,293 |
| Taxes payable | 10,346,811 | 11,633,178 |
| Loans payable and other financial liabilities | 146,604 | 146,194 |
| Dividends payable | 4,812,036 | 3,531,362 |
| Total current liabilities | 132,030,580 | 118,303,525 |
| Non-current liabilities: | | |
| Salaries and social security payable | 3,818,275 | 3,844,172 |
| Loans payable and other financial liabilities | 94,093 | 136,227 |
| Deferred tax liabilities | 8,554,494 | 8,670,606 |
| Other liabilities | 2,213,237 | 1,797,890 |
| Total non-current liabilities | 14,680,099 | 14,448,895 |
| Total liabilities | \$ 146,710,679 | \$ 132,752,420 |

Commitments and contingencies (Note 8)

Edgar Filing: MERCADOLIBRE INC - Form 10-Q

| | | |
|--|--------------------|--------------------|
| Redeemable noncontrolling interest | \$ 4,000,000 | \$ 4,000,000 |
| Equity: | | |
| Common stock, \$0.001 par value, 110,000,000 shares authorized, 44,148,720 and 44,142,020 shares issued and outstanding at June 30, 2012 and December 31, 2011, respectively | \$ 44,149 | \$ 44,142 |
| Additional paid-in capital | 120,465,461 | 120,452,032 |
| Retained earnings | 171,253,118 | 135,726,188 |
| Accumulated other comprehensive loss | (43,921,674) | (37,043,346) |
| Total Equity | 247,841,054 | 219,179,016 |
| | | |
| Total liabilities, redeemable noncontrolling interest and equity | \$ 398,551,733 | \$ 355,931,436 |

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

Table of Contents**MercadoLibre, Inc.****Condensed Consolidated Statements of Income****For the three and six-month periods ended June 30, 2012 and 2011**

| | Six Months Ended June 30, 2012 | | Three Months Ended June 30, 2011 | |
|--|-----------------------------------|----------------------|-------------------------------------|----------------------|
| | (Unaudited) | | (Unaudited) | |
| Net revenues | \$ 172,580,065 | \$ 130,837,828 | \$ 88,844,059 | \$ 69,378,160 |
| Cost of net revenues | (44,989,178) | (31,270,822) | (23,892,881) | (16,939,118) |
| Gross profit | 127,590,887 | 99,567,006 | 64,951,178 | 52,439,042 |
| Operating expenses: | | | | |
| Product and technology development | (13,719,892) | (10,675,783) | (6,133,819) | (5,518,892) |
| Sales and marketing | (34,233,040) | (28,865,357) | (16,805,362) | (15,636,413) |
| General and administrative | (22,822,289) | (19,183,316) | (10,127,077) | (9,732,340) |
| Total operating expenses | (70,775,221) | (58,724,456) | (33,066,258) | (30,887,645) |
| Income from operations | 56,815,666 | 40,842,550 | 31,884,920 | 21,551,397 |
| Other income (expenses): | | | | |
| Interest income and other financial gains | 6,070,862 | 4,123,668 | 2,982,303 | 2,249,898 |
| Interest expense and other financial losses | (551,617) | (1,509,769) | (474,300) | (880,819) |
| Foreign currency (loss)/gain | (283,969) | (1,203,369) | 749,008 | (702,714) |
| Other (loss) / income, net | (11,263) | 260,441 | (7,009) | 240,097 |
| Net income before income / asset tax expense | 62,039,679 | 42,513,521 | 35,134,922 | 22,457,859 |
| Income / asset tax expense | (17,007,817) | (13,635,062) | (9,740,098) | (7,637,033) |
| Net income | \$ 45,031,862 | \$ 28,878,459 | \$ 25,394,824 | \$ 14,820,826 |
| Less: Net Income attributable to Noncontrolling Interest | 18,060 | | 15,632 | |
| Net income attributable to MercadoLibre, Inc. | \$ 45,013,802 | \$ 28,878,459 | \$ 25,379,192 | \$ 14,820,826 |

| | Six Months Ended June 30, 2012 | | Three Months Ended June 30, 2011 | |
|--|-----------------------------------|------------|-------------------------------------|------------|
| | (Unaudited) | | (Unaudited) | |
| Basic EPS | | | | |
| Basic net income attributable to MercadoLibre, Inc. per common share | \$ 1.02 | \$ 0.65 | \$ 0.57 | \$ 0.34 |
| Weighted average shares | 44,145,038 | 44,134,763 | 44,147,999 | 44,138,105 |
| Diluted EPS | | | | |
| Diluted net income attributable to MercadoLibre, Inc. per common share | \$ 1.02 | \$ 0.65 | \$ 0.57 | \$ 0.34 |
| Weighted average shares | 44,149,178 | 44,149,911 | 44,152,133 | 44,152,296 |

Edgar Filing: MERCADOLIBRE INC - Form 10-Q

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

Table of Contents

MercadoLibre, Inc.

Condensed Consolidated Statements of Comprehensive Income**For the three and six-month periods ended June 30, 2012 and 2011**

| | Six Months Ended June 30, | | Three Months Ended June 30, | |
|--|----------------------------------|----------------------|------------------------------------|----------------------|
| | 2012 | 2011 | 2012 | 2011 |
| | (Unaudited) | | (Unaudited) | |
| Net income | \$ 45,031,862 | \$ 28,878,459 | \$ 25,394,824 | \$ 14,820,826 |
| Other comprehensive income (loss), net of income tax: | | | | |
| Currency traslation adjustment | (6,823,966) | 3,720,681 | (10,403,113) | 2,831,806 |
| Unrealized net gains on investments | 870,295 | 381,435 | 176,322 | 399,634 |
| Realized net gain on investments | (924,657) | (45,527) | | |
| Net change in accumulated other comprehensive income (loss), net of income tax | (6,878,328) | 4,056,589 | (10,226,791) | 3,231,440 |
| Total Comprehensive income | \$ 38,153,534 | \$ 32,935,048 | \$ 15,168,033 | \$ 18,052,266 |
| Less: Comprehensive Income (loss) attributable to Noncontrolling Interest | 153,736 | | (148,512) | |
| Comprehensive income attributable to MercadoLibre, Inc. | \$ 37,999,798 | \$ 32,935,048 | \$ 15,316,545 | \$ 18,052,266 |

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

Table of Contents

MercadoLibre, Inc.

Condensed Consolidated Statements of Changes in Equity

For the six-month periods ended June 30, 2012 and 2011 (unaudited)

| | Common stock | | Additional paid-in capital | Retained Earnings | Accumulated other comprehensive loss | Total Equity |
|---|--------------|-----------|----------------------------------|----------------------|---|-----------------|
| | Shares | Amount | | | | |
| Balance as of December 31, 2010 | 44,131,376 | \$ 44,131 | \$ 120,391,622 | \$ 73,681,556 | \$ (22,399,039) | \$ 171,718,270 |
| Stock options exercised | 5,637 | 6 | 10,700 | | | 10,706 |
| Stock-based compensation LTRP | | | 26,993 | | | 26,993 |
| Dividend distribution | | | | (7,061,847) | | (7,061,847) |
| LTRP shares issued | 4,694 | 5 | (5) | | | |
| Net income | | | | 28,878,459 | | 28,878,459 |
| Other comprehensive income | | | | | 4,056,589 | 4,056,589 |
| Balance as of June 30, 2011 | 44,141,707 | \$ 44,142 | \$ 120,429,310 | \$ 95,498,168 | \$ (18,342,450) | \$ 197,629,170 |
| Stock options exercised | 313 | | 469 | | | 469 |
| Stock-based compensation LTRP | | | 22,253 | | | 22,253 |
| Dividend distribution | | | | (7,062,721) | | (7,062,721) |
| LTRP shares issued | | | | | | |
| Change in redeemable amount of noncontrolling interest | | | | (610,853) | | (610,853) |
| Net income | | | | 47,901,594 | | 47,901,594 |
| Other comprehensive loss | | | | | (18,700,896) | (18,700,896) |
| Balance as of December 31, 2011 | 44,142,020 | \$ 44,142 | \$ 120,452,032 | \$ 135,726,188 | \$ (37,043,346) | \$ 219,179,016 |

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

Table of Contents

MercadoLibre, Inc.

Condensed Consolidated Statements of Changes in Equity

For the six-month periods ended June 30, 2012 and 2011 (unaudited)

| | Common stock | | Additional | Retained | Accumulated | Total |
|--|--------------|-----------|----------------|----------------|-----------------|----------------|
| | Shares | Amount | paid-in | Earnings | other | Equity |
| | | | capital | | comprehensive | |
| | | | | | loss | |
| Balance as of December 31, 2011 | 44,142,020 | \$ 44,142 | \$ 120,452,032 | \$ 135,726,188 | \$ (37,043,346) | \$ 219,179,016 |
| Stock options exercised | 1,600 | 2 | 2,398 | | | 2,400 |
| Stock-based compensation LTRP | | | 11,036 | | | 11,036 |
| Dividend Distribution | | | | (9,624,072) | | (9,624,072) |
| LTRP shares issued | 5,100 | 5 | (5) | | | |
| Change in redeemable amount of noncontrolling interest | | | | 137,200 | | 137,200 |
| Net income | | | | 45,013,802 | | 45,013,802 |
| Other comprehensive loss | | | | | (6,878,328) | (6,878,328) |
| Balance as of June 30, 2012 | 44,148,720 | \$ 44,149 | \$ 120,465,461 | \$ 171,253,118 | \$ (43,921,674) | \$ 247,841,054 |

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

Table of Contents**MercadoLibre, Inc.****Condensed Consolidated Statements of Cash Flows****For the six-month periods ended June 30, 2012 and 2011**

| | Six Months Ended June 30, | |
|--|----------------------------------|----------------------|
| | 2012 | 2011 |
| | (Unaudited) | |
| Cash flows from operations: | | |
| Net income attributable to MercadoLibre, Inc. | \$ 45,013,802 | \$ 28,878,459 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Net Income attributable to Noncontrolling Interest | 18,060 | |
| Depreciation and amortization | 4,057,471 | 3,305,795 |
| Accrued interest | (2,611,913) | (2,353,234) |
| LTRP accrued compensation | 2,202,842 | 2,303,542 |
| Deferred income taxes | 145,970 | 1,484,213 |
| Changes in assets and liabilities: | | |
| Accounts receivable | (3,034,916) | (164,556) |
| Credit Card Receivables | (5,810,748) | (1,779,329) |
| Prepaid expenses | (730,975) | (393,477) |
| Other assets | (453,355) | 1,067,637 |
| Accounts payable and accrued expenses | 5,682,625 | (5,766,185) |
| Funds payable to customers | 13,461,760 | 6,718,843 |
| Other liabilities | 548,167 | 430,606 |
| Net cash provided by operating activities | 58,488,790 | 33,732,314 |
| Cash flows from investing activities: | | |
| Purchase of investments | (205,377,324) | (200,995,988) |
| Proceeds from sale and maturity of investments | 186,841,187 | 171,094,260 |
| Purchases of intangible assets | (1,390,738) | (108,823) |
| Purchases of property and equipment | (8,323,905) | (13,247,416) |
| Net cash used in investing activities | (28,250,780) | (43,257,967) |
| Cash flows from financing activities: | | |
| Dividends paid | (8,343,398) | (3,530,510) |
| Stock options exercised | 2,400 | 10,706 |
| Net cash provided in financing activities | (8,340,998) | (3,519,804) |
| Effect of exchange rate changes on cash and cash equivalents | (1,682,959) | 465,123 |
| Net increase in cash and cash equivalents | 20,214,053 | (12,580,334) |
| Cash and cash equivalents, beginning of the period | 67,381,677 | 56,830,466 |
| Cash and cash equivalents, end of the period | \$ 87,595,730 | \$ 44,250,132 |

Six Months Ended June 30,
2012 **2011**
(Unaudited)

Supplemental cash flow information:

Edgar Filing: MERCADOLIBRE INC - Form 10-Q

| | | |
|--------------------------------------|---------------|---------------|
| Cash paid for interest | \$ 34,218 | \$ 26,426 |
| Cash paid for income and asset taxes | \$ 19,037,776 | \$ 14,806,871 |

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

Table of Contents

MercadoLibre, Inc.

Notes to Condensed Consolidated Financial Statements (unaudited)

1. Nature of Business

MercadoLibre Inc. (the Company) is an e-commerce enabler whose mission is to build the necessary online and technology tools to allow practically anyone to trade almost anything in Latin America.

The Company developed a Web-based marketplace in which buyers and sellers are brought together to browse, buy and sell items such as computers, electronics, collectibles, automobiles, clothing and a host of practical and miscellaneous items. Additionally, the Company introduced MercadoPago in 2004, an integrated online payments solution. MercadoPago was designed to facilitate transactions on the MercadoLibre Marketplace by providing an escrow mechanism that enables users to send and receive payments online.

Since 2004, the Company introduced an online classifieds platform for motor vehicles, vessels and aircrafts and since 2006 the real estate online classifieds platform. In 2006, the Company launched eShops, a platform tailored to attract lower rotation items and increase the breadth of products offered, the introduction of user generated information guides for buyers that improve the shopping experience, and the expansion of the online classifieds model by adding the services category.

During 2007 the Company also launched a new and improved version of its MercadoPago payments platform in Chile and Colombia as well as in Argentina during 2008. The new MercadoPago, in addition to improving the ease of use and efficiency of payments for marketplace purchases, also allows for payments outside of the Company's marketplaces. Users are able to transfer money to other users with MercadoPago accounts and to incorporate MercadoPago as a means of payments in their independent commerce websites. In this way MercadoPago 3.0 as it has been called is designed to meet the growing demand for Internet based payments systems in Latin America. In 2010, the Company started processing off-MercadoLibre transactions through this new direct payments product to any website in Brazil which wants to adopt it and launched MercadoPago 3.0 in Brazil for all its marketplace transactions. In 2011, the Company started processing off-platform transactions using MercadoPago 3.0 in Mexico and Venezuela.

As of June 30, 2012, the Company, through its wholly-owned subsidiaries, operated online commerce platforms directed towards Argentina, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Mexico, Panama, Peru, Portugal, Uruguay and Venezuela, and online payment solutions directed towards Argentina, Brazil, Mexico, Venezuela, Chile and Colombia. In addition, the Company operates a real estate classified platform that covers some areas of Florida, U.S.A.

2. Summary of Significant Accounting Policies

Basis of presentation

The accompanying unaudited interim condensed consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) and include the accounts of the Company and its subsidiaries.

Table of Contents

MercadoLibre, Inc.

Notes to Condensed Consolidated Financial Statements (unaudited)

2. Summary of Significant Accounting Policies (Continued)

Basis of presentation (Continued)

These interim condensed consolidated financial statements are stated in US dollars. All intercompany transactions and balances have been eliminated.

Substantially all revenues and operating costs are generated in the Company's foreign operations, amounting to approximately 99.4% and 99.6% of the consolidated totals during the six-month periods ended June 30, 2012 and 2011, respectively. Long-lived assets located in the foreign operations totaled \$96,455,696 and \$93,489,980 as of June 30, 2012 and December 31, 2011, respectively.

These interim condensed consolidated financial statements reflect the Company's consolidated financial position as of June 30, 2012 and December 31, 2011. These financial statements also show the Company's consolidated statements of income and of comprehensive income for the three and six-month periods ended June 30, 2012 and 2011, its consolidated statement of changes in equity and of cash flows for the six-month periods ended June 30, 2012 and 2011. These interim condensed consolidated financial statements include all normal recurring adjustments that management believes are necessary to fairly state the Company's financial position, operating results and cash flows.

Because all of the disclosures required by U.S. GAAP for annual consolidated financial statements are not included herein, these unaudited interim condensed financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto for the year ended December 31, 2011, contained in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission (SEC) on February 28, 2012. The condensed consolidated statements of income, of comprehensive income, of changes in equity and of cash flows for the periods presented herein are not necessarily indicative of results expected for any future period.

Revenue recognition

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

Revenues are recognized when evidence of an arrangement exists, the fee is fixed or determinable, no significant obligation remains and collection of the receivable is reasonably assured.

Services are separately recognized as revenue according to the following criteria described for each type of services:

Table of Contents

MercadoLibre, Inc.

Notes to Condensed Consolidated Financial Statements (unaudited)

2. Summary of Significant Accounting Policies (Continued)

Revenue recognition (Continued)

Services for intermediation between on-line buyers and sellers, for which the company charges a percentage on the transaction value (final value fees), are recognized as revenue once the sale transaction between the buyer and seller is successfully completed (which occurs upon confirmation of the sale by the seller).

Services for the use of the Company's on-line payment solution, for transactions off-platform ordered by MercadoPago customers. The Company does not charge a separate fee for on-platform transactions in certain countries. The fee that we charge for all off-marketplace platform transactions is recorded as revenue once the transaction is completed, at the time when the payment is processed by the Company. For on-marketplace platform transactions, we generate revenue in the countries where we offer the service in a way that implies that the customer has to pay an additional fee for the right to use the payments solution. We also generate revenues as a result of offering financing to our MercadoPago users, either directly or when we elect to sell the corresponding financial assets to financial institutions.

Listing and optional feature services, which fees relate to the right of a seller to have the item offered listed in a preferential way, as well as 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 marketplace platform and is not subject to successful sale of the items listed.

Advertising revenues such as the sale of banners are recognized on an accrual basis, and MercadoClicks services or sponsorship of sites are recognized based on per-click values and as the impressions are delivered.

Foreign Currency Translation

All of the Company's foreign operations have determined the local currency to be their functional currency, except for Venezuela since the year ended December 31, 2010, as described below. Accordingly, these foreign subsidiaries translate assets and liabilities from their local currencies into U.S. dollars using period/year-end exchange rates while income and expense accounts are translated at the average rates in effect during the period/year. The resulting translation adjustment is recorded as part of accumulated other comprehensive income (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 statements of income under the caption Foreign currency (loss)/gain and amounted to \$749,008 and \$(702,714) for the three-month periods ended June 30, 2012 and 2011, respectively, while for the six-month periods ended at such dates amounted to \$(283,969) and \$(1,203,369), respectively.

Table of Contents

MercadoLibre, Inc.

Notes to Condensed Consolidated Financial Statements (unaudited)

2. Summary of Significant Accounting Policies (Continued)

Foreign Currency Translation (Continued)

Until September 30, 2009, the Company translated its Venezuelan subsidiaries assets, liabilities, income and expense accounts at the official rate of 2.15 Bolivares Fuertes per US dollar.

