

MERCADOLIBRE INC
Form 10-Q
November 04, 2011

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q**

(Mark One)

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

For the quarterly period ended September 30, 2011

-OR-

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

For the transition period from _____ to _____

Commission file number 001-33647

MercadoLibre, Inc.

(Exact name of Registrant as specified in its Charter)

**Delaware
(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)
011-54-11-4640-8000**

(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 ☐

Smaller reporting
company ☐

(Do not check if a 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:

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

44,142,020 shares of the issuer's common stock, \$0.001 par value, outstanding as of November 1, 2011.

MERCADOLIBRE, INC.
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PART I. FINANCIAL INFORMATION

Item 1. Unaudited Condensed Consolidated Financial Statements

MercadoLibre, Inc.

**Condensed Consolidated Financial Statements
as of September 30, 2011 and December 31, 2010
and for the three- and nine-month periods
ended September 30, 2011 and 2010**

Table of Contents**MercadoLibre, Inc.****Condensed Consolidated Balance Sheets****As of September 30, 2011 and December 31, 2010**

	September 30, 2011 (Unaudited)	December 31, 2010 (Audited)
Assets		
Current assets:		
Cash and cash equivalents	\$ 59,083,417	\$ 56,830,466
Short-term investments	67,578,494	5,342,766
Accounts receivable, net	15,429,301	12,618,173
Funds receivable from customers	13,244,197	6,151,518
Prepaid expenses	1,140,002	913,262
Deferred tax assets	11,922,213	12,911,256
Other assets	6,093,323	6,867,767
Total current assets	174,490,947	101,635,208
Non-current assets:		
Long-term investments	41,002,762	78,846,281
Property and equipment, net	31,351,966	20,817,712
Goodwill, net	62,861,760	60,496,314
Intangible assets, net	6,710,125	4,141,167
Deferred tax assets	3,495,916	2,975,118
Other assets	5,430,114	771,223
Total non-current assets	150,852,643	168,047,815
Total assets	\$ 325,343,590	\$ 269,683,023
Liabilities and Equity		
Current liabilities:		
Accounts payable and accrued expenses	\$ 19,998,140	\$ 17,232,103
Funds payable to customers	58,874,916	48,788,225
Payroll and social security payable	11,722,130	10,786,534
Taxes payable	9,997,791	11,487,574
Loans payable and other financial liabilities	140,107	100,031
Dividends payable	3,531,362	
Total current liabilities	104,264,446	88,394,467
Non-current liabilities:		
Payroll and social security payable	3,056,099	2,562,343
Loans payable and other financial liabilities	178,543	188,846
Deferred tax liabilities	8,219,638	5,167,699
Other liabilities	1,770,821	1,651,398
Total non-current liabilities	13,225,101	9,570,286

Total liabilities	\$ 117,489,547	\$ 97,964,753
Commitments and contingencies (Note 8)		
Equity:		
Common stock, \$0.001 par value, 110,000,000 shares authorized, 44,142,020 and 44,131,376 shares issued and outstanding at September 30, 2011 and December 31, 2010, respectively	\$ 44,142	\$ 44,131
Additional paid-in capital	120,440,906	120,391,622
Retained earnings	118,262,734	73,681,556
Accumulated other comprehensive loss	(34,304,372)	(22,399,039)
Total Equity of MercadoLibre, Inc.	204,443,410	171,718,270
Noncontrolling Interest	3,410,633	
Total equity	207,854,043	171,718,270
Total liabilities and equity	\$ 325,343,590	\$ 269,683,023

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 nine-month periods ended September 30, 2011 and 2010**

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2011	2010	2011	2010
	(Unaudited)		(Unaudited)	
Net revenues	\$ 212,465,972	\$ 154,399,483	\$ 81,628,144	\$ 55,951,378
Cost of net revenues	(51,331,295)	(32,755,531)	(20,060,474)	(11,450,919)
Gross profit	161,134,677	121,643,952	61,567,670	44,500,459
Operating expenses:				
Product and technology development	(16,600,802)	(11,425,716)	(5,925,019)	(4,224,476)
Sales and marketing	(45,567,338)	(34,863,616)	(16,701,982)	(12,281,672)
General and administrative	(28,160,262)	(21,725,081)	(8,976,946)	(8,683,605)
Total operating expenses	(90,328,402)	(68,014,413)	(31,603,947)	(25,189,753)
Income from operations	70,806,275	53,629,539	29,963,723	19,310,706
Other income (expenses):				
Interest income and other financial gains	7,037,264	3,073,427	2,913,596	1,361,899
Interest expense and other financial charges	(2,562,633)	(6,919,307)	(1,052,865)	(567,969)
Foreign currency gain / (loss)	2,080,822	7,275	3,284,190	(354,219)
Other income / (loss), net	253,148		(7,292)	
Net income before income / asset tax expense	77,614,876	49,790,934	35,101,352	19,750,417
Income / asset tax expense	(22,439,967)	(9,705,408)	(8,804,905)	(959,454)
Net income	\$ 55,174,909	\$ 40,085,526	\$ 26,296,447	\$ 18,790,963
Less: Net Income attributable to Noncontrolling Interest	522		522	
Net income attributable to MercadoLibre, Inc.	\$ 55,174,387	\$ 40,085,526	\$ 26,295,925	\$ 18,790,963