Starting in the fourth quarter of 2009, as a result of the changes in facts and circumstances that affected the Company's ability to convert currency for dividends remittances using the official exchange rate in Venezuela, the Venezuelan subsidiaries assets, liabilities, income and expense accounts were translated using the parallel exchange rate resulting in the recognition in that quarter of a currency translation adjustment of \$16,977,276 recorded in accumulated other comprehensive income. The average exchange rate used for translating the fourth quarter of 2009 results was 5.67 Bolivares Fuertes per US dollar and the year-end exchange rate used for translating assets and liabilities was 6.05 Bolivares Fuertes per US dollar.

As of the date of these interim condensed consolidated financial statements the Company did not buy US dollars at the official rate of 2.15 Bolivares Fuertes per US dollar.

According to US GAAP, the Company has transitioned its Venezuelan operations to highly inflationary status as from January 1, 2010 considering the U.S. dollar to be the functional currency for such operations. See Highly inflationary status in Venezuela below.

Therefore, no translation effect was accounted for in other comprehensive income since January 1, 2010 related to our Venezuelan operations.

The Venezuelan Central Bank (BCV as for its Spanish acronym) is the only institution through which foreign currency-denominated transactions can be brokered. Under this system, known as the Foreign Currency Securities Transactions System (SITME as for its Spanish acronym), entities domiciled in Venezuela can buy U.S. dollar denominated securities only through banks authorized by the BCV to import goods, services or capital inputs. Additionally, the SITME imposes volume restrictions on an entity's trading activity, limiting such activity to a maximum amount equivalent of \$50,000 per day, not exceeding \$350,000 in a calendar month. This limitation is non-cumulative, meaning that an entity cannot carry over unused volume from one month to the next.

As of June 30, 2012, the exchange rate used to re-measure transactions was 5.30 Bolivares Fuertes per U.S. dollar.

The following table sets forth the assets, liabilities and net assets of the Company's Venezuelan subsidiaries, before intercompany eliminations, as of June 30, 2012 and December 31, 2011 and net revenues for the and six-month periods ended June 30, 2012 and 2011.

Table of Contents

MercadoLibre, Inc.

Notes to Condensed Consolidated Financial Statements (unaudited)

2. Summary of Significant Accounting Policies (Continued)**Foreign Currency Translation (Continued)**

| | June 30, 2012 | June 30, 2011 |
|------------------------------|--------------------------|------------------------------|
| Venezuelan operations | | |
| Net Revenues | \$ 23,658,890 | \$ 14,005,393 |
| | | |
| | June 30, 2012 | December 31, 2011 |
| Assets | 42,526,197 | 31,074,871 |
| Liabilities | (13,965,973) | (10,414,881) |
| | | |
| Net Assets | \$ 28,560,224 | \$ 20,659,990 |

As of June 30, 2012, net assets (before intercompany eliminations) of the Venezuelan subsidiaries amounted to approximately 11.5% of our consolidated net assets, and cash and investments of the Venezuelan subsidiaries held in local currency in Venezuela amounted to approximately 11.3% of our consolidated cash and investments.

Although, the current mechanisms available to obtain U.S. dollars for dividends distributions to shareholders outside Venezuela imply increased restrictions, the Company does not expect that the current restrictions to purchase U.S. dollars have a significant adverse effect on its business plans with regard to its investment in Venezuela.

Highly inflationary status in Venezuela

During May 2009, the International Practices Task Force discussed the highly inflationary status of the Venezuelan economy. Historically, the Task Force has used the Consumer Price Index (CPI) when considering the inflationary status of the Venezuelan economy.

The CPI has existed since 1984. However, the CPI covers only the cities of Caracas and Maracaibo. Commencing on January 1, 2008, the National Consumer Price Index (NCPI) has been developed to cover the entire country of Venezuela. Since inflation data is not available to compute a cumulative three year inflation rate for the entire country solely based on the NCPI, the Company uses a blended rate using the NCPI and CPI to calculate Venezuelan inflation rate.

The cumulative three year inflation rate as of December 31, 2009 was calculated using the CPI information for periods before January 1, 2008 and NCPI information for the period after January 1, 2008. The blended CPI/NCPI three-year inflation index (23 months of NCPI and 13 months of CPI) as of November 30, 2009 exceeded 100%. According to U.S. GAAP, calendar year-end companies should apply highly inflationary accounting as from January 1, 2010. Therefore, the Company transitioned its Venezuelan operations to highly inflationary status as from January 1, 2010 considering the US dollar as the functional currency.

Table of Contents

MercadoLibre, Inc.

Notes to Condensed Consolidated Financial Statements (unaudited)

2. Summary of Significant Accounting Policies (Continued)

Highly inflationary status in Venezuela (Continued)

Taxes on net revenues

The Company's subsidiaries in Brazil, Argentina, Venezuela and Colombia are subject to certain taxes on net revenues which are classified as cost of revenues. Taxes on net revenues totaled \$5,687,382 and \$5,288,963 for the three-month periods ended June 30, 2012 and 2011, respectively, while for the six-month periods ended at such dates amounted to \$11,139,579 and \$9,750,510, respectively.

Income and Asset Taxes

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

From fiscal year 2008, the Company's Argentine subsidiary is beneficiary of a software development law. Part of the benefits obtained from being beneficiary of the aforementioned law is a relief of 60% of total income tax determined in each year, until fiscal year 2014. Aggregate tax benefit totaled \$2,153,761 and \$1,356,432 for the three-month periods ended June 30, 2012 and 2011, respectively, while for the six-month periods ended at such dates amounted to \$4,125,240 and \$2,535,435, respectively. Aggregate per share effect of the Argentine tax holiday amounts to \$0.05 and \$0.03 for the three-month periods ended June 30, 2012 and 2011, respectively, while for the six-month periods ended at such dates amounted to \$0.09 and \$0.06, respectively. If the Company had not been granted the Argentine tax holiday, the Company would have pursued an alternative tax planning strategy and, therefore, the impact of not having this particular benefit would not necessarily be the abovementioned U.S. dollar and per share effect.

Table of Contents

MercadoLibre, Inc.

Notes to Condensed Consolidated Financial Statements (unaudited)

2. Summary of Significant Accounting Policies (Continued)

Income and Asset Taxes (Continued)

On August 17, 2011, the Argentine government issued a new software development Law which is still pending for the regulatory decree. If the Argentine operation qualifies under the new software development law, the current income tax relief could slightly decrease but will extend its tax holiday, which would otherwise finish in 2014, for an additional five year period, to 2019 and would obtain some other fiscal benefits.

As of June 30, 2012 and December 31, 2011, MercadoLibre, Inc. has included in the non-current deferred tax assets line the foreign tax credits related to the dividend distributions received from its subsidiaries for a total amount of \$2,243,979 and \$2,965,668, respectively. Those foreign tax credits will be used to offset the future domestic income tax payable.

Use of estimates

The preparation of interim condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates are used for, but not limited to accounting for allowance for doubtful accounts, depreciation, amortization, impairment and useful lives of long-lived assets, compensation cost related to cash and share-based compensation, recognition of current and deferred income taxes and contingencies. Actual results could differ from those estimates.

Comprehensive Income

Comprehensive income is comprised of two components, net income and other comprehensive income (loss), net of income tax, and defined as all other changes in equity of the Company that result from transactions other than with shareholders. Other comprehensive income (loss) includes the cumulative translation adjustment relating to the translation of the financial statements of the Company's foreign subsidiaries (except Venezuela since January 1, 2010, see Foreign Currency Translation) and unrealized gains and losses on investments classified as available-for-sale securities. Total comprehensive income, attributable to MercadoLibre, Inc. shareholders, for the three-month periods ended June 30, 2012 and 2011 amounted to \$15,316,545 and \$18,052,266, respectively, while for the six-month periods ended at such dates amounted to \$37,999,798 and \$32,935,048, respectively.

Table of Contents

MercadoLibre, Inc.

Notes to Condensed Consolidated Financial Statements (unaudited)

2. Summary of Significant Accounting Policies (Continued)

Redeemable Noncontrolling Interest

In September 2011, the Company acquired the 60% of the shares of AP Clasificados S.R.L. de C.V. (AP Clasificados), and signed a call and put option agreement to acquire the remaining 40% of those shares (See note 4 Business Combinations, Goodwill and Intangible Assets for more detail). According to the signed agreement, the price for the remaining 40% call or put options will be determined by greater of (i) \$4,000,000 and (ii) the amount resulting from multiplying (A) the percentage of the seller's interests as of the exercise date of the Call/Put option by (B) an amount equal to 3.5 times the amount of invoiced sales of the AP Clasificados for the twelve months period ending on the exercise date.

The put option is to be exercised if any of the following events occurs: (i) the third anniversary of the acquisition date, (ii) the termination of the employment of the main operating officer, and (iii) death or incapacitation of the main operating officer. The call option is to be exercised following the earlier to occur of (i) third anniversary of the acquisition date and (ii) members holding a majority of the issued and outstanding interests determine that an additional capital contribution is required to capitalize AP Clasificados and the Seller does not make such additional capital contribution.

Redeemable noncontrolling interest is not considered to be permanent equity and is reported in the mezzanine section between liabilities and equity in the consolidated balance sheet for a total amount of \$4,000,000 at June 30, 2012. The noncontrolling interest was measured at its estimated redemption value according to the abovementioned agreed conditions. Changes between the estimated redemption value and its carrying amount as of the period-end were recorded in retained earnings.

Recent Accounting Pronouncements

On July 27, 2012, the Financial Accounting Standards Board issued Accounting Standards Update No. 2012-02 Testing Indefinite-Lived Intangible Assets for Impairment. The objective of the amendments in this update is to reduce the cost and complexity of performing an impairment test for indefinite-lived intangible assets by simplifying how an entity tests those assets for impairment and to improve consistency in impairment testing guidance among long-lived asset categories. The amendments permit an entity first to assess qualitative factors to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired as a basis for determining whether it is necessary to perform the quantitative impairment test in accordance with Subtopic 350-30, Intangibles Goodwill and Other General Intangibles Other than Goodwill. The more-likely-than-not threshold is defined as having a likelihood of more than 50 percent. The amendments are effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. Early adoption is permitted, including for annual and interim impairment tests performed as of a date before July 27, 2012, if a public entity's financial statements for the most recent annual or interim period have not yet been issued or, for nonpublic entities, have not yet been made available for issuance. The Company is currently evaluating the impact that this update could have on its financial statements.

Table of Contents**MercadoLibre, Inc.****Notes to Condensed Consolidated Financial Statements (unaudited)****3. Net income per share**

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

Diluted earnings per share for the Company's common stock assume the exercise of outstanding stock options under the Company's stock based employee compensation plan.

The following table shows how net income available to common shareholders is allocated using the two-class method, for the three and six-month periods ended June 30, 2012 and 2011:

| | Three Months Ended June 30, | | | |
|---|------------------------------------|---------------|---------------|---------------|
| | 2012 | | 2011 | |
| | Basic | Diluted | Basic | Diluted |
| Net income | \$ 25,394,824 | \$ 25,394,824 | \$ 14,820,826 | \$ 14,820,826 |
| Net income attributable to noncontrolling interests | (15,632) | (15,632) | | |
| Change in redeemable amount of noncontrolling interest | (179,098) | (179,098) | | |
| Net income attributable to MercadoLibre, Inc. corresponding to common stock | \$ 25,200,094 | \$ 25,200,094 | \$ 14,820,826 | \$ 14,820,826 |

| | Six Months Ended June 30, | | | |
|---|----------------------------------|---------------|---------------|---------------|
| | 2012 | | 2011 | |
| | Basic | Diluted | Basic | Diluted |
| Net income | \$ 45,031,862 | \$ 45,031,862 | \$ 28,878,459 | \$ 28,878,459 |
| Net income attributable to noncontrolling interests | (18,060) | (18,060) | | |
| Change in redeemable amount of noncontrolling interest | 137,200 | 137,200 | | |
| Net income attributable to MercadoLibre, Inc. corresponding to common stock | \$ 45,151,002 | \$ 45,151,002 | \$ 28,878,459 | \$ 28,878,459 |

Table of Contents**MercadoLibre, Inc.****Notes to Condensed Consolidated Financial Statements (unaudited)****3. Net income per share (Continued)**

Net income per share of common stock is as follows for the three- and six-month periods ended June 30, 2012 and 2011:

| | Three Months Ended June 30, | | | |
|--|-----------------------------|---------|---------|---------|
| | 2012 | | 2011 | |
| | Basic | Diluted | Basic | Diluted |
| Net income attributable to MercadoLibre, Inc. per common share | \$ 0.57 | \$ 0.57 | \$ 0.34 | \$ 0.34 |

Numerator:

| | | | | |
|---|---------------|---------------|---------------|---------------|
| Net income attributable to MercadoLibre, Inc. | \$ 25,200,094 | \$ 25,200,094 | \$ 14,820,826 | \$ 14,820,826 |
|---|---------------|---------------|---------------|---------------|

Denominator:

| | | | | |
|--|------------|------------|------------|------------|
| Weighted average of common stock outstanding for Basic earnings per share | 44,147,999 | 44,147,999 | 44,138,105 | 44,138,105 |
| Adjustment for stock options | | 4,134 | | 9,487 |
| Adjustment for shares granted under LTRP | | | | 4,704 |
| Adjusted weighted average of common stock outstanding for Diluted earnings per share | 44,147,999 | 44,152,133 | 44,138,105 | 44,152,296 |

| | Six Months Ended June 30, | | | |
|--|---------------------------|---------|---------|---------|
| | 2012 | | 2011 | |
| | Basic | Diluted | Basic | Diluted |
| Net income attributable to MercadoLibre, Inc. per common share | \$ 1.02 | \$ 1.02 | \$ 0.65 | \$ 0.65 |

Numerator:

| | | | | |
|---|---------------|---------------|---------------|---------------|
| Net income attributable to MercadoLibre, Inc. | \$ 45,151,002 | \$ 45,151,002 | \$ 28,878,459 | \$ 28,878,459 |
|---|---------------|---------------|---------------|---------------|

Denominator:

| | | | | |
|--|------------|------------|------------|------------|
| Weighted average of common stock outstanding for Basic earnings per share | 44,145,038 | 44,145,038 | 44,134,763 | 44,134,763 |
| Adjustment for stock options | | 4,140 | | 10,480 |
| Adjustment for shares granted under LTRP | | | | 4,668 |
| Adjusted weighted average of common stock outstanding for Diluted earnings per share | 44,145,038 | 44,149,178 | 44,134,763 | 44,149,911 |

The calculation of diluted net income per share excludes all anti-dilutive shares. During the three and six-month periods ended June 30, 2012 and 2011, there were no anti-dilutive shares.

Table of Contents

MercadoLibre, Inc.

Notes to Condensed Consolidated Financial Statements (unaudited)

4. Business Combinations, Goodwill and Intangible Assets

Business Combinations

On September 14, 2011, the Company completed, through one of its subsidiaries, Meli Participaciones S.L. (ETVE or the Buyer), the acquisition of the 60 % of outstanding membership interest of Autopark LLC, a limited liability company organized under the laws of Delaware, from Hasteny Trading S.A. (Hasteny or the Seller), a parent company organized under the laws of Uruguay, who owned all the shares of the capital stock of Autopark LLC.

Autopark LLC owns directly and indirectly the 100% of the membership interest of AP Clasificados S.R.L. de C.V. (AP Clasificados), a company organized under the laws of Mexico. AP Clasificados operates an online classified advertisements platform in Mexico primarily dedicated to the sale of automobiles at www.autoplaza.com.mx and real estate at www.homeshop.com.mx (the Acquired Business).

The aggregate purchase price paid by the Company to the Seller for the 60% of the Acquired Business was \$5,472,056. In addition, the Company incurred in certain direct costs of the business combination which were expensed as incurred.

On September 12, 2011 (the settlement date), part of the purchase price amounting to \$1,500,000, was placed into an escrow account, in order to cover unexpected liabilities and working capital. On September 12, 2012 and 2013, 50% of the escrow amount less the amount of all claims made by the Buyer, if any, will be released, respectively.

In addition, ETVE has the right and option (but not the obligation) to purchase the remaining 40% of the membership interest of Autopark LLC following the earlier to occur of (i) third anniversary of the settlement date, or (ii) additional capital contribution be required to capitalize Autopark LLC by their own member s decision and Hasteny does not make such additional capital contribution within ten (10) days of such members consent. The total consideration to be paid shall be the greater of (i) \$4,000,000 and (ii) the amount resulting from multiplying (A) the percentage of the membership interest held by Hasteny as of the date of the Call Notice by (B) an amount equal to 3.5 times the amount of invoiced sales of the Acquired Business for the twelve months period ending on the date of Call Notice.

On the other hand, Hasteny has the right and option (but not the obligation) to sell and transfer, all of the Hasteny interest in Autopark LLC, to ETVE and ETVE has the obligation to buy following the earlier to occur (i) the third anniversary of the effective date, (ii) the termination of the employment of the main operating officer of the acquired company, or (iii) death or incapacitation of the main operating officer of the acquired company. The total consideration to be paid by ETVE for the Hasteny Interests shall be the same as described in the preceding paragraph.

Table of Contents**MercadoLibre, Inc.****Notes to Condensed Consolidated Financial Statements (unaudited)****4. Business Combinations, Goodwill and Intangible Assets****Business Combinations (Continued)**

The Seller and its affiliates have also agreed to enter into certain non-compete agreements with the Company for 5 years since September 12, 2011.

The Company's statement of income includes the results of operations of the Acquired Businesses as from September 15, 2011.

The following table summarizes the allocation of the cash paid in the acquisition:

| | |
|--------------------------------|------------------|
| Net Tangible Assets | \$ 153,349 |
| Identifiable Intangible Assets | 3,290,998 |
| Deferred Tax Liabilities | (987,299) |
| Goodwill | 6,663,045 |
| Noncontrolling interest | (3,648,037) |
| Aggregate Purchase Price | \$ 5,472,056 |

Assets acquired and liabilities assumed were valued at their respective fair values at the acquisition date accordingly to U.S. GAAP. The valuation of identifiable intangible assets acquired as well as non-controlling interest reflects management's estimates based on, among other factors, use of established valuation methods. The identifiable intangible assets consist of trademarks and domains, customer lists and non-compete agreements. Management of the Company estimates that trademarks have an indefinite useful life, for that reason, these intangible assets are not amortized but they are subject to an annual impairment test. Intangible assets associated with customer list and non-compete agreements are amortized over a five year period.

The Company recognized goodwill because the acquired business is expected to expand the Company's business in Mexico and to strengthen the Company's leadership position in that country.

Goodwill is not expected to be deductible for tax purposes.

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

Table of Contents

MercadoLibre, Inc.

Notes to Condensed Consolidated Financial Statements (unaudited)

4. Business Combinations, Goodwill and Intangible Assets (Continued)

Goodwill and Intangible Assets

The composition of goodwill and intangible assets is as follows:

| | June 30, 2012 | December 31, 2011 |
|---|--------------------------|------------------------------|
| Goodwill | \$ 61,112,402 | \$ 62,093,948 |
| Intangible assets with indefinite lives | | |
| - Trademarks | 5,216,839 | 5,068,147 |
| Amortizable intangible assets | | |
| - Licenses and others | 4,049,283 | 2,798,112 |
| - Non-compete agreement | 1,211,154 | 1,270,807 |
| - Customer list | 1,733,797 | 1,742,087 |
| Total intangible assets | \$ 12,211,073 | \$ 10,879,153 |
| Accumulated amortization | (4,588,375) | (4,384,296) |
| Total intangible assets, net | \$ 7,622,698 | \$ 6,494,857 |

Goodwill

The changes in the carrying amount of goodwill for the six-month period ended June 30, 2012 and the year ended December 31, 2011, are as follows:

| | Period ended June 30, 2012 | | | | | | | Total |
|------------------------------------|-----------------------------------|------------------|--------------|---------------|------------------|-----------------|------------------------|---------------|
| | Brazil | Argentina | Chile | Mexico | Venezuela | Colombia | Other Countries | |
| Balance, beginning of year | \$ 11,663,443 | \$ 21,583,774 | \$ 6,577,459 | \$ 10,621,839 | \$ 4,846,030 | \$ 5,367,526 | \$ 1,433,877 | \$ 62,093,948 |
| - Effect of exchange rates changes | (839,575) | (1,063,217) | 122,199 | 404,784 | | 407,560 | (13,297) | (981,546) |
| Balance, end of the period | \$ 10,823,868 | \$ 20,520,557 | \$ 6,699,658 | \$ 11,026,623 | \$ 4,846,030 | \$ 5,775,086 | \$ 1,420,580 | \$ 61,112,402 |

| | Year ended December 31, 2011 | | | | | | | Total |
|------------------------------------|-------------------------------------|------------------|--------------|---------------|------------------|-----------------|------------------------|---------------|
| | Brazil | Argentina | Chile | Mexico | Venezuela | Colombia | Other Countries | |
| Balance, beginning of year | \$ 13,130,649 | \$ 23,364,326 | \$ 7,296,888 | \$ 5,025,623 | \$ 4,846,030 | \$ 5,448,068 | \$ 1,384,730 | \$ 60,496,314 |
| - Purchase of Autoplaza.com | | | | 6,663,045 | | | | 6,663,045 |
| - Effect of exchange rates changes | (1,467,206) | (1,780,552) | (719,429) | (1,066,829) | | (80,542) | 49,147 | (5,065,411) |

Edgar Filing: MERCADOLIBRE INC - Form 10-Q

| | | | | | | | | |
|--------------------------|---------------|---------------|--------------|---------------|--------------|--------------|--------------|---------------|
| Balance, end of the year | \$ 11,663,443 | \$ 21,583,774 | \$ 6,577,459 | \$ 10,621,839 | \$ 4,846,030 | \$ 5,367,526 | \$ 1,433,877 | \$ 62,093,948 |
|--------------------------|---------------|---------------|--------------|---------------|--------------|--------------|--------------|---------------|

Table of Contents

MercadoLibre, Inc.

Notes to Condensed Consolidated Financial Statements (unaudited)**4. Business Combinations, Goodwill and Intangible Assets (Continued)**Amortizable intangible assets

Amortizable intangible assets are comprised of customer lists and user base, trademarks and trade names, non-compete agreements, acquired software licenses and other acquired intangible assets including developed technologies. Aggregate amortization expense for intangible assets totaled \$194,313 and \$242,401 for the three-month periods ended June 30, 2012 and 2011, respectively, while for the six-month periods ended at such dates amounted to \$462,476 and \$478,522, respectively.

Expected future intangible asset amortization completed as of June 30, 2012 is as follows:

| | |
|---------------------------|--------------|
| For year ended 12/31/2012 | \$ 523,252 |
| For year ended 12/31/2013 | 891,987 |
| For year ended 12/31/2014 | 630,534 |
| For year ended 12/31/2015 | 301,426 |
| Thereafter | 58,660 |
| | \$ 2,405,859 |

5. Segment reporting

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

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

Direct contribution consists of net revenues from external customers less direct costs. Direct costs include specific costs of net revenues, 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, headcount compensation, 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.

Table of Contents

MercadoLibre, Inc.

Notes to Condensed Consolidated Financial Statements (unaudited)**5. Segment reporting (Continued)**

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

| | Three Months Ended June 30, 2012 | | | | | Total |
|---|----------------------------------|---------------|--------------|---------------|-----------------|---------------|
| | Brazil | Argentina | Mexico | Venezuela | Other Countries | |
| Net revenues | \$ 44,205,857 | \$ 20,561,213 | \$ 6,046,812 | \$ 12,417,318 | \$ 5,612,859 | \$ 88,844,059 |
| Direct costs | (25,066,435) | (9,543,476) | (3,269,574) | (3,728,913) | (2,896,426) | (44,504,824) |
| Direct contribution | 19,139,422 | 11,017,737 | 2,777,238 | 8,688,405 | 2,716,433 | 44,339,235 |
| Operating expenses and indirect costs of net revenues | | | | | | (12,454,315) |
| Income from operations | | | | | | 31,884,920 |
| Other income (expenses): | | | | | | |
| Interest income and other financial gains | | | | | | 2,982,303 |
| Interest expense and other financial results | | | | | | (474,300) |
| Foreign currency gain | | | | | | 749,008 |
| Other losses, net | | | | | | (7,009) |
| Net income before income / asset tax expense | | | | | | \$ 35,134,922 |

| | Three Months Ended June 30, 2011 | | | | | Total |
|---|----------------------------------|---------------|--------------|--------------|-----------------|---------------|
| | Brazil | Argentina | Mexico | Venezuela | Other Countries | |
| Net revenues | \$ 39,932,132 | \$ 12,391,873 | \$ 5,370,095 | \$ 7,234,940 | \$ 4,449,120 | \$ 69,378,160 |
| Direct costs | (23,926,947) | (5,153,807) | (2,982,020) | (2,847,197) | (2,493,570) | (37,403,541) |
| Direct contribution | 16,005,185 | 7,238,066 | 2,388,075 | 4,387,743 | 1,955,550 | 31,974,619 |
| Operating expenses and indirect costs of net revenues | | | | | | (10,423,222) |
| Income from operations | | | | | | 21,551,397 |
| Other income (expenses): | | | | | | |
| Interest income and other financial gains | | | | | | 2,249,898 |
| Interest expense and other financial results | | | | | | (880,819) |
| Foreign currency loss | | | | | | (702,714) |
| Other income, net | | | | | | 240,097 |
| Net income before income / asset tax expense | | | | | | \$ 22,457,859 |

Table of Contents

MercadoLibre, Inc.

Notes to Condensed Consolidated Financial Statements (unaudited)

5. Segment reporting (Continued)

| | Six Months Ended June 30, 2012 | | | | | Total |
|---|--------------------------------|---------------|---------------|---------------|-----------------|----------------|
| | Brazil | Argentina | Mexico | Venezuela | Other Countries | |
| Net revenues | \$ 86,370,511 | \$ 38,677,682 | \$ 12,630,678 | \$ 23,658,890 | \$ 11,242,304 | \$ 172,580,065 |
| Direct costs | (50,809,649) | (17,666,411) | (6,916,211) | (8,576,248) | (5,712,094) | (89,680,613) |
| Direct contribution | 35,560,862 | 21,011,271 | 5,714,467 | 15,082,642 | 5,530,210 | 82,899,452 |
| Operating expenses and indirect costs of net revenues | | | | | | (26,083,786) |
| Income from operations | | | | | | 56,815,666 |
| Other income (expenses): | | | | | | |
| Interest income and other financial gains | | | | | | 6,070,862 |
| Interest expense and other financial results | | | | | | (551,617) |
| Foreign currency loss | | | | | | (283,969) |
| Other losses, net | | | | | | (11,263) |
| Net income before income / asset tax expense | | | | | | \$ 62,039,679 |

| | Six Months Ended June 30, 2011 | | | | | Total |
|---|--------------------------------|---------------|---------------|---------------|-----------------|----------------|
| | Brazil | Argentina | Mexico | Venezuela | Other Countries | |
| Net revenues | \$ 74,655,327 | \$ 22,971,805 | \$ 10,604,428 | \$ 14,005,393 | \$ 8,600,875 | \$ 130,837,828 |
| Direct costs | (44,002,555) | (9,580,905) | (5,698,379) | (5,916,936) | (4,593,885) | (69,792,660) |
| Direct contribution | 30,652,772 | 13,390,900 | 4,906,049 | 8,088,457 | 4,006,990 | 61,045,168 |
| Operating expenses and indirect costs of net revenues | | | | | | (20,202,618) |
| Income from operations | | | | | | 40,842,550 |
| Other income (expenses): | | | | | | |
| Interest income and other financial gains | | | | | | 4,123,668 |
| Interest expense and other financial results | | | | | | (1,509,769) |
| Foreign currency loss | | | | | | (1,203,369) |
| Other income, net | | | | | | 260,441 |
| | | | | | | 42,513,521 |

Net income before income / asset tax
expense

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

| | June 30, 2012 | December 31, 2011 |
|--|--------------------------|------------------------------|
| US long-lived tangible assets | \$ 7,351,049 | \$ 5,976,544 |
| Other countries long-lived tangible assets | | |
| Argentina | 15,883,338 | 14,316,612 |
| Brazil | 2,064,847 | 2,528,378 |
| Mexico | 380,492 | 409,707 |
| Venezuela | 8,036,966 | 7,192,073 |
| Other countries | 1,386,461 | 454,405 |
| | \$ 27,752,104 | \$ 24,901,175 |
| Total long-lived tangible assets | \$ 35,103,153 | \$ 30,877,719 |

Table of Contents

MercadoLibre, Inc.

Notes to Condensed Consolidated Financial Statements (unaudited)**5. Segment reporting (Continued)**

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

| | June 30, 2012 | December 31, 2011 |
|--|----------------------|----------------------|
| US intangible assets | \$ 31,508 | \$ |
| Other countries goodwill and intangible assets | | |
| Argentina | 22,359,558 | 22,407,558 |
| Brazil | 10,846,524 | 11,686,315 |
| Mexico | 14,178,755 | 13,709,353 |
| Venezuela | 6,595,128 | 6,599,584 |
| Other countries | 14,723,627 | 14,185,995 |
| | \$ 68,703,592 | \$ 68,588,805 |
| Total goodwill and intangible assets | \$ 68,735,100 | \$ 68,588,805 |

6. Fair Value Measurement of Assets and Liabilities

The following table summarizes the Company's financial assets and liabilities measured at fair value on a recurring basis as of June 30, 2012 and December 31, 2011:

| Description | Balances as of June 30, 2012 | Quoted Prices in active markets for identical Assets (Level 1) | Balances as of December 31, 2011 | Quoted Prices in active markets for identical Assets (Level 1) |
|----------------------------|---------------------------------------|--|---|--|
| Assets | | | | |
| Cash and Cash Equivalents: | | | | |
| Money Market Funds | \$ 19,395,323 | \$ 19,395,323 | \$ 20,836,617 | \$ 20,836,617 |
| Investments: | | | | |
| Asset backed securities | 16,800,191 | 16,800,191 | 18,309,316 | 18,309,316 |
| Sovereign Debt Securities | 13,276,663 | 13,276,663 | 10,708,563 | 10,708,563 |
| Corporate Debt Securities | 24,211,120 | 24,211,120 | 17,824,331 | 17,824,331 |
| Total | \$ 73,683,297 | \$ 73,683,297 | \$ 67,678,827 | \$ 67,678,827 |

Table of Contents

MercadoLibre, Inc.

Notes to Condensed Consolidated Financial Statements (unaudited)

6. Fair Value Measurement of Assets and Liabilities (Continued)

The Company's financial assets are valued using market prices on active markets (level 1). Level 1 instrument valuations are obtained from real-time quotes for transactions in active exchange markets involving identical assets. As of June 30, 2012 and December 31, 2011, the Company did not have any assets obtained from readily-available pricing sources for comparable instruments (level 2) or without observable market values that would require a high level of judgment to determine fair value (level 3).

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

In addition, as of June 30, 2012 and December 31, 2011, the Company had \$78,300,084 and \$72,019,726 of short-term investments, which consisted of time deposits. Those investments are accounted for at amortized cost which, as of June 30, 2012 and December 31, 2011, approximates their fair values.

As of June 30, 2012 and December 31, 2011, the carrying value of the Company's cash and cash equivalents approximated their fair value which was held primarily in money markets funds and bank deposits. In addition, the carrying value of accounts receivables, credit card receivables, funds payable to customers, other receivables, other assets, accounts payables, social security payables, taxes payables, loans and provisions and other liabilities approximates their fair values because of its short term maturity.

For the three and six-month periods ended June 30, 2012 and 2011, the Company held no direct investments in auction rate securities, collateralized debt obligations, structured investment vehicles. As of June 30, 2012 and December 31, 2011, the Company does not have any non-financial assets or liabilities measured at fair value.

Table of Contents

MercadoLibre, Inc.

Notes to Condensed Consolidated Financial Statements (unaudited)

6. Fair Value Measurement of Assets and Liabilities (Continued)

As of June 30, 2012 and December 31, 2011, the fair value of short and long-term investments classified as available for sale securities are as follows:

| | June 30, 2012 | | | Estimated Fair Value |
|-------------------------------------|----------------------|------------------------|-----------------------------|----------------------|
| | Gross Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses (1) | |
| Short-term investments | | | | |
| Sovereign Debt Securities | \$ 212,284 | \$ | \$ (472) | \$ 211,812 |
| Corporate Debt Securities | 4,496,878 | 45,521 | (38,121) | 4,504,278 |
| Total Short-term investments | \$ 4,709,162 | \$ 45,521 | \$ (38,593) | \$ 4,716,090 |
| Long-term investments | | | | |
| Sovereign Debt Securities | \$ 12,719,226 | \$ 345,625 | \$ | \$ 13,064,851 |
| Corporate Debt Securities | 19,553,302 | 201,021 | (47,481) | 19,706,842 |
| Asset Backed Securities (2) | 15,981,894 | 1,289,063 | (470,766) | 16,800,191 |
| Total Long-term investments | \$ 48,254,422 | \$ 1,835,709 | \$ (518,247) | \$ 49,571,884 |
| Total | \$ 52,963,584 | \$ 1,881,230 | \$ (556,840) | \$ 54,287,974 |
| | December 31, 2011 | | | Estimated Fair Value |
| | Gross Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses (1) | |
| Short-term investments | | | | |
| Sovereign Debt Securities | \$ 1,554,448 | \$ 322 | \$ | \$ 1,554,770 |
| Corporate Debt Securities | 1,375,006 | | (20,882) | 1,354,124 |
| Total Short-term investments | \$ 2,929,454 | \$ 322 | \$ (20,882) | \$ 2,908,894 |
| Long-term investments | | | | |
| Sovereign Debt Securities | \$ 8,483,883 | \$ 669,910 | \$ | \$ 9,153,793 |
| Corporate Debt Securities | 16,386,974 | 187,946 | (104,713) | 16,470,207 |
| Asset Backed Securities (2) | 17,647,012 | 715,749 | (53,445) | 18,309,316 |
| Total Long-term investments | \$ 42,517,869 | \$ 1,573,605 | \$ (158,158) | \$ 43,933,316 |
| Total | \$ 45,447,323 | \$ 1,573,927 | \$ (179,040) | \$ 46,842,210 |

Edgar Filing: MERCADOLIBRE INC - Form 10-Q

- (1) Unrealized losses from securities are primarily attributable to market price movements. Management does not believe any remaining unrealized losses represent other-than-temporary impairments based on our evaluation of available evidence including the credit rating of the investments, as of June 30, 2012 and December 31, 2011.
- (2) Asset backed securities have investment grade credit ratings. These investments are collateralized by real estate and they are guaranteed by the U.S. Federal Government.

As of June 30, 2012, the estimated fair values of short-term and long-term investments classified by its contractual maturities are as follows:

| | |
|---------------------------|---------------|
| One year or less | \$ 4,716,090 |
| One year to two years | 7,923,957 |
| Two years to three years | 15,449,909 |
| Three years to four years | 11,842,060 |
| Four years to five years | 3,169,607 |
| More than five years | 11,186,351 |
| Total | \$ 54,287,974 |

Table of Contents

MercadoLibre, Inc.

Notes to Condensed Consolidated Financial Statements (unaudited)

7. Compensation Plan for Outside Directors

The Company compensates its outside directors through the payment of cash fees and, from time to time, through the issuance of equity awards.

The total accrued compensation cost for the three-month periods ended June 30, 2012 and 2011 in cash and equity awards amounts \$80,347 and \$194,218, respectively, while for the six-month periods ended at such dates amounted to \$231,372 and \$323,353, respectively, which were included in operating expenses in the accompanying condensed consolidated statements of income.

8. 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. The proceeding-related reserve is based on developments to date and historical information related to actions filed against the Company. As of June 30, 2012, the Company had established reserves for proceeding-related contingencies of \$2,163,347 to cover legal actions against the Company. In addition, as of June 30, 2012 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 \$3,125,661.

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

As of June 30, 2012, 492 legal actions were pending in the Brazilian ordinary courts. In addition, as of June 30, 2012, there were 2,533 cases still pending in Brazilian consumer courts. Filing and pursuing of an action before Brazilian consumer courts do not require the assistance of a lawyer. In most of the cases filed against the Company, the plaintiffs asserted that the Company was responsible for fraud committed against them, or responsible for damages suffered when purchasing an item on the Company's website, when using MercadoPago, or when the Company invoiced them.

On March 17, 2006, Vintage Denim Ltda., or Vintage, sued the Company's Brazilian subsidiaries MercadoLivre.com Atividades de Internet Ltda. and eBazar.com.br Ltda. in the 29th Civil Court of the County of São Paulo, State of São Paulo, Brazil. Vintage requested a preliminary injunction alleging that these subsidiaries were infringing Diesel trademarks and their right of exclusive distribution as a result of sellers listing allegedly counterfeit and original imported Diesel branded clothing through the Brazilian page of the Company's website, based on Brazilian Industrial Property Law (Law 9,279/96). Vintage sought an order enjoining the sale of Diesel-branded clothing on the Company's platform. A preliminary injunction was granted on April 11, 2006 to prohibit the offer of Diesel-branded products, and a fine for non-compliance was imposed in the approximate amount of \$5,300 per defendant per day of non-compliance. The Company appealed that fine and obtained its

Table of Contents

MercadoLibre, Inc.

Notes to Condensed Consolidated Financial Statements (unaudited)

8. Commitments and Contingencies (Continued)

Litigation and Other Legal Matters (Continued)

suspension in 2006. Because the appeal of the preliminary injunction failed, in March of 2007, Vintage presented petitions alleging the Company's non-compliance with the preliminary injunction granted to Vintage and requested a fine of approximately \$3.3 million against the Company's subsidiaries, which represents approximately \$5,300 per defendant per day of alleged non-compliance since April 2006. In July 2007, the judge ordered the payment of the fine mandated in the preliminary injunction, without specifying the amount. In September 2007, the judge decided that (i) the Brazilian subsidiaries were not responsible for alleged infringement of intellectual property rights by its users; and that (ii) the plaintiffs did not prove the alleged infringement of its intellectual property rights. However, the decision maintained the injunction until such ruling is non-appealable. The plaintiff appealed the judge's ruling regarding the subsidiary's non-responsibility and the Company appealed the decision that maintained the preliminary injunction. On July 26, 2011 the State Court of Appeals of the State of São Paulo confirmed the judge's ruling regarding our subsidiary's non-responsibility. The decision on the appeal regarding the decision that maintained the preliminary injunction is still pending. In the opinion of the Company's legal counsel, as of June 30, 2012, the amount of \$197,892 was not reserved since it was considered reasonably possible but not probable.

State of São Paulo Fraud Claim

On June 12, 2007, a state prosecutor of the State of São Paulo, Brazil presented a claim against the Brazilian subsidiary. The state prosecutor alleges that the Brazilian subsidiary should be held liable for any fraud committed by sellers on the Brazilian version of the Company's website, or responsible for damages suffered by buyers when purchasing an item on the Brazilian version of the MercadoLibre website. On June 26, 2009, the Lower Court Judge ruled in favor of the State of São Paulo prosecutor, declaring that the Brazilian subsidiary shall be held joint and severally liable for fraud committed by sellers and damages suffered by buyers when using the website, and ordering the Brazilian subsidiary to remove from the Terms of Service of the Brazilian website any provision limiting the Company's responsibility, with a penalty of approximately \$2,500 per day of non-compliance. On June 29, 2009 the Company presented a recourse to the lower court, which was not granted. On September 29, 2009 the Company presented an appeal and requested to suspend the effects of the ruling issued by the lower court until the appeal is decided by State Court of Appeals, which request was granted on December, 1, 2009. The decision on the appeal is still pending. In the opinion of the Company's management and its legal counsel the risk of loss is reasonably possible.

Table of Contents

MercadoLibre, Inc.

Notes to Condensed Consolidated Financial Statements (unaudited)

8. Commitments and Contingencies (Continued)

Litigation and Other Legal Matters (Continued)

City of São Paulo Tax Claims

In 2007 São Paulo tax authorities have asserted taxes and fines against our Brazilian subsidiary relating to the period from 2005 to 2007 in an approximate amount of \$5.9 million according to the exchange rate at that moment. In 2007 the Company presented administrative defenses against the authorities' claim and the tax authorities ruled against the Brazilian subsidiary. In 2009 the Company presented an appeal to the Conselho Municipal de Tributos or São Paulo Municipal Council of Taxes which reduced the fine. On February 11, 2011, the Company appealed this decision to the Câmaras Reunidas do Egrégio Conselho Municipal de Tributos or Superior Chamber of the São Paulo Municipal Council of Taxes which maintained the reduction of the Infraction. As of the date of these condensed consolidated financial statements, the total amount of the claim is approximately \$ 5.8 million including surcharges and interest. With this decision the administrative stage is finished. On August 15, 2011, the Company made a deposit in court of approximately R\$ 9.5 million or \$4.7 million, according to the exchange rate at June 30, 2012, and filed a lawsuit in 8th Public Treasury Court of the County of São Paulo, State of São Paulo, Brazil order to contest the taxes and fines asserted by the Tax Authorities. The Company's management and its legal counsel believe that the risk of loss is remote, and as a result, has not reserved any provisions for this claim.

In June 2012 São Paulo tax authorities have asserted taxes and fines against our Brazilian subsidiary related to our Brazilian subsidiary's activities in São Paulo for the period from 2007 through 2010 in an approximate amount of R\$23 million or \$11.4 million according to the exchange rate as of June 30, 2012. In January 2005 we moved our operations to Santana de Parnaíba City, Brazil and began paying taxes to that jurisdiction and therefore we believe we have strong defenses to the claims of the São Paulo authorities with respect to this period. On July 27, 2012, the Company presented administrative defenses against the authorities' claim. The Company's management and its legal counsel believe that the risk of loss is remote, and as a result, has not reserved any provisions for this claim.

Brazilian Federal Tax Claims

On September 2, 2011, the Brazilian Federal tax authority has asserted taxes and fines against our Brazilian subsidiary relating to the Income Tax for the 2006 period in an approximate amount of R\$5.2 million or \$2.6 million, according to the exchange rate at June 30, 2012. On September 30, 2011 the Company presented administrative recourses against the tax authorities' claim and on July 25, 2012 it was reduced to R\$1.5 million or \$0.8 million, according to the exchange rate at June 30, 2012. The Company will present administrative defenses against the tax authorities' new amount claimed. The Company's management and its legal counsel believe that the risk of loss is remote, and as a result, the Company has not reserved any provisions for this claim.

Table of Contents

MercadoLibre, Inc.

Notes to Condensed Consolidated Financial Statements (unaudited)

8. Commitments and Contingencies (Continued)

Litigation and Other Legal Matters (Continued)

State of São Paulo Customer Service Level Claim

On September 1, 2010, a state prosecutor of the State of São Paulo, Brazil presented a claim against the Company's Brazilian subsidiary. The state prosecutor alleges that the Brazilian subsidiary should improve its customer service level and provide (among other things) a telephone number for customer support. On November 17, 2010, the Judge of the first instance court granted an injunction against the Brazilian subsidiary imposing the obligation to provide customer service over telephone means within 60 days with a penalty of approximately \$65,000 per day of non-compliance. On April 8, 2011, the Company was summoned of the lawsuit and the injunction. On April 14, 2011, the Company presented recourse to the lower court; even though, the injunction was not lifted, an extension of 30 days was granted, and the non-compliance fine would not start running until July 11, 2011. On April 20, 2011 the Company presented an appeal and requested to suspend the effects of the injunction issued by the lower court until the appeal is decided by State Court of Appeals which was granted on May 4, 2011. On November 29, 2011, the state prosecutor signed an agreement with the Brazilian subsidiary and presented a motion for dismissal of the case. On January 16, 2012, Instituto Barão de Mauá de Defesa de Vítimas e Consumidores contra Entes Poluidores e Maus Fornecedores or The Instituto Barão de Mauá, a consumer protection entity which had joined the case as a co-plaintiff, presented a petition manifesting its partial disagreement with the commitments assumed by the Company. On March 22, 2012, the Lower Court Judge ruled in favor of the agreement and dismissed the claim against the Company. The Instituto Barão de Mauá did not appeal the decision, therefore the case is closed.

State of Rio de Janeiro Customer Service Level Claim

On August 19, 2011, a state prosecutor of the State of Rio de Janeiro, Brazil presented a claim against the Company's Brazilian subsidiary. The state prosecutor alleges that the Brazilian subsidiary should improve our customer service level and provide (among other things) a telephone number for customer support and requested an injunction against our Brazilian subsidiary. On August 23, 2011, the Judge of the first instance court denied the aforementioned injunction. On December 7, 2011, the Company was summoned of the lawsuit. On March 1, 2012 the Company presented its defense. In the opinion of the Company's management and its legal counsel the risk of loss is reasonably possible.

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

Table of Contents

MercadoLibre, Inc.

Notes to Condensed Consolidated Financial Statements (unaudited)

8. Commitments and Contingencies (Continued)

Litigation and Other Legal Matters (Continued)

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.

9. Long Term Retention Plan

On August 8, 2008, the Board of Directors approved an employee retention program (the 2008 LTRP) that will be payable 50% in cash and 50% in shares, in addition to the annual salary and bonus of certain executives. Payments will be made in the first quarter on annual basis according to the following vesting schedule:

Year 1 (2008): 17%

Year 2 (2009): 22%

Year 3 (2010): 27%

Year 4 (2011): 34%

The shares granted for the 2008 LTRP were valued at the grant-date fair market value of \$36.8 per share. As of June 30, 2012, the Company fully paid the 2008 LTRP.

For the six-month period ended June 30, 2012, the related accrued compensation expense was \$20,595 corresponding \$11,036 to the share portion of the award credited to Additional Paid-in Capital and \$9,559 to the cash portion included in the Balance Sheet as Social security payable.

For the three-month period ended June 30, 2011, the related accrued compensation resulted in a gain amounting to \$27,435 corresponding \$6,716 to the share portion of the award credited to Additional Paid-in Capital and \$20,718 to the cash portion included in the Balance Sheet as Social security payable.

For the six-month period ended June 30, 2011, the related accrued compensation expense was \$42,383 corresponding \$26,993 to the share portion of the award credited to Additional Paid-in Capital and \$15,390 to the cash portion included in the balance sheet within the caption

Social security payable.

Table of Contents

MercadoLibre, Inc.

Notes to Condensed Consolidated Financial Statements (unaudited)**9. Long Term Retention Plan (Continued)**

On July 15, 2009, June 25, 2010, August 1, 2011 and June 5, 2012, the Board of Directors, upon the recommendation of the compensation Committee approved the 2009, the 2010, 2011 and the 2012 employee retention programs (the 2009, 2010, 2011 and 2012 LTRP). The awards under the 2009, 2010, 2011 and 2012 LTRP are fully payable in cash in addition to the annual salary and bonus of each employee.

The 2009, 2010, 2011 and 2012 LTRP will be paid in 8 equal annual quotas (12.5% each) commencing on March 31, 2010, March 31, 2011, 2012 and March 31, 2013, respectively. Each quota is calculated as follows:

6.25% of the amount is calculated in nominal terms (the nominal basis share),

6.25% is adjusted by multiplying the nominal amount by the average closing stock price for the last 60 trading days of the year previous to the payment date and divided by the average closing stock price for the last 60 trading days of 2008, 2009, 2010 and 2011 for the 2009, 2010, 2011 and 2012 LTRP, respectively. The average closing stock price for the 2009, 2010, 2011 and 2012 LTRP amounted to \$13.81, \$45.75, \$65.41 and \$77.77, respectively (the variable share).

The 2009, 2010, 2011 and 2012 LTRP have performance and/or eligibility conditions to be achieved at each year end and also require the employee to stay in the Company at the payment date.

The following tables summarize the LTRP accrued compensation expense for the three and six-month periods ended June 30, 2012 and 2011:

| | Six Months Ended June 30, | | Three Months Ended June 30, | |
|-----------|---------------------------|-----------|-----------------------------|---------|
| | 2012 | 2011 | 2012 (*) | 2011 |
| LTRP 2009 | 179,924 | 1,009,225 | (497,895) | 490,139 |
| LTRP 2010 | 532,918 | 817,471 | (51,239) | 309,495 |
| LTRP 2011 | 686,876 | 761,485 | 119,814 | 430,651 |
| LTRP 2012 | 792,088 | | 359,637 | |

(*) The negative amount included in the table above represents a gain, mainly as a consequence of the changes in the share prices of the Company.

Table of Contents

MercadoLibre, Inc.

Notes to Condensed Consolidated Financial Statements (unaudited)

10. Cash dividend distribution

On January 17, 2012, the Company paid the last quarterly cash dividend of \$3.5 million or \$0.08 per share declared by the Board of Directors for 2011.

On April 16, 2012, the Company paid the first quarterly cash dividend distribution of \$4.8 million or \$0.109 per share declared by the Board of Directors for 2012.

On May 4, 2012, the Board of Directors approved a quarterly cash dividend of \$4.8 million or \$0.109 per share on our outstanding shares of common stock. The dividend was paid on July 16, 2012 to stockholders of record as of the close of business on June 29, 2012.

On July 31, 2012 the Board of Directors declared a quarterly cash dividend of \$0.109 per share, payable to the holders of our common stock. This quarterly cash dividend will be paid on October 15, 2012 to stockholders of record as of the close of business on September 28, 2012.

* * * *

Table of Contents

**Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations
Cautionary Statement Regarding Forward-Looking Statements**

Certain statements regarding our future performance made or implied in this report are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The words anticipate, believe, expect, intend, plan, estimate, target, project, should, may, could, will and similar words and expressions identify forward-looking statements. Forward-looking statements generally relate to information concerning our possible or assumed future results of operations, business strategies, financing plans, competitive position, industry environment, potential growth opportunities, the effects of future regulation and the effects of competition. Such forward-looking statements reflect, among other things, our current expectations, plans, projections and strategies, anticipated financial results, future events and financial trends affecting our business, all of which are subject to known and unknown risks, uncertainties and other important factors (in addition to those discussed elsewhere in this report) that may cause our actual results to differ materially from those expressed or implied by these forward-looking statements. These risks and uncertainties include, among other things:

our expectations regarding the continued growth of online commerce and Internet usage in Latin America;

our ability to expand our operations and adapt to rapidly changing technologies;

government regulation;

litigation and legal liability;

systems interruptions or failures;

our ability to attract and retain qualified personnel;

consumer trends;

security breaches and illegal uses of our services;

competition;

reliance on third-party service providers;

enforcement of intellectual property rights;

our ability to attract new customers, retain existing customers and increase revenues;

seasonal fluctuations; and

political, social and economic conditions in Latin America in general, and Venezuela and Argentina in particular, including Venezuela's status as a highly inflationary economy and exchange rate system.

Many of these risks are beyond our ability to control or predict. New risk factors emerge from time to time and it is not possible for management to predict all such risk factors, nor can it assess the impact of all such risk factors on our company's business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

These statements are based on currently available information and our current assumptions, expectations and projections about future events. While we believe that our assumptions, expectations and projections are reasonable in view of the currently available information, you are cautioned not to place undue reliance on our forward-looking statements. These statements are not guarantees of future performance. They are subject to future events, risks and uncertainties—many of which are beyond our control—as well as potentially inaccurate assumptions that could cause actual results to differ materially from our expectations and projections. Some of the material risks and uncertainties (in addition to those referred to above and elsewhere in this report) that could cause actual results to differ materially from our expectations and projections are described in Item 1A—Risk Factors—in Part I of our Annual Report on Form 10-K for the fiscal year ended December 31, 2011 filed with the Securities and Exchange Commission on February 28, 2012 and in other reports we file from time to time with the U.S. Securities and Exchange Commission (SEC).

Table of Contents

You should read that information in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 2 of Part I of this report, our unaudited condensed consolidated financial statements and related notes in Item 1 of Part I of this report and our audited consolidated financial statements and related notes in Item 8 of Part II of our Annual Report on Form 10-K for the year ended December 31, 2011. We note such information for investors as permitted by the Private Securities Litigation Reform Act of 1995. There also may be other factors that we cannot anticipate or that are not described in this report, generally because we do not perceive them to be material that could cause results to differ materially from our expectations.

Forward-looking statements speak only as of the date they are made, and we do not undertake to update these forward-looking statements except as may be required by law. You are advised, however, to review any further disclosures we make on related subjects in our periodic filings with the SEC.

The discussion and analysis of our financial condition and results of operations has been organized to present the following:

a brief overview of our company;

a discussion of our principal trends and results of operations for the three and six-month periods ended June 30, 2012 and 2011;

a review of our financial presentation and accounting policies, including our critical accounting policies;

a discussion of the principal factors that influence our results of operations, financial condition and liquidity;

a discussion of our liquidity and capital resources, a discussion of our capital expenditures and a description of our contractual obligations; and

a discussion of the market risks that we face.

Business Overview

MercadoLibre, Inc. (together with its subsidiaries us, we, our or the company) hosts the largest online commerce platform in Latin America located at www.mercadolibre.com, which is focused on enabling e-commerce and its related services. Our services are designed to provide our users with mechanisms for buying, selling, paying, collecting, generating leads and comparing transactions via e-commerce in an effective and efficient manner. We are market leaders in e-commerce in each of Argentina, Brazil, Chile, Colombia, Costa Rica, Ecuador, Mexico, Peru, Uruguay and Venezuela, based on unique visitors and page views. Additionally, we also operate online commerce platforms in the Dominican Republic, Panama and Portugal.

Through our online commerce platform, we provide buyers and sellers with a robust online commerce environment that fosters the development of a large and growing e-commerce community in Latin America, a region with a population of over 550 million people and one of the fastest-growing Internet penetration rates in the world. We believe that we offer a technological and commercial solution that addresses the distinctive cultural and geographic challenges of operating an online commerce platform in Latin America.

We offer our users an eco-system of four related e-commerce services: the MercadoLibre Marketplace, the MercadoPago payments solution, the MercadoClicks advertising program and the MercadoShops on-line stores solution.

The MercadoLibre Marketplace, which we sometimes refer to as our marketplace, is a fully-automated, topically-arranged and user-friendly online commerce service. This service permits both businesses and individuals to list items and conduct their sales and purchases online in either a fixed-price or auction-based format. Additionally, through online classified listings, our registered users can list and purchase motor vehicles, vessels, aircraft, real estate and services. Any Internet user can browse through the various products and services that are listed on our web site and register with MercadoLibre to list, bid for and purchase items and services.

Edgar Filing: MERCADOLIBRE INC - Form 10-Q

To complement the MercadoLibre Marketplace, we developed MercadoPago, an integrated online payments solution. MercadoPago is designed to facilitate transactions both on and off the MercadoLibre Marketplace by providing a mechanism that allows our users to securely, easily and promptly send, receive and finance payments online.

As a further enhancement to the MercadoLibre Marketplace, in 2009, we launched our MercadoClics program to allow businesses to promote their products and services on the Internet. Through MercadoClics users and advertisers are able to place display and/or text advertisements on our web pages in order to promote their brands and offerings. MercadoClics offers advertisers a cost efficient and automated platform through which it will acquire traffic. Advertisers purchase, on a cost per clicks basis, advertising space that appears around product search results for specific categories and other pages. These advertising placements are clearly differentiated from product search results and direct traffic both to and off our platform based on the advertisers destination of choice.

Table of Contents

To complete our suite of e-commerce services, during 2010, we launched, the MercadoShops on-line stores solution. Through MercadoShops users can set-up, manage and promote their own on-line webstores. These webstores are hosted by MercadoLibre and offer integration with the other marketplace, payments and advertising services we offer. Users can choose from a basic, free webstore or pay monthly subscriptions for enhanced functionality and added services on their stores.

Reporting Segments

Our segment reporting is based on geographic areas, which is the current criteria we are using to evaluate our segment performance. Our geography segments include Brazil, Argentina, Mexico, Venezuela and other countries (such as Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Panama, Peru, Portugal and Uruguay).

In addition, we operate a real estate classifieds platform that covers some areas of Florida in the United States, the operations of which are included in our segment for other countries .

Recent Developments

2012 Long Term Retention Plan

On June 5, 2012, our board of directors, upon the recommendation of the compensation committee, approved the 2012 Long Term Retention Plan (the 2012 LTRP). If earned, payments to eligible employees under the 2012 LTRP will be in addition to payments of base salary and cash bonus, the latter if earned, made to those employees.

In order to receive an award under the 2012 LTRP, each eligible employee must satisfy the performance conditions established by the board of directors for such employee. If these conditions are satisfied, the eligible employee will, subject to his or her continued employment as of each applicable payment date, receive the full amount of his or her 2012 LTRP bonus, payable as follows:

the eligible employee will receive a fixed cash payment equal to 6.25% of his or her 2012 LTRP bonus once a year for a period of eight years starting in 2013 (the Annual Fixed Payment); and

on each date we pay the Annual Fixed Payment to an eligible employee, he or she will also receive a cash payment (the Variable Payment) equal to the product of (i) 6.25% of the applicable 2012 LTRP bonus 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 2011 Stock Price, defined as \$77.77, which was the average closing price of our common stock on the NASDAQ Global Market during the final 60 trading days of 2011. The Applicable Year Stock Price shall equal the average closing price of our common stock on the NASDAQ Global Market during the final 60 trading days of the year preceding the applicable payment date.

The compensation cost related to the Annual Fixed Payments is recognized on a straight line basis using the equal annual accrual method. The compensation cost related to the Variable Payments is recognized in accordance with the graded-vesting attribution method and is accrued up to each payment day.

As of June 30, 2012, the total compensation cost of the 2012 LTRP is expected to be approximately \$7.3 million and the related accrued compensation expense for the six-month period ended June 30, 2012 was \$0.8 million.

Description of line items

Net revenues

We recognize revenues in each of our five reporting segments. Our reporting segments include our operations in Brazil, Argentina, Mexico, Venezuela and other countries (Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Panama, Peru, Portugal and Uruguay).

We offer three types of up-front fees for three different combinations of placement and features. Up-front fees are charged at the time the listing is uploaded onto our platform and are not subject to successful sale of the items listed. Following this fee structure modification, revenues from MercadoLibre Marketplace transactions are now generated by:

up-front fees;

final value fees; and

online advertising fees.

Table of Contents

Our MercadoPago payments processing service is offered at no extra cost on our marketplace in all countries where we have upgraded our payments platform to its new and improved version (MP3). Our payments platform was upgraded in Brazil and Argentina before 2011, while Mexico and Venezuela were upgraded in the second and fourth quarter of 2011, respectively.

Coinciding with the rollout of our new payment platform, the acceptance of MercadoPago became a mandatory payment option on all marketplace listings that are not free in all of the above countries except for Venezuela. As a result of the aforementioned changes, we no longer charge a specific processing fee for the use of MercadoPago on our marketplace. We do, however, continue to generate payment-related revenues, reported within each of our reporting segments, attributable to:

commissions charged to sellers for the use of the MercadoPago platform on transactions that occur outside of our marketplace platform;

revenues from a financing markup charged when a buyer elects to pay in installments through our MercadoPago platform, for transactions that occur on or off of our marketplace platform.

The following table sets forth the percentage of consolidated net revenues by segment for the three and six-month periods ended June 30, 2012 and 2011:

| (% of total consolidated net revenues) | Six-Month Period Ended June 30, | | Three-Month Period Ended June 30, | |
|--|------------------------------------|-------|--------------------------------------|-------|
| | 2012 | 2011 | 2012 | 2011 |
| Brazil | 50.0% | 57.1% | 49.8% | 57.6% |
| Argentina | 22.4 | 17.6 | 23.1 | 17.9 |
| Venezuela | 13.7 | 10.7 | 14.0 | 10.4 |
| Mexico | 7.3 | 8.1 | 6.8 | 7.7 |
| Other Countries | 6.5 | 6.6 | 6.3 | 6.4 |

(*) Percentages have been calculated using whole-dollar amounts rather than rounded amounts that appear in the table. The table above may not total due to rounding.

The following table summarizes the changes in net revenues for the three and six-month periods ended June 30, 2012 and 2011:

| | Six-Month Period Ended June 30, | | Change from 2011 to 2012 (*) | | Three-Month Period Ended June 30, | | Change from 2011 to 2012 (*) | |
|---------------------------|------------------------------------|-----------------|---------------------------------|--------------|--------------------------------------|----------------|---------------------------------|--------------|
| | 2012 | 2011 | in Dollars | in % | 2012 | 2011 | in Dollars | in % |
| | (in millions, except percentages) | | | | (in millions, except percentages) | | | |
| Net Revenues: | | | | | | | | |
| Brazil | \$ 86.4 | \$ 74.7 | \$ 11.7 | 15.7% | \$ 44.2 | \$ 39.9 | \$ 4.3 | 10.7% |
| Argentina | 38.7 | 23.0 | 15.7 | 68.4% | 20.6 | 12.4 | 8.2 | 65.9 |
| Venezuela | 23.7 | 14.0 | 9.7 | 68.9% | 12.4 | 7.2 | 5.2 | 71.6 |
| Mexico | 12.6 | 10.6 | 2.0 | 19.1% | 6.0 | 5.4 | 0.7 | 12.6 |
| Other Countries | 11.2 | 8.5 | 2.7 | 30.7% | 5.6 | 4.4 | 1.2 | 26.2 |
| Total Net Revenues | \$ 172.6 | \$ 130.8 | \$ 41.7 | 31.9% | \$ 88.8 | \$ 69.4 | \$ 19.5 | 28.1% |

Edgar Filing: MERCADOLIBRE INC - Form 10-Q

(*) Percentages have been calculated using whole-dollar amounts rather than rounded amounts that appear in the table. The table above may not total due to rounding.

We have a highly fragmented customer revenue base given the large numbers of sellers and buyers who use our platforms. For the three and six-month periods ended June 30, 2012 and 2011, no single customer accounted for more than 5.0% of our net revenues. Our MercadoLibre Marketplace is available in thirteen countries (Argentina, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Mexico, Panama, Peru, Portugal, Uruguay and Venezuela), and MercadoPago is available in six countries (Argentina, Brazil, Chile, Colombia, Mexico and Venezuela). The functional currency for each country's operations is the country's local currency, except for Venezuela where the functional currency is the U.S. dollar due to Venezuela's status as a highly inflationary economy. See Critical accounting policies and estimates Foreign Currency Translation included below. Therefore, our net revenues are generated in multiple foreign currencies and then translated into U.S. dollars at the average monthly exchange rate.

Our subsidiaries in Brazil, Argentina, Venezuela and Colombia are subject to certain taxes on revenues which are classified as a cost of net revenues. These taxes represented 6.4% and 6.5% of net revenues for the three and six-month periods ended June 30, 2012.

Table of Contents

Cost of net revenues

Cost of net revenues primarily represents bank and credit card processing charges for transactions and fees paid with credit cards and other payment methods, certain taxes on revenues, compensation for customer support personnel, ISP connectivity charges, depreciation and amortization and hosting and site operation fees.

Product and technology development expenses

Our product and technology development related expenses consist primarily of depreciation and amortization costs related to product and technology development, compensation for our engineering and web-development staff, telecommunications costs and payments to third-party suppliers who provide technology maintenance services to our company.

Sales and marketing expenses

Our sales and marketing expenses consist primarily of marketing costs for our platforms through online and offline advertising, bad debt charges, chargebacks related to MercadoPago operation, the salaries of employees involved in these activities, public relations costs, marketing activities for our users and depreciation and amortization costs.

We carry out the vast majority of our marketing efforts on the Internet. In that context, we enter in agreements with portals, search engines, social networks, ad networks and other sites in order to attract Internet users to the MercadoLibre Marketplace and convert them into confirmed registered users and active traders on our platform. Additionally, we allocate a portion of our marketing budget to cable television advertising in order to improve our brand awareness and to complement our online efforts.

We also work intensively on attracting, developing and growing our seller community through our supply efforts. We have dedicated professionals in most of our operations that work with sellers, through trade show participation, seminars and meetings to provide them with important tools and skills to become effective sellers on our platform.

General and administrative expenses

Our general and administrative expenses consist primarily of salaries for management and administrative staff, compensation for outside directors, long term retention plan compensation, expenses for legal, accounting and other professional services, insurance expenses, office space rental expenses, travel and business expenses, as well as depreciation and amortization costs. General and administrative expenses include the costs of the following areas of our company: general management, finance, administration, accounting, legal and human resources.

Other income (expenses)

Other income (expenses) consists primarily of interest income derived from our investments and cash equivalents, foreign currency gains or losses, and other non-operating results.

Income and asset tax

We are subject to federal and state taxes in the United States, as well as foreign taxes in the multiple jurisdictions where we operate. Our tax obligations consist of current and deferred income taxes and asset taxes incurred in these jurisdictions. We account for income taxes following the liability method of accounting. Therefore, our income tax expense consists of taxes currently payable, if any (given that in certain jurisdictions we still have net operating loss carry-forwards), plus the change during the period in our deferred tax assets and liabilities.

Critical accounting policies and estimates

The preparation of our unaudited condensed consolidated financial statements and related notes requires us to make judgments, estimates and assumptions that affect our reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We have based our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Our management has discussed the development, selection and disclosure of these estimates with our audit committee and board of directors. Actual results may differ from these estimates under different assumptions or conditions.

Edgar Filing: MERCADOLIBRE INC - Form 10-Q

An accounting policy is considered to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, and if different estimates that reasonably could have been used, or changes in the accounting estimates that are reasonably likely to occur periodically, could materially impact our condensed consolidated financial statements. We believe that the following critical accounting policies reflect the more significant estimates and assumptions used in the preparation of our condensed consolidated financial statements. You should read the following descriptions of critical accounting policies, judgments and estimates in conjunction with our unaudited condensed consolidated financial statements, the notes thereto and other disclosures included in this report.

Table of Contents

Foreign Currency Translation

Historically, all of our foreign operations have used the local currency as their functional currency. Accordingly, these foreign subsidiaries translate assets and liabilities from their local currencies to U.S. dollars using period/year-end exchange rates while income and expense accounts are translated at the average rates in effect during the period/year. The resulting translation adjustment is recorded as part of other comprehensive income (loss), a component of shareholders' equity. Gains and losses resulting from transactions denominated in non-functional currencies are recognized in earnings. Net foreign currency exchange losses or gains are included in the consolidated statements of income under the caption "Foreign currency loss".

Until September 30, 2009, our Venezuelan subsidiaries' assets, liabilities, income and expenses were translated at the official exchange rate of 2.15 Bolivares Fuertes per U.S. dollar.

In the fourth quarter of 2009, we began to use the parallel exchange rate (as described below) rather than the official exchange rate to translate our Venezuelan financial statements. The following facts and circumstances have been considered in our analysis of the applicable exchange rate:

At the date we changed the translation exchange rate (and as of the date of this report), we have not obtained dividends remittances at the official exchange rate (and we have not as of the date of this report);

The industry in which we operate may not influence our ability to access to the official exchange rate;

The Commission for the Administration of Foreign Exchange (CADIVI) volume of approvals for the use of the official rate went down 50% on a year-to-year basis as of July 2009; and

CADIVI has not only delayed approvals but also removed many items from its priority lists (current priorities appear to be food and medicine), causing delays in the repatriation of dividends for many companies. Consequently, in the fourth quarter of 2009, we translated our Venezuelan subsidiaries' assets, liabilities, income and expense accounts using the parallel exchange rate.

As of the date of this report the Company did not buy U.S. dollars at the CADIVI official rate.

In accordance with U.S. GAAP, we have classified our Venezuelan operations as highly inflationary as of January 1, 2010 considering U.S. dollar as the functional currency for purposes of our financial statements. Therefore, no translation effect was accounted for in other comprehensive income since October 1, 2009 related to our Venezuelan operations.

On May 14, 2010, the Venezuelan government enacted reforms to its exchange regulations making the Venezuelan Central Bank (BCV) the only institution that could legally authorize the purchase or sale of foreign currency bonds, thereby excluding non-authorized brokers from the foreign exchange market.

Under the new system, known as the Foreign Currency Securities Transactions System (SITME), entities domiciled in Venezuela can buy U.S. dollar-denominated securities only through banks authorized by the BCV to import goods, services or capital inputs. Additionally, the SITME imposes volume restrictions on an entity's trading activity, limiting such activity to a maximum amount equivalent to \$50,000 per day and \$350,000 per calendar month. This limitation is non-cumulative, meaning that an entity cannot carry over unused volume from one month to the next.

As a consequence of this new system, we started using the SITME rate and started re-measuring foreign currency transactions using the SITME rate published by BCV. For the three and six-month periods ended June 30, 2012 and 2011, the exchange rate used to re-measure transactions was 5.30 Bolivares Fuertes per U.S. dollar.

Edgar Filing: MERCADOLIBRE INC - Form 10-Q

During 2010 and previous years we were able to obtain U.S. dollars using alternative mechanisms other than the CADIVI. These dollars, obtained at a higher exchange rate than the one offered by CADIVI, and held in balance at U.S. bank accounts of our Venezuelan subsidiaries, were used for dividend distributions from our Venezuelan subsidiaries. As a result, during 2010, lack of CADIVI approval did not restrict our ability to distribute the full amount of our Venezuelan retained earnings as dividends related to fiscal years 2008 (\$0.8 million), and 2009 (\$1.8 million). In addition, during 2011, our Venezuelan subsidiaries distributed dividends of a \$4.2 million, related to earnings for fiscal year 2010, using existing cash balances held in the U.S. bank accounts of our Venezuelan subsidiaries.

Table of Contents

The following table sets forth the assets, liabilities and net assets of our Venezuelan subsidiaries, before intercompany eliminations, as of June 30, 2012 and December 31, 2011 and net revenues for the six-month periods ended June 30, 2012 and 2011.

| | June 30, 2012 | June 30, 2011 |
|------------------------------|--------------------------|------------------------------|
| Venezuelan operations | | |
| Net Revenues | \$ 23,658,890 | \$ 14,005,393 |
| | | |
| | June 30, 2012 | December 31, 2011 |
| Assets | 42,526,197 | 31,074,871 |
| Liabilities | (13,965,973) | (10,414,881) |
| | | |
| Net Assets | \$ 28,560,224 | \$ 20,659,990 |

As of June 30, 2012, net assets of our Venezuelan subsidiaries amount to approximately 11.5% of our consolidated net assets, and cash and investments of our Venezuelan subsidiaries held in local currency in Venezuela amount to approximately 11.3% of our consolidated cash and investments.

On June 2, 2011, our Venezuelan subsidiary acquired an office property containing 992 square meters in a building located in Caracas, Venezuela for approximately \$6.6 million. We funded the purchase price through working capital.

Although the current mechanisms available to obtain U.S. dollars for dividend distributions from our Venezuelan subsidiaries to those subsidiaries of our company that are located outside Venezuela imply increased restrictions, we do not expect that the current restrictions on purchasing U.S. dollars will have a significant adverse effect on our business plans or with regard to our investment in Venezuela.

Impairment of long-lived assets and goodwill

We review long-lived assets for impairments whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to undiscounted future net cash flows expected to be generated by the asset. If such assets are 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 assets exceeds the fair value of the assets.

If the carrying amount of the reporting unit exceeds its fair value, goodwill or indefinite useful life intangible assets are considered impaired and a second step is performed to measure the amount of impairment loss, if any. No impairments were recognized during the reporting periods and management's assessment of each reporting unit's fair value materially exceeds its carrying value.

Goodwill and certain indefinite life trademarks are reviewed at the end of the year for impairment or more frequently when events or changes in circumstances indicate that the carrying value may not be recoverable. Impairment of goodwill and certain trademarks are tested at the reporting unit level (considering each segment of our company as a reporting unit) by comparing the reporting unit's carrying amount, including goodwill and certain trademarks, to the fair value of the reporting unit. We adopted the new guidance to test goodwill and, as a consequence, performed a qualitative assessment before calculating the fair value of the reporting unit. If we determine, on the basis of qualitative factors, that it is more likely than not that the fair value of the reporting unit is less than the carrying amount, the fair-value based test is applied. For the year ended December 31, 2011, based on the qualitative assessment, we determined that the fair value of all the reporting units is greater than the carrying amount.

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

Allowances for doubtful accounts and chargebacks

Edgar Filing: MERCADOLIBRE INC - Form 10-Q

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

Table of Contents

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

Legal contingencies

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

From time to time, we are involved in disputes that arise in the ordinary course of business. We are currently involved in certain legal proceedings as described in "Legal Proceedings" in Item 1 of Part II of this report, Item 3 of Part I of our annual report on Form 10-K for our fiscal year ended December 31, 2011 filed with the Securities and Exchange Commission, and in Note 8 to our unaudited interim condensed consolidated financial statements, included in this report. We believe that we have meritorious defenses to the claims against us, and we will defend ourselves accordingly. However, even if successful, our defense could be costly and could divert management's time. If the plaintiffs were to prevail on certain claims, we might be forced to pay damages or modify our business practices. Any of these consequences could materially harm our business and could have a material adverse impact on our financial position, results of operations or cash flows.

Income taxes

We are required to recognize a provision for income taxes based upon taxable income and temporary differences between the book and tax bases of our assets and liabilities for each of the tax jurisdictions in which we operate. This process requires a calculation of taxes payable under currently enacted tax laws in each jurisdiction and an analysis of temporary differences between the book and tax bases of our assets and liabilities, including various accruals, allowances, depreciation and amortization. The tax effect of these temporary differences and the estimated tax benefit from our tax net operating losses are reported as deferred tax assets and liabilities in our condensed consolidated balance sheet. We also assess the likelihood that our net deferred tax assets will be realized from future taxable income. To the extent we believe that it is more likely than not that some portion or all of deferred tax asset will not be realized, we establish a valuation allowance. At June 30, 2012, we had a valuation allowance on certain foreign net operating losses based on our assessment that it is more likely than not that the deferred tax asset will not be realized. To the extent we establish a valuation allowance or change the allowance in a period, we reflect the change with a corresponding increase or decrease in our "Income/asset tax expense" line in our condensed consolidated statement of income.

Results of operations for the three-month period ended June 30, 2012 compared to three-month period ended June 30, 2011 and the six-month period ended June 30, 2012 compared to the six-month period ended June 30, 2011

The selected financial data for the three and six-month periods ended June 30, 2012 and 2011 have been derived from our unaudited condensed consolidated financial statements included in Item 1 of Part I of this report. These statements include all normal recurring adjustments that management believes are necessary to fairly state our financial position, results of operations and cash flows. Results of operations for the three and six-month periods ended June 30, 2012 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2012 or for any other period.

Table of Contents**Statement of income data**

| (In millions) | Six Months Ended June 30, | | Three Months Ended June 30, | |
|---|---------------------------|----------------|-----------------------------|----------------|
| | 2012 (*) | 2011 (*) | 2012 (*) | 2011 (*) |
| | (Unaudited) | | (Unaudited) | |
| Net revenues | \$ 172.6 | \$ 130.8 | \$ 88.8 | \$ 69.4 |
| Cost of net revenues | (45.0) | (31.3) | (23.9) | (16.9) |
| Gross profit | 127.6 | 99.6 | 65.0 | 52.4 |
| Operating expenses: | | | | |
| Product and technology development | (13.7) | (10.7) | (6.1) | (5.5) |
| Sales and marketing | (34.2) | (28.9) | (16.8) | (15.6) |
| General and administrative | (22.8) | (19.2) | (10.1) | (9.7) |
| Total operating expenses | (70.8) | (58.7) | (33.1) | (30.9) |
| Income from operations | 56.8 | 40.8 | 31.9 | 21.6 |
| Other income (expenses): | | | | |
| Interest income and other financial gains | 6.1 | 4.1 | 3.0 | 2.2 |
| Interest expense and other financial charges | (.6) | (1.5) | (0.5) | (0.9) |
| Foreign currency gains (losses) | (0.3) | (1.2) | .7 | (0.7) |
| Other (expenses) income, net | (0.0) | .3 | (0.0) | 0.2 |
| Net income before income / asset tax expense | 62.0 | 42.5 | 35.1 | 22.5 |
| Income / asset tax expense | (17.0) | (13.6) | (9.7) | (7.6) |
| Net income | \$ 45.0 | \$ 28.9 | \$ 25.4 | \$ 14.8 |
| Less: Net Income attributable to Noncontrolling | .0 | | .0 | |
| Net income available to common shareholders | \$ 45.0 | \$ 28.9 | \$ 25.4 | \$ 14.8 |

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

Other Data

| (In millions) | Six Months Ended June 30, | | Three Months Ended June 30, | |
|---|---------------------------|---------|-----------------------------|---------|
| | 2012 | 2011 | 2012 | 2011 |
| Number of confirmed registered users at end of the period ¹ | 73.2 | 58.4 | 73.2 | 58.4 |
| Number of confirmed new registered users during the period ² | 7.3 | 5.5 | 3.7 | 2.8 |
| Gross merchandise volume ³ | 2,620.9 | 2,021.8 | 1,299.2 | 1,067.8 |
| Number of items sold ⁴ | 30.8 | 22.5 | 15.8 | 11.6 |
| Total payment volume ⁵ | 781.7 | 541.1 | 411.6 | 295.8 |
| Total payment transactions ⁶ | 10.4 | 5.7 | 5.5 | 3.1 |
| Depreciation and amortization | 4.1 | 3.3 | 2.1 | 1.8 |

Edgar Filing: MERCADOLIBRE INC - Form 10-Q

- 1- Measure of the cumulative number of users who have registered on the MercadoLibre Marketplace and confirmed their registration.
- 2- Measure of the number of new users who have registered on the MercadoLibre Marketplace and confirmed their registration.
- 3- Measure of the total U.S. dollar sum of all transactions completed through the MercadoLibre Marketplace, excluding motor vehicles, vessels, aircraft and real estate.
- 4- Measure of the number of items that were sold/purchased through the MercadoLibre Marketplace.
- 5- Measure of the total U.S. dollar sum of all transactions paid for using MercadoPago.
- 6- Measure of the number of all transactions paid for using MercadoPago.

Table of Contents

Net revenues

| | Six-Month Period | | | | Three-Month Period | | | |
|-------------------------------------|-----------------------------------|----------|------------------------------|-------|-----------------------------------|---------|------------------------------|-------|
| | Ended June 30, | | Change from 2011 to 2012 (*) | | Ended June 30, | | Change from 2011 to 2012 (*) | |
| | 2012 | 2011 | in Dollars | in % | 2012 | 2011 | in Dollars | in % |
| | (in millions, except percentages) | | | | (in millions, except percentages) | | | |
| Total Net Revenues | \$ 172.6 | \$ 130.8 | \$ 41.7 | 31.9% | \$ 88.8 | \$ 69.4 | \$ 19.4 | 28.1% |
| As a percentage of net revenues (*) | 100.0% | 100.0% | | | 100.0% | 100.0% | | |

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

The 28.1% growth in net revenues from the second quarter of 2011 to the second quarter of 2012 resulted principally from a 21.7% increase in the gross merchandise volume (GMV) transacted through our platform from second quarter of 2011 to the second quarter of 2012. This GMV growth resulted from a 35.6% increase in items sold between those periods. Additionally, non-marketplace revenues from financing and off-platform payments grew 40.8% from the second quarter of 2011 to the second quarter of 2012, mainly as a consequence of a 39.1% increase in the total payments volume (TPV) paid using MercadoPago. Finally, classified and ad sales revenues for the second quarter of 2012 grew 36.0% over the second quarter of 2011.

The 31.9% growth in net revenues from the first half of 2011 to the first half of 2012 resulted principally from a 29.6% increase in the GMV transacted through our platform from first half of 2011 to the first half of 2012. This GMV growth resulted from a 36.8% increase in items sold between those periods. Additionally, non-marketplace revenues from financing and off-platform payments grew 39.7% from the first half of 2011 to the first half of 2012, mainly as a consequence of a 44.5% increase in the TPV paid using MercadoPago. Finally, classified and ad sales revenues for the first half of 2012 grew 39.4% over the first half of 2011.

Measured in local currencies, net revenues grew 47.1% and 45.4% during the three- and six month periods ended June 30, 2012 compared to the same periods a year earlier. The local currency revenue growth was calculated by using the average monthly exchange rates for each month during 2011 and applying them to the corresponding months in 2012, so as to calculate what our financial results would have been had exchange rates remained stable from one year to the next.

The following table summarizes the changes in net revenues by each reporting segment for the three and six-month periods ended June 30, 2012 and 2011:

| | Six Month Period Ended June 30, | | Change from 2011 to 2012 (*) | | Three Month Period Ended June 30, | | Change from 2011 to 2012 (*) | |
|----------------------|-----------------------------------|----------|------------------------------|-------|-----------------------------------|---------|------------------------------|-------|
| | 2012 | 2011 | in Dollars | in % | 2012 | 2011 | in Dollars | in % |
| | (in millions, except percentages) | | | | (in millions, except percentages) | | | |
| Net Revenues: | | | | | | | | |
| Brazil | \$ 86.4 | \$ 74.7 | \$ 11.7 | 15.7% | \$ 44.2 | \$ 39.9 | \$ 4.3 | 10.7% |
| Argentina | 38.7 | 23.0 | 15.7 | 68.4% | 20.6 | 12.4 | 8.2 | 65.9 |
| Venezuela | 23.7 | 14.0 | 9.7 | 68.9% | 12.4 | 7.2 | 5.2 | 71.6 |
| Mexico | 12.6 | 10.6 | 2.0 | 19.1% | 6.0 | 5.4 | 0.7 | 12.6 |
| Other Countries | 11.2 | 8.5 | 2.7 | 30.7% | 5.6 | 4.4 | 1.2 | 26.2 |
| Total Net Revenues | \$ 172.6 | \$ 130.8 | \$ 41.7 | 31.9% | \$ 88.8 | \$ 69.4 | \$ 19.5 | 28.1% |

(*) Percentages have been calculated using whole-dollar amounts rather than rounded amounts that appear in the table. The table above may not total due to rounding.

Edgar Filing: MERCADOLIBRE INC - Form 10-Q

On a segment basis, our net revenues for the three and six-month periods ended June 30, 2012 as compared to the same periods in 2011, increased across all segments.

Table of Contents

The following table sets forth our total net revenues and the sequential quarterly growth of these net revenues for the periods described below:

| | March 31, | June 30, | Quarter Ended September 30, | December 31, |
|-----------------------------------|-----------------------------------|----------|--------------------------------|--------------|
| | (in millions, except percentages) | | | |
| | (*) | | | |
| 2012 | | | | |
| Net Revenues | \$ 83.7 | \$ 88.8 | n/a | n/a |
| Percent change from prior quarter | -3% | 6% | | |
| 2011 | | | | |
| Net Revenues | \$ 61.5 | \$ 69.4 | \$ 81.6 | \$ 86.5 |
| Percent change from prior quarter | -1% | 13% | 18% | 6% |
| 2010 | | | | |
| Net Revenues | \$ 45.9 | \$ 52.5 | \$ 56.0 | \$ 62.3 |
| Percent change from prior quarter | -6% | 14% | 7% | 11% |

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

Cost of net revenues

| | Six-Month Period Ended June 30, | | Change from 2011 to 2012 (*) | | Three-Month Period Ended June 30, | | Change from 2011 to 2012 (*) | |
|-------------------------------------|------------------------------------|---------|---------------------------------|-------|--------------------------------------|---------|---------------------------------|-------|
| | 2012 | 2011 | in Dollars | in % | 2012 | 2011 | in Dollars | in % |
| | (in millions, except percentages) | | | | (in millions, except percentages) | | | |
| Total cost of net revenues | \$ 45.0 | \$ 31.3 | \$ 13.7 | 43.9% | \$ 23.9 | \$ 16.9 | \$ 7.0 | 41.1% |
| As a percentage of net revenues (*) | 26.1% | 23.9% | | | 26.9% | 24.4% | | |

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

For the three and six-month periods ended June 30, 2012, the increase in cost of net revenues as compared to the same periods of 2011 was primarily attributable to an increase of collection fees by \$3.6 million and \$6.7 million, respectively. The increase in collection fees, which occurred primarily in Brazil and Argentina, was a result of the higher penetration of our payment solution into our marketplace, which has a higher collection fee cost and additional collections related services contracted. For the three and six-month periods ended June 30, 2012, total TPV represents, 33.7% and 31.7%, respectively, of our total GMV (excluding motor vehicles, vessels, aircraft and real estate) in those countries where MercadoPago is available. In addition, sales taxes on our net revenues increased by \$0.4 million and \$1.4 million, respectively, or 7.5% and 14.2% for the three and six-month periods ended June 30, 2012, compared to the same period of 2011 mainly as a consequence of increases in net revenues. Moreover, during the three and six-month periods ended June 30, 2012 as compared to the same periods in the prior year, expenditures related to our in-house customer support operations increased by \$1.4 million and \$2.8 million, respectively, primarily driven by an increase in compensation and recruitment costs, and increased investments in customer service operations. The increased compensation costs and recruitment operational are incurred in order to improve our service and our initiatives to combat fraud, illegal items and fee evasion. In addition, for the three and six-month periods ended June 30, 2012, our hosting cost increased by \$0.7 million as compared to the same periods in 2011. Finally, for the three and six-month periods ended June 30, 2012, as compared to the same periods of the previous year, bank transfer fees related to MercadoPago, mainly in Brazil, increased by \$nil and \$0.3 million, respectively.

Product and technology development

| | Six-Month Period Ended June 30, | Change from 2011 to 2012 (*) | Three-Month Period Ended June 30, | Change from 2011 to 2012 (*) |
|--|------------------------------------|---------------------------------|--------------------------------------|---------------------------------|
|--|------------------------------------|---------------------------------|--------------------------------------|---------------------------------|

Edgar Filing: MERCADOLIBRE INC - Form 10-Q

| | 2012 | 2011 | in Dollars | in % | 2012 | 2011 | in Dollars | in % |
|-------------------------------------|-----------------------------------|---------|------------|-------|-----------------------------------|--------|------------|-------|
| | (in millions, except percentages) | | | | (in millions, except percentages) | | | |
| Product and technology development | \$ 13.7 | \$ 10.7 | \$ 3.0 | 28.5% | \$ 6.1 | \$ 5.5 | \$ 0.6 | 11.1% |
| As a percentage of net revenues (*) | 7.9% | 8.2% | | | 6.9% | 8.0% | | |

(*) Percentages have been calculated using whole-dollar amounts rather than rounded amounts that appear in the table. For the three and six-month periods ended June 30, 2012, the growth in product and technology development expenses as compared to the same periods in 2011, was attributable to an increase of \$0.1 million, or 2.6%, and \$1.3 million, or 24.3%, respectively, in compensation costs. These additional compensation expenses were primarily related to increases in compensation costs and to the addition of engineers, as we continue to invest in top quality talent to develop enhancements and new features across our platforms. We believe product development is one of our key competitive advantages and intend to continue to invest in adding engineers to meet the increasingly sophisticated product expectations of our customer base.

Table of Contents

Product and technology development expenses also grew during the three and six-month periods ended June 30, 2012 compared to the same periods in 2011 as a consequence of an increase of \$0.1 million, or 43.6%, and \$0.1 million, or 50.5%, respectively, in communications expenses and an increase of \$0.1 million, or 18.4%, and \$0.6 million, or 49.8% in maintenance expenses related to the use of cloud computing (AWS), IT consulting fees, real-time monitoring of our applications and the use of content distribution network (CDN), which is a system of computers containing copies of data placed at various nodes of a network. In addition, product and technology expenses also grew, during the three and six-month periods ended June 30, 2012 as a consequence of increases in depreciation and amortization expense of \$0.2 million, or 19.1%, and \$0.5 million, or 22.7%, respectively and increases in other product and development expenses of \$0.1 million and \$0.5 million, respectively compared to the same periods in 2011.

Sales and marketing

| | Six-Month Period Ended | | Change from 2011 | | Three-Month Period Ended | | Change from | |
|-------------------------------------|-----------------------------------|---------|------------------|-------|-----------------------------------|---------|------------------|------|
| | June 30, | | to 2012 (*) | | June 30, | | 2011 to 2012 (*) | |
| | 2012 | 2011 | in Dollars | in % | 2012 | 2011 | in Dollars | in % |
| | (in millions, except percentages) | | | | (in millions, except percentages) | | | |
| Sales and marketing | \$ 34.2 | \$ 28.9 | \$ 5.3 | 18.6% | \$ 16.8 | \$ 15.6 | \$ 1.2 | 7.5% |
| As a percentage of net revenues (*) | 19.8% | 22.1% | | | 18.9% | 22.5% | | |

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

For the three-month period ended June 30, 2012, the \$1.2 million increase in sales and marketing expenses when compared to the same period in 2011 was primarily attributable to an increase of \$0.9 million in salaries as compared to the same period of the previous year and to an increase of \$0.6 million mainly related to MercadoPago chargebacks in Brazil for the same period year on year. Finally, bad debt slightly increased by \$0.1 million for three-month period ended June 30, 2012 as compared to the same period in 2011. Bad debt represented 4.9% and 6.1% of net revenues for the three-months ended June 30, 2012 and 2011, respectively. These increases were partially offset by a decrease of \$0.2 million in off-line marketing expenses as compared to the second quarter of 2011.

For the six-month period ended June 30, 2012 the increase in sales and marketing expenses as compared to the same period in 2011 was primarily driven by an increase of \$3.8 million mainly related to MercadoPago chargebacks in Brazil. The increase was also attributable to an increase in salaries in the first half of 2012 of \$1.4 million and an increase of \$1.1 million in bad debt, as compared to the same period in 2011. Bad debt represented 5.4% and 6.3% of net revenues for the six-month periods ended June 30, 2012 and 2011, respectively. Finally, during the six-month period ended June 30, 2012, on-line marketing expenses slightly increased by \$0.2 million in 2012 as compared to the same period in 2011, as a consequence of an increase in portal deal expenses of \$1.2 million partially offset by a decrease in our affiliate program of \$1.0 million. These increases have been partially offset by a decrease of \$0.7 million in off-line marketing expenses and a decrease of \$0.6 million in trust and safety expenses in 2012, as compared to the same period in 2011.

General and administrative

| | Six-Month Period Ended | | Change from 2011 | | Three-Month Period Ended | | Change from 2011 | |
|-------------------------------------|-----------------------------------|---------|------------------|-------|-----------------------------------|--------|------------------|------|
| | June 30, | | to 2012 (*) | | June 30, | | to 2012 (*) | |
| | 2012 | 2011 | in Dollars | in % | 2012 | 2011 | in Dollars | in % |
| | (in millions, except percentages) | | | | (in millions, except percentages) | | | |
| General and administrative | \$ 22.8 | \$ 19.2 | \$ 3.6 | 19.0% | \$ 10.1 | \$ 9.7 | \$ 0.4 | 4.1% |
| As a percentage of net revenues (*) | 13.2% | 14.7% | | | 11.4% | 14.0% | | |

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

For the three-month period ended June 30, 2012, the increase in general and administrative expenses as compared to the same period of 2011 was primarily attributable to a \$0.4 million increase in salaries, an increase of \$0.4 million in outside services mainly related to legal fees and an increase in other general and administrative expenses of \$0.5 million. These increases were partially offset by a decrease in office expenses of

Edgar Filing: MERCADOLIBRE INC - Form 10-Q

\$0.8 million mainly as a consequence of the new offices opened in 2011 in some of our main locations. Depreciation and amortization increased by \$0.1 million for the three-month period ended June 30, 2012.

For the six-month period ended June 30, 2012, the increase of \$3.6 million in general and administrative expenses as compared to the same period in 2011 was primarily attributable to an increase of \$2.2 million in compensation costs in the 2012 period related to our LTRP and increases in salaries for retain talent, an increase of \$1.2 million in outside services mainly related to legal fees and an increase in other general and administrative expenses of \$1.7 million, mainly as a consequence of \$0.9 million of expenses related to certain checks for tax payments made by our Venezuelan subsidiary that were not collected by the National Tax and Customs Administration of Venezuela (SENIAT) as a consequence of administrative errors made by the clearing bank. As a result, our Venezuelan subsidiary paid to SENIAT taxes owed and filed a claim related to the issue. These increases were partially offset by a decrease of \$1.4 million in other general and administrative expenses in the first half of 2012 mainly as a consequence of the new offices opened in 2011 in some of our main locations.

Table of Contents**Other income (expenses)**

| | Six-Month Period Ended | | Change from | | Three-Month Period Ended | | Change from 2011 | |
|---------------------------------|-----------------------------------|----------|------------------|------------------|-----------------------------------|----------|------------------|-------------|
| | June 30, | June 30, | 2011 to 2012 (*) | 2011 to 2012 (*) | June 30, | June 30, | to 2012 (*) | to 2012 (*) |
| | 2012 | 2011 | in Dollars | in % | 2012 | 2011 | in Dollars | in % |
| | (in millions, except percentages) | | | | (in millions, except percentages) | | | |
| Other income (expenses) | \$ 5.2 | \$ 1.7 | \$ 3.6 | 212.6% | \$ 3.3 | \$ 0.9 | \$ 2.3 | 258.5% |
| As a percentage of net revenues | 3.0% | 1.3% | | | 3.7% | 1.3% | | |

(*) Percentages have been calculated using whole-dollar amounts rather than rounded amounts that appear in the table. For the three-month period ended June 30, 2012 as compared to the same period in 2011, the \$2.3 million increase in other income (expenses) was mainly attributable to a gain in foreign exchange of \$0.7 million versus a loss in the same period in 2011 of \$0.7 million, which generated an increase of \$1.4 million, followed by an increase of \$0.7 million in interest income and other financial gains related to higher interest income earned on our investments driven by a greater volume of investments in all locations.

For the six-month period ended June 30, 2012 as compared to the same period in 2011, the increase in other income (expense) was primarily a result of a \$1.9 million increase in interest income and other financial gains related to higher interest income earned on our investments driven by a greater volume of investments in all locations. In addition, financial expenses decreased by \$1.0 million in the first half of 2012 as compared to the same period in 2011. Foreign exchange loss decreased by \$0.9 million mainly attributable to the impact of the local currency depreciation on the cash balances held by our Brazilian and Argentine subsidiaries partially offset by an appreciation of cash balances held by our Mexican subsidiaries in U.S. dollars during the first half of 2012 versus a lesser appreciation of the local currencies against U.S. dollars in the first half of 2011.

Income and asset tax

| | Six-Month Period Ended | | Change from 2011 to 2012 | | Three-Month Period Ended | | Change from 2011 to | |
|-------------------------------------|-----------------------------------|----------|--------------------------|-------|-----------------------------------|----------|---------------------|----------|
| | June 30, | June 30, | in | (*) | June 30, | June 30, | in | 2012 (*) |
| | 2012 | 2011 | Dollars | in % | 2012 | 2011 | Dollars | in % |
| | (in millions, except percentages) | | | | (in millions, except percentages) | | | |
| Income and asset tax | \$ 17.0 | \$ 13.6 | \$ 3.5 | 24.7% | \$ 9.7 | \$ 7.6 | \$ 2.1 | 27.5% |
| As a percentage of net revenues (*) | 9.9% | 10.4% | | | 11.0% | 11.0% | | |

(*) Percentages have been calculated using whole-dollar amounts rather than rounded amounts that appear in the table. During the three and six-month periods ended June 30, 2012 as compared to the same periods the previous year, income and asset tax increased \$2.1 million and \$3.5 million, respectively, as a consequence of higher taxable income period over period.

For the six-month period ended June 30, 2012, our income and asset tax expense margin was lower as compared to the same period in the previous year, because in the six-month period ended June 30, 2012 our income and asset tax expense margin was positively impacted by decreases in income tax charge in Brazil as a consequence of permanent tax differences period over period and by the effect of a higher pre-tax income in our Argentine subsidiary which has a lower effective tax rate as a consequence of the software development law.

Our blended tax rate is defined as income and asset tax expense as a percentage of income before income and asset tax. Our effective income tax rate is defined as the provision for income taxes (net of charges related to dividend distribution from foreign subsidiaries which are offset with domestic foreign tax credits) as a percentage of income before income and asset tax. The effective income tax rate excludes the effects of the deferred income tax, and the assets and complementary income tax.

Table of Contents

The following table summarizes the changes in our blended and effective tax rate for the three and six-month periods ended June 30, 2012 and 2011:

| | Six-Month Period Ended June 30, | | Three-Month Period Ended June 30, | |
|--------------------|------------------------------------|-------|--------------------------------------|-------|
| | 2012 | 2011 | 2012 | 2011 |
| Blended tax rate | 27.4% | 32.1% | 27.7% | 34.0% |
| Effective tax rate | 27.8% | 28.4% | 26.4% | 28.6% |

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

Our blended tax rate decreased from the three and six-month periods ended June 30, 2011 to the same periods in 2012 due to a growth in our Argentine taxable income where the income tax rate is lower as compared to other locations. The decrease in our blended tax rate was also due to decreases in income tax charge in Brazil as a consequence of permanent tax differences.

Our effective tax rate decreased from the three and six-month periods ended June 30, 2011 to the same periods in 2012, mainly due to temporary and permanent tax differences in Argentina and Venezuela.

The following table sets forth our effective income tax rate related to our main locations for the three and six-month periods ended June 30, 2012 and 2011:

| | Six-Month Period Ended June 30, | | Three-Month Period Ended June 30, | |
|-------------------------------|------------------------------------|-------|--------------------------------------|-------|
| | 2012 | 2011 | 2012 | 2011 |
| Effective tax rate by country | | | | |
| Argentina | 15.0% | 16.4% | 14.4% | 14.9% |
| Brazil | 33.7% | 31.5% | 30.7% | 30.8% |
| Mexico | 33.9% | 23.7% | 30.6% | 27.2% |
| Venezuela | 33.6% | 34.4% | 33.6% | 38.4% |

The Company's Argentine subsidiary is a beneficiary of a software development law granting it a relief of 60% of total income tax determined in each year. Mainly for that reason, our Argentine operation's effective income tax rate for the three and six-month periods ended June 30, 2012 and 2011 are currently lower than the local statutory rate of 35%. If we had not been granted the Argentine tax holiday, our Argentine effective income tax rate would have been higher but, in that case, we would have pursued an alternative tax planning strategy. In addition, on August 17, 2011, the Argentine government issued a new software development law which is still waiting for the regulatory decree. If the Argentine operation qualifies under the new software development law, it is possible that the current Argentine income tax relief we benefit from could be reduced slightly. However, under the new law, it is also possible that the tax holiday would be extended for an additional five years, while also providing us with certain other fiscal benefits.

The decrease in our Argentine operation's effective income tax rate for the three and six-month periods ended June 30, 2012 as compared to the same periods in 2011 was impacted by changes in both temporary and permanent tax differences and to the effect of the relief in the income tax expense derived from the application of the software development law.

For the three and six-month periods ended June 30, 2012, our Brazilian effective income tax rates are lower than the local statutory rate of 34% mainly as a consequence of variations in both temporary and permanent tax differences. For the three and six-month periods ended June 30, 2011 our Brazilian effective income tax rate is lower than the local statutory rate of 34% mainly because of the business reorganization generated as part of our tax planning strategy, which permitted us to use tax loss carryforwards in that country.

For the three and six-month periods ended June 30, 2012, our Mexican effective income tax rates are higher than the local statutory rate of 30% mainly because of variations in temporary and permanent tax differences. For the three and six-month periods ended June 30, 2011, our Mexican

Edgar Filing: MERCADOLIBRE INC - Form 10-Q

effective income tax rate is lower than the local statutory rate mainly because of variations in permanent tax differences. Moreover, the effective income tax rate in our Mexican subsidiaries for the six-month ended June 30 2011 were affected by a difference, amounted to \$0.1 million, between income tax provision for the year ended December 31, 2010 and the income tax return effectively paid during the first half of 2011.

For the three and six-month periods ended June 30, 2012 and 2011, our Venezuelan effective income tax rates are lower than the local statutory rate of 34%, mainly due to losses related to local inflation adjustment computed for tax purposes that is not recorded for U.S. GAAP purposes.

Table of Contents

Our effective tax rate reflects the tax effect of significant operations outside the United States, which are generally taxed at rates lower than the U.S. statutory rate of 35%, especially in the case of Argentina, where we have significant operations with a low effective tax rate as a consequence of an Argentine tax holiday that we benefit from. A future change in the mix of pretax income from these various tax jurisdictions would impact the Company's periodic effective tax rate.

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

Liquidity and Capital Resources

Our main cash requirement historically has been working capital to fund MercadoPago financing operations in Brazil. We also require cash for capital expenditures relating to technology infrastructure, software applications, office space and to fund the payment of quarterly cash dividends on shares of our common stock.

Since our inception, we have funded our operations primarily through contributions received from our stockholders during the first two years of operations, from funds raised during our initial public offering, and from cash generated from our operations. We have funded MercadoPago by discounting credit card receivables, with loans backed with credit card receivables and through cash advances derived from our business.

At June 30, 2012, our principal source of liquidity was \$170.6 million of cash and cash equivalents and short-term investments and \$49.6 million of long-term investments provided by cash generated from operations. We consider our long-term investments as part of our liquidity because long-term investments are comprised by available-for-sale securities classified as long-term as a consequence of their contractual maturities.

The significant components of our working capital are cash and cash equivalents, short-term investments, accounts receivable, accounts payable and accrued expenses, funds receivable from and payable to MercadoPago users, and short-term debt. As long as we continue transferring credit card receivables to financial institutions in return for cash, we will continue generating cash.

As of June 30, 2012, cash and investments of foreign subsidiaries amounted to \$179.6 million or 81.6% of our consolidated cash and investments and approximately 65.0% of consolidated cash and investments are held outside the U.S., mostly in Brazil, Argentina and Venezuela. Our strategy is to reinvest our undistributed earnings of our foreign operations in those operations and to distribute dividends when they can be offset with available tax credits. We do not expect a material impact in any repatriation of undistributed earnings of foreign subsidiaries on our operations since the taxable domestic gains generated by any dividend distributions will be mostly offset with foreign tax credits that arise from income tax paid in our foreign operations, which we are allowed to compute for domestic income tax purposes.

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

The following table presents our cash flows from operating activities, investing activities and financing activities for the three and six-month periods ended June 30, 2012 and 2011:

| (In millions) | Six months ended June, 30 | |
|--|---------------------------|-----------|
| | 2012 | 2011 |
| | (in millions) | |
| Net cash provided by (used in): | | |
| Operating activities | \$ 58.5 | \$ 33.7 |
| Investment activities | (28.3) | (43.3) |
| Financing activities | (8.3) | (3.5) |
| Effect of exchange rate changes on cash and cash equivalents | (1.7) | 0.5 |
| Net increase (decrease) in cash and cash equivalents | \$ 20.2 | \$ (12.6) |

Table of Contents***Net cash provided by operating activities***

Cash provided by operating activities consists of net income adjusted for certain non-cash items, and the effect of changes in working capital and other activities.

| | Six Month Period Ended June 30, | | Change from 2011 to 2012 (*) | |
|-----------------------|------------------------------------|---------|---------------------------------|-------|
| | 2012 | 2011 | in Dollars | in % |
| | (in millions, except percentages) | | | |
| Net Cash provided by: | | | | |
| Operating activities | \$ 58.5 | \$ 33.7 | \$ 24.8 | 73.4% |

(*) Percentages have been calculated using whole-dollar amounts rather than rounded amounts that appear in the table. The \$24.8 million increase in net cash provided by operating activities during the six-month period ended June 30, 2012 as compared to the same period in 2011 was mainly attributable to a \$16.1 million increase in net income. Additionally, net cash provided by operating activities for the six-month period ended June 30, 2012 versus the same period of 2011 was impacted by a \$11.4 million increase in changes in accounts payable and accrued expenses, and \$2.7 million increase in working capital relating to our payment solution.

This increase in cash provided by operations has been partially offset by a \$2.9 million increase in changes in accounts receivable and a \$1.7 million increase in changes in other assets.

Net cash used in investing activities

| | Six Month Period Ended June 30, | | Change from 2011 to 2012 (*) | |
|----------------------|------------------------------------|-----------|---------------------------------|--------|
| | 2012 | 2011 | in Dollars | in % |
| | (in millions, except percentages) | | | |
| Net Cash used in: | | | | |
| Investing activities | \$ (28.3) | \$ (43.3) | \$ 15.0 | -34.7% |

(*) Percentages have been calculated using whole-dollar amounts rather than rounded amounts that appear in the table. Net cash used in investing activities in the six-month period ended June 30, 2012 resulted mainly from purchases of investments for \$205.4 million. During the six-month period ended June 30, 2012, the increase in cash used in investment activities was partially offset by proceeds from the sale and maturity of \$186.8 million of investments as part of our financial strategy. Additionally, we used \$9.7 million of cash in the six-month period ended June 30, 2012 to make capital expenditures mainly related to technological equipment and software licenses and a new office opened in Aguada Park, Uruguay.

Net cash used in investing activities in the six-month period of 2011 resulted mainly from purchases of investments for \$201.0 million. During the six-month period ended June 30, 2011, the increase in cash used in investment activities was partially offset by proceeds from the sale and maturity of \$171.1 million of investments as part of our financial strategy. Additionally, we used \$13.2 million of cash in the six-month period ended June 30, 2011 to make capital expenditures related to technological equipment, software licenses, and new office space in Venezuela and Argentina and in office equipment in Brazil, Colombia and Mexico.

Net cash used in financing activities

| Six Month Period Ended | Change from 2011 to 2012 (*) |
|---------------------------|---------------------------------|
|---------------------------|---------------------------------|

Edgar Filing: MERCADOLIBRE INC - Form 10-Q

| | June 30, | | | |
|----------------------|-----------------------------------|----------|------------|---------|
| | 2012 | 2011 | in Dollars | in % |
| | (in millions, except percentages) | | | |
| Net Cash used in: | | | | |
| Financing activities | \$ (8.3) | \$ (3.5) | \$ (4.8) | -100.0% |

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

Table of Contents

For the six-month period ended June 30, 2012, our primary use of cash was to fund the \$8.3 million of quarterly cash dividends paid on January 17, 2012 and on April 16, 2012.

For the six-month period ended June 30, 2011, our primary use of cash was to fund the \$3.5 million of quarterly cash dividends paid on April 15, 2011.

In the event that we decide to pursue strategic acquisitions in the future, we may fund them with available cash, third party debt financing, or by raising equity capital, as market conditions allow.

Debt

As of June 30, 2012, we recorded \$4.8 million of dividends payable to our stockholders. In addition, as of June 30, 2012, our outstanding debt of \$0.2 million is related to Argentine car lease contracts.

Cash Dividends

On January 17, 2012, we paid the fourth quarterly cash dividend in our history for \$3.5 million (or \$0.08 per share) on our outstanding shares of common stock held of record as of the close of business on December 31, 2011. On February 17, 2012, our Board of Directors approved a quarterly cash dividend of \$4.8 million (or \$0.109 per share) on our outstanding shares of common stock. The dividend was paid on April 16, 2012 to stockholders of record as of the close of business on March 30, 2012. On May 4, 2012, our Board of Directors approved a second quarter cash dividend of \$4.8 million (or \$0.109 per share) on our outstanding shares of common stock. The dividend was paid on July 16, 2012 to stockholders of record as of the close of business on June 29, 2012.

On July 31, 2012 our Board of Directors declared a quarterly cash dividend of \$0.109 per share, payable to the holders of our common stock. This quarterly cash dividend will be paid on October 15, 2012 to stockholders of record as of the close of business on September 28, 2012.

We currently expect to continue paying comparable cash dividends on a quarterly basis. However, any future determination as to the declaration of dividends on our common stock will be made at the discretion of our board of directors.

Capital expenditures

Our capital expenditures for the six-month periods ended June 30, 2012 and 2011 amounted to \$10.4 million and \$13.4 million, respectively. During the first half of 2012 we opened a new office in Aguada Park, Uruguay. Such investment amounted to approximately \$1.0 million and will be used to expand our customer support operations. In addition we made other information technology investments. During the first half of 2011, our capital expenditures included the acquisition of a new office property located in Caracas, Venezuela for approximately \$6.6 million as well as other information technology investments. The Company is permanently increasing the level of investment on hardware and software licenses necessary to improve and update the technology of our platform and cost of computer software developed internally. We anticipate continued investments in capital expenditures related to information technology in the future as we strive to maintain our position in the Latin American e-commerce market.

We believe that our existing cash and cash equivalents, including the sale of credit card receivables and cash generated from operations will be sufficient to fund our operating activities, property and equipment expenditures and to pay or repay obligations going forward.

Off-balance sheet arrangements

At June 30, 2012, we had no off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on our consolidated financial condition, results of operations, liquidity, capital expenditures or capital resources.

Recent accounting pronouncements

On July 27, 2012, the Financial Accounting Standards Board issued Accounting Standards Update No. 2012-02 Testing Indefinite-Lived Intangible Assets for Impairment. The objective of the amendments in this update is to reduce the cost and complexity of performing an impairment test for indefinite-lived intangible assets by simplifying how an entity tests those assets for impairment and to improve consistency in impairment testing guidance among long-lived asset categories. The amendments permit an entity first to assess qualitative factors to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired as a basis for determining whether it is necessary

Edgar Filing: MERCADOLIBRE INC - Form 10-Q

to perform the quantitative impairment test in accordance with Subtopic 350-30, Intangibles - Goodwill and Other - General Intangibles Other than Goodwill. The more-likely-than-not threshold is defined as having a likelihood of more than 50 percent. The amendments are effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. Early adoption is permitted, including for annual and interim impairment tests performed as of a date before July 27, 2012, if a public entity's financial statements for the most recent annual or interim period have not yet been issued or, for nonpublic entities, have not yet been made available for issuance. We are currently evaluating the impact that this update could have on our financial statements.

Table of Contents**Item 3 Qualitative and Quantitative Disclosure About Market Risk**

We are exposed to market risks arising from our business operations. These market risks arise mainly from the possibility that changes in interest rates and the U.S. dollar exchange rate with local currencies, particularly the Brazilian Real due to Brazil's share of our revenues, may affect the value of our financial assets and liabilities.

Foreign currencies

At June 30, 2012, we hold cash and cash equivalents in local currencies in our subsidiaries, and have receivables denominated in local currencies in all of our operations. Our subsidiaries generate revenues and incur most of their expenses in local currency. As a result, our subsidiaries use their local currency as their functional currency, except for our Venezuelan subsidiaries which use the U.S. dollar as if it is the functional currency due to a highly inflationary environment. As of June 30, 2012, the total cash and cash equivalents denominated in foreign currencies totaled \$59.0 million, short-term investments denominated in foreign currencies totaled \$78.3 million and accounts receivable and credit cards receivables in foreign currencies totaled \$44.5 million. As of June 30, 2012, we had no long-term investments denominated in foreign currencies. To manage exchange rate risk, our treasury policy is to transfer most cash and cash equivalents in excess of working capital requirements into dollar-denominated accounts in the United States. As of June 30, 2012, our dollar-denominated cash and cash equivalents and short-term investments totaled \$33.3 million and our dollar-denominated long-term investments totaled \$49.6 million. For the three-month period ended June 30, 2012, we had a gain on foreign currency of \$0.7 million and for the six-month period ended June 30, 2012 a loss of \$0.3 million, mainly related to the cash and investment balances of our Brazilian and Argentine subsidiaries that were held in U.S. dollars which depreciated in terms of local currencies partially offset by the effect of the appreciation of local currency in Mexico. (See Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of operations for the three and six-month periods ended June 30, 2012 compared to three and six-month periods ended June 30, 2011—Other income (expenses) for more information).

In accordance with U.S. GAAP, we have transitioned our Venezuelan operations to highly inflationary status as of January 1, 2010 and have been using the U.S. dollar as the functional currency for these operations since then. In accordance with U.S. GAAP, translation adjustments for prior periods were not removed from equity and the translated amounts for nonmonetary assets at December 31, 2010 became the accounting basis for those assets. Monetary assets and liabilities in Bolivares Fuertes were re-measured to the U.S. dollar at the closing parallel exchange rate and the results of the operations in Bolivares Fuertes were re-measured to the U.S. dollar at the average monthly parallel exchange rate.

During 2010 and previous years we were able to obtain U.S. dollars using alternative mechanisms other than the CADIVI. These dollars, obtained at a higher exchange rate than the one offered by CADIVI, and held in balance at U.S. bank accounts of our Venezuelan subsidiaries, were used for dividend distributions from our Venezuelan subsidiaries. As a result, during 2010, lack of CADIVI approval did not restrict our ability to distribute the full amount of our retained earnings as dividends related to fiscal years 2008 (\$0.8 million), and 2009 (\$1.8 million). In addition, during 2011, our Venezuelan subsidiaries distributed dividends related to earnings for fiscal year 2010, using existing cash balances held in the U.S. bank accounts for \$4.2 million.

As of June 30, 2012, net assets of our Venezuelan subsidiaries amount to approximately 11.5% of our consolidated net assets, and cash and investments of our Venezuelan subsidiaries held in local currency in Venezuela amount to only approximately 11.3% of our consolidated cash and investments.

Although, the current mechanisms available to obtain U.S. dollars for dividend distributions to shareholders outside of Venezuela imply increased restrictions, we do not expect that the current restrictions to purchase dollars will have a significant adverse effect on our business plans with regard to the investment in Venezuela.

If the U.S. dollar weakens against foreign currencies, the translation of these foreign-currency-denominated transactions will result in increased net revenues, operating expenses, and net income while the re-measurement of our net asset position in U.S. dollars will have a negative impact in our Statement of Income. Similarly, our net revenues, operating expenses and net income will decrease if the U.S. dollar strengthens against foreign currencies, while the re-measurement of our net asset position in U.S. dollars will have a positive impact in our Statement of Income.

Table of Contents

The following table sets forth the percentage of consolidated net revenues by segment for the three and six- month periods ended June 30, 2012 and 2011:

| (% of total consolidated net revenues) | Six-Month Period Ended June 30, | | Three-Month Period Ended June 30, | |
|--|------------------------------------|-------|--------------------------------------|-------|
| | 2012 | 2011 | 2012 | 2011 |
| Brazil | 50.0% | 57.1% | 49.8% | 57.6% |
| Argentina | 22.4 | 17.6 | 23.1 | 17.9 |
| Venezuela | 13.7 | 10.7 | 14.0 | 10.4 |
| Mexico | 7.3 | 8.1 | 6.8 | 7.7 |
| Other Countries | 6.5 | 6.6 | 6.3 | 6.4 |

(*) Percentages have been calculated using whole-dollar amounts rather than rounded amounts that appear in the table. The table above may not total due to rounding.

The table below shows the impact on our net revenues, expenses, other income and income tax, net income and shareholders' equity for a positive or negative 10% fluctuation on all the foreign currencies to which we are exposed as of June 30, 2012 and for the six-month period ended June 30, 2012:

Foreign Currency Sensitivity Analysis

| (In millions) | -10% (1) | Actual | +10% (2) |
|--|-------------|---------|-------------|
| Net revenues | 191.7 | 172.6 | 157.0 |
| Expenses | (128.5) | (115.8) | (105.3) |
| Income from operations | 63.2 | 56.8 | 51.6 |
| Other (expenses) and income tax related to profit & loss items | (12.8) | (11.5) | (10.5) |
| Foreign currency impact related to the remeasurement of our net asset position | (0.3) | (0.3) | (0.3) |
| Net income | 50.1 | 45.0 | 40.9 |
| Less: Net Income attributable to redeemable noncontrolling interest | 0.02 | 0.02 | 0.02 |
| Net income attributable to MercadoLibre, Inc. | 50.0 | 45.0 | 40.9 |
| Total Equity | 261.8 | 247.8 | 239.9 |

(1) Appreciation of the subsidiaries local currency against U.S. Dollar

(2) Depreciation of the subsidiaries local currency against U.S. Dollar

The table above does not total due to rounding

The table above shows an increase in our net income when the U.S. dollar weakens against foreign currencies because the re-measurement of our net asset position in U.S. dollars has a lesser impact than the increase in net revenues, operating expenses, and other income (expenses) and income tax lines related to the translation effect. Similarly, the table above shows a decrease in our net income when the U.S. dollar strengthens against foreign currencies because the re-measurement of our net asset position in U.S. dollars has a lesser impact than the decrease in net revenues, operating expenses, and other income (expenses) and income tax lines related to the translation effect.

Edgar Filing: MERCADOLIBRE INC - Form 10-Q

In the past we have entered into transactions to hedge portions of our foreign currency translation exposure but during 2012 we have not entered into any such agreement.

Interest

Our earnings and cash flows are also affected by changes in interest rates. These changes can have an impact on the interest rate that the financial institutions charge us when we sell our MercadoPago receivables. At June 30, 2012, MercadoPago's funds receivable from customers totaled approximately \$28.0 million. Interest rate fluctuations could also negatively affect certain of our fixed rate and floating rate investments comprised primarily of time deposits, money market funds, investment grade corporate debt securities, and sovereign debt securities. Investments in both fixed rate and floating rate interest earning products carry a degree of interest rate risk. Fixed rate securities may have their fair market value adversely impacted due to a rise in interest rates, while floating rate securities may produce less income than predicted if interest rates fall.

Table of Contents

Under our current policies, we do not use interest rate derivative instruments to manage exposure to interest rate changes. As of June 30, 2012, the average duration of our available for sale securities, defined as the approximate percentage change in price for a 100-basis-point change in yield, is 3.01%. If interest rates were to instantaneously increase (decrease) by 100 basis points, the fair market value of our available for sale securities as of June 30, 2012 could decrease (increase) by approximately \$1.6 million.

As of June 30, 2012, our short-term and long-term investments, which are classified on our balance sheet as current assets in the amount of \$83.0 million and as non-current assets in the amount of \$49.6 million, respectively, can be readily converted at any time into cash or into securities with a shorter remaining time to maturity. We determine the appropriate classification of our investments at the time of purchase and re-evaluate such designations as of each balance sheet date.

Equity Price Risk

Our board of directors adopted the 2009, 2010, 2011 and 2012 long-term retention plan (the 2009, 2010, 2011 and 2012 LTRP) payable as follows:

eligible employees will receive a fixed cash payment equal to 6.25% of his or her 2009 and/or 2010 and/or 2011 and/or 2012 LTRP bonus once a year for a period of eight years starting in 2010 and/or 2011 and/or 2012 and/or 2013 (the 2009, 2010, 2011 and 2012 Annual Fixed Payment); and

on each date we pay the Annual Fixed Payment to an eligible employee, he or she will also receive a cash payment (the 2009, 2010, 2011 and 2012 Variable Payment) equal to the product of (i) 6.25% of the applicable 2009 and/or 2010 and/or 2011 and/or 2012 LTRP bonus 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 2008, 2009, 2010 and 2011 Stock Price, defined as \$13.81, \$45.75, \$65.41 and \$77.77 for the 2009, 2010, 2011 and 2012 LTRP, respectively, which was the average closing price of the Company's common stock on the NASDAQ Global Market during the final 60 trading days of 2008, 2009, 2010 and 2011, respectively. The Applicable Year Stock Price shall equal the average closing price of the Company's common stock on the NASDAQ Global Market during the final 60 trading days of the year preceding the applicable payment date.

The 2009, 2010, 2011 and 2012 variable payment LTRP liability subjects us to equity price risk. At June 30, 2012, the total contractual obligation fair value of our 2009, 2010, 2011 and 2012 Variable Payment LTRP liability amounts to \$14.2 million. As of June 30, 2012, the accrued liability related to the 2009, 2010, 2011 and 2012 Variable Payment portion of the LTRP included in Social security payable in our condensed consolidated balance sheet amounts to \$5.5 million. The following table shows a sensitivity analysis of the risk associated with our total contractual obligation related to the 2009, 2010, 2011 and 2012 Variable Payment if our stock price were to experience increases or decreases by up to 40%.

| (In US dollars) | As of June 30, 2012 | |
|--------------------------------------|--------------------------------------|---|
| | MercadoLibre, Inc Equity Price | 2009, 2010, 2011 and 2012 variable LTRP liability |
| Change in equity price in percentage | | |
| 40% | 112.54 | 19,813,431 |
| 30% | 104.50 | 18,398,186 |
| 20% | 96.46 | 16,982,941 |
| 10% | 88.42 | 15,567,696 |
| Static (*) | 80.38 | 14,152,451 |
| -10% | 72.35 | 12,737,206 |
| -20% | 64.31 | 11,321,960 |
| -30% | 56.27 | 9,906,715 |
| -40% | 48.23 | 8,491,470 |

(*) Average closing stock price for the last 60 trading days of the closing date.

Table of Contents

Item 4 Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports pursuant to the Securities Exchange Act of 1934, as amended (the Exchange Act) is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

Evaluation of disclosure controls and procedures

Based on the evaluation of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) required by Exchange Act Rules 13a-15(b) or 15d-15(b), our chief executive officer and our chief financial officer have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective.

Changes in Internal Controls Over Financial Reporting

There were no changes in our internal control over financial reporting (as such term is defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act) during the three-month period ended June 30, 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1 Legal Proceedings

From time to time, we are involved in disputes that arise in the ordinary course of our business. The number and significance of these disputes is increasing as our business expands and our company grows. Any claims against us, whether meritorious or not, may be time consuming, result in costly litigation, require significant amounts of management time, result in the diversion of significant operational resources or require expensive implementations of changes to our business methods to respond to these claims. See Item 1A Risk Factors of our Annual Report on Form 10-K for the fiscal year ended December 31, 2011 as filed with the Securities and Exchange Commission on February 28, 2012, for additional discussion of the litigation and regulatory risks facing our company.

As of June 30, 2012, our total reserves for proceeding-related contingencies were approximately \$ 2.2 million to cover legal actions against us in which we have determined that a loss is probable. The proceeding-related reserve is based on developments to date and historical information related to actions filed against our company. We do not reserve for losses we determine to be possible or remote.

As of June 30, 2012, there were 492 lawsuits pending against our Brazilian subsidiary in the Brazilian ordinary courts. In addition, as of June 30, 2012, there were more than 2,533 lawsuits pending against our Brazilian subsidiary in the Brazilian consumer courts, where a lawyer is not required to file or pursue a claim. In most of these cases, the plaintiffs asserted that we were responsible for fraud committed against them, or responsible for damages suffered when purchasing an item on our website, when using MercadoPago, or when we invoiced them. We believe we have meritorious defenses to these claims and intend to continue defending them.

Set forth below is a description of the legal proceedings that we have determined to be material to our business. We have excluded ordinary routine legal proceedings incidental to our business. In each of these proceedings we also believe we have meritorious defenses, and intend to continue defending these actions. We have established a reserve for those proceedings which we have considered that a loss is probable. The disclosure below updates and supplements the information set forth in Item 3 Legal Proceedings in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011 and Part II Item I Legal Proceedings in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2012:

On June 11, 2007, Praetorium Instituto de Ensino, Pesquisas e Atividades de Extensão e Direito Ltda., or Praetorium, sued our Brazilian subsidiary in the Fourth Civil Court of the County of Belo Horizonte, State of Minas Gerais, Brazil. Praetorium alleged that the Brazilian subsidiary was infringing Praetorium's copyrights as a result of users selling allegedly counterfeit copies of Praetorium's courses through the Brazilian page of the website. Praetorium seeks an injunction, fines, and compensatory and statutory damages. An injunction ordering the removal of any offers containing the name of Praetorium was granted to Praetorium in July 2007. In addition to the preliminary injunction, a fine of approximately \$5,300 per day of noncompliance was imposed up to a maximum of approximately \$131,000 and a fine of approximately \$530 at the exchange rate applicable at that time was also imposed for each new product posted after July 13, 2007 containing the name of Praetorium and listed in the Brazilian page of MercadoLibre's website. We appealed the decision granting the preliminary injunction, which appeal was

Edgar Filing: MERCADOLIBRE INC - Form 10-Q

denied. On July 17, 2012 the Lower Court ruled against the Company and held that it had to pay R\$10,000 or approximately \$4,947 at the exchange rate as of June 30, 2012 plus an amount damages to be defined at judgment execution, plus attorneys fees. On July 24, 2012 we presented to the Lower Court an appeal against this decision.

Table of Contents

City of São Paulo Tax Claim

In June 2012, São Paulo tax authorities have asserted taxes and fines against our Brazilian subsidiary related to our Brazilian subsidiary's activities in São Paulo for the period from 2007 through 2010 in an approximate amount of R\$23 million or \$11.4 million according to the exchange rate as of June 30, 2012. In January 2005 we moved our operations to Santana de Parnaíba City, Brazil and began paying taxes to that jurisdiction and therefore we believe we have strong defenses to the claims of the São Paulo authorities with respect to this period. On July 27, 2012, the Company presented administrative defenses against the authorities' claim. Our management and its legal advisors believe that the risk of loss is remote, and as a result, has not reserved any provision for this claim.

State of São Paulo Customer Service Level Claim

On September 1, 2010, a state prosecutor of the State of São Paulo, Brazil presented a claim against our Brazilian subsidiary. The state prosecutor alleges that the Brazilian subsidiary should improve our customer service level and provide (among other things) a telephone number for customer support. On November 17, 2010, the Judge of the first instance court granted an injunction against the Brazilian subsidiary imposing the obligation to provide customer service over telephone means within 60 days with a penalty of approximately \$65,000 per day of non-compliance. On April 8, 2011, we were summoned of the lawsuit and the injunction. On April 14, 2011, we presented a recourse to the lower court; and although the injunction was not lifted, an extension of 30 days was granted, and the non-compliance fine would not start running until July 11, 2011. On April 20, 2011, we presented an appeal and requested to suspend the effects of the injunction issued by the lower court until the appeal is decided by State Court of Appeals which was granted on May 4, 2011. On November 29, 2011, the state prosecutor signed an agreement with our Brazilian subsidiary and presented a motion for dismissal of the case. On January 16, 2012, Instituto Barão de Mauá de Defesa de Vítimas e Consumidores contra Entes Poluidores e Maus Fornecedores or The Instituto Barão de Mauá, a consumer protection entity which had joined the case as a co-plaintiff, presented a petition manifesting its partial disagreement with the commitments assumed by us. On March 22, 2012, the Lower Court Judge ruled in favor of the agreement and dismissed the claim against us. The Instituto Barão de Mauá did not appeal the decision, therefore the case is closed.

State of Rio de Janeiro Customer Service Level Claim

On August 19, 2011, a state prosecutor of the State of Rio de Janeiro, Brazil presented a claim against our Brazilian subsidiary. The state prosecutor alleges that our Brazilian subsidiary should improve our customer service level and provide (among other things) a telephone number for customer support and requested an injunction against our Brazilian subsidiary. On August 23, 2011, the Judge of the first instance court denied the aforementioned injunction. On December 7, 2011, the Company was summoned of the lawsuit. On March 1, 2012 we presented its defense. In the opinion of our management and its legal counsel the risk of loss is reasonably possible.

Intellectual Property Claims

In the past third parties have from time to time claimed, and others may claim in the future, that we have infringed their intellectual property rights. We have been notified of several potential third-party claims for intellectual property infringement through our website. These claims, whether meritorious or not, are time consuming, can be costly to resolve, could cause service upgrade delays, and could require expensive implementations of changes to our business methods to respond to these claims. See Item 1A Risk factors Risks related to our business We could potentially face legal and financial liability for the sale of items that infringe on the intellectual property rights of others and for information disseminated on the MercadoLibre Marketplace in our Annual Report on Form 10-K for the year ended December 31, 2011.

Item 1A Risk Factors

As of June 30, 2012, there have been no material changes in our risk factors from those disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011.

Item 4 Mine Safety Disclosures

Not applicable.

Table of Contents

Item 6 Exhibits

| | |
|---------|---|
| 3.1 | Registrant's Amended and Restated Certificate of Incorporation (incorporated by reference to the Registration Statement on Form S-1 of MercadoLibre, Inc. filed on May 11, 2007). |
| 3.2 | Registrant's Amended and Restated Bylaws (incorporated by reference to the Registration Statement on Form S-1 of MercadoLibre, Inc. filed on May 11, 2007). |
| 10.1 | MercadoLibre, Inc. 2012 Long Term Retention Program (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed on June 7, 2012). |
| 10.17 | Free Trade Zone Direct User Agreement Aguada Park, as amended, dated August 29, 2011, between MELI Uruguay S.R.L. and ITSEN S.A. dated May 21, 2012 and May 22, 2012. * |
| 31.1 | Certification of Chief Executive Officer pursuant to Securities Exchange Act Rule 13a-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.* |
| 31.2 | Certification of Chief Financial Officer pursuant to Securities Exchange Act Rule 13a-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.* |
| 32.1 | Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.** |
| 32.2 | Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.** |
| 101.INS | XBRL Instance Document*** |
| 101.SCH | XBRL Taxonomy Extension Schema Document*** |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document*** |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document*** |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document*** |

* Filed herewith

** Furnished herewith

*** XBRL information is furnished and not filed or a part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities and Exchange Act of 1933, is deemed not filed for purposes of section 18 of the Securities and Exchange Act of 1934, and otherwise is not subject to liability under these sections.

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MERCADOLIBRE, INC.
Registrant

Date: August 3, 2012

By: /s/ Marcos Galperín
Marcos Galperín
President and Chief Executive Officer

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

Table of Contents

MercadoLibre, Inc.

INDEX TO EXHIBITS

- 3.1 Registrant s Amended and Restated Certificate of Incorporation (incorporated by reference to the Registration Statement on Form S-1 of MercadoLibre, Inc. filed on May 11, 2007).
- 3.2 Registrant s Amended and Restated Bylaws (incorporated by reference to the Registration Statement on Form S-1 of MercadoLibre, Inc. filed on May 11, 2007).
- 10.1 MercadoLibre, Inc. 2012 Long Term Retention Program (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed on June 7, 2012).
- 10.17 Free Trade Zone Direct User Agreement Aguada Park, as amended, dated August 29, 2011, between MELI Uruguay S.R.L. and ITSEN S.A. dated May 21, 2012 and May 22, 2012. *
- 31.1 Certification of Chief Executive Officer pursuant to Securities Exchange Act Rule 13a-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
- 31.2 Certification of Chief Financial Officer pursuant to Securities Exchange Act Rule 13a-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
- 32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.**
- 32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.**

* Filed herewith

** Furnished herewith