Condensed Consolidated Statements of Income

	Nine Months Ended September 30,	Three Months Ended September 30,
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	2011	2010	2011	2010
	(Unaudited)		(Unaudited)	
Basic EPS				
Basic net income attributable to MercadoLibre, Inc. per common share	\$ 1.25	\$ 0.91	\$ 0.60	\$ 0.43
Weighted average shares	44,137,176	44,121,539	44,141,925	44,129,762
Diluted EPS				
Diluted net income attributable to MercadoLibre, Inc. per common share	\$ 1.25	\$ 0.91	\$ 0.60	\$ 0.43
Weighted average shares	44,150,872	44,144,678	44,151,218	44,151,367

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 nine-month periods ended September 30, 2011 and 2010 (unaudited)**

	Comprehensive	Common stock		Additional	Retained	Accumulated	Total Equity Total		
	income	Shares	Amount	paid-in	Earnings	other	of Noncontrolling		
				capital		comprehensive	MercadoLibre,	Equity	Total
						income /	Inc.		
						(loss)			
Balance as of									
December 31,									
2009		44,120,269	\$ 44,120	\$ 120,257,998	\$ 17,656,537	\$ (23,765,418)	\$ 114,193,237	\$	\$ 114,193,237
Stock options									
exercised		7,126	7	18,192			18,199		18,199
Stock-based									
compensation									
Stock options				183			183		183
Stock-based									
compensation									
Restricted									
shares				37,696			37,696		37,696
Stock-based									
compensation									
TRP				52,291			52,291		52,291
TRP shares									
issued		3,981	4	(4)					
Net income	\$ 40,085,526				40,085,526		40,085,526		40,085,526
Currency									
translation									
adjustment	1,129,724					1,129,724	1,129,724		1,129,724
Unrealized net									
gain on									
investments	670,471					670,471	670,471		670,471
Realized net									
gain on									
investments	(27,630)					(27,630)	(27,630)		(27,630)
Comprehensive									
income	\$ 41,858,091								
Balance as of									
September 30,									
2010		44,131,376	\$ 44,131	\$ 120,366,356	\$ 57,742,063	\$ (21,992,853)	\$ 156,159,697	\$	\$ 156,159,697
Stock options									
exercised									

stock-based compensation									
stock options			61				61		61
stock-based compensation									
restricted shares									
stock-based compensation									
TRP			25,205				25,205		25,205
Net income	\$ 15,939,493			15,939,493			15,939,493		15,939,493
Currency translation									
adjustment	218,758				218,758		218,758		218,758
Unrealized net									
loss on									
investments	(624,944)				(624,944)		(624,944)		(624,944)
Realized net									
gains on									
investments									
Comprehensive income	\$ 15,533,307								
Balance as of December 31, 2010		44,131,376	\$ 44,131	\$ 120,391,622	\$ 73,681,556	\$ (22,399,039)	\$ 171,718,270	\$	\$ 171,718,270

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 nine-month periods ended September 30, 2011 and 2010 (unaudited)**

	Comprehensive	Common stock		Additional	Retained	Accumulated	Total Equity	Total	Total
	income	Shares	Amount	paid-in	Earnings	other	of	Noncontrolling	Equity
				capital		comprehensive	MercadoLibre,	Equity	Equity
						income /	Inc.		
						(loss)			
As of									
September 30,									
		44,131,376	\$ 44,131	\$ 120,391,622	\$ 73,681,556	\$ (22,399,039)	\$ 171,718,270	\$	\$ 171,718,270
Options									
exercised		5,950	6	11,169			11,175		11,175
based									
on									
assumption									
				38,120			38,120		38,120
and									
reduction					(10,593,209)		(10,593,209)		(10,593,209)
of shares		4,694	5	(5)					
controlling								3,648,037	3,648,037
ome	\$ 55,174,387				55,174,387		55,174,387	522	55,174,387
ey									
ion									
ment	(12,787,985)					(12,787,985)	(12,787,985)	(237,926)	(13,025,911)
ized net									
n									
ments	928,179					928,179	928,179		928,179
d net									
ments	(45,527)					(45,527)	(45,527)		(45,527)
prehensive									
	\$ 43,269,054								
As of									
September 30,		44,142,020	\$ 44,142	\$ 120,440,906	\$ 118,262,734	\$ (34,304,372)	\$ 204,443,410	\$ 3,410,633	\$ 207,854,043

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 nine-month periods ended September 30, 2011 and 2010 (unaudited)**

	Nine Months Ended September 30,	
	2011	2010
	(Unaudited)	
Cash flows from operations:		
Net income	\$ 55,174,909	\$ 40,085,526
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	5,249,168	3,594,156
Accrued interest	(4,461,828)	(262,088)
Stock-based compensation expense stock options		183
Stock-based compensation expense restricted shares		37,696
LTRP accrued compensation	2,527,494	2,798,656
Deferred income taxes	1,174,177	(6,950,762)
Changes in assets and liabilities, net of the effect of the acquired business :		
Accounts receivable	(6,290,360)	(6,048,287)
Funds receivable from customers	(8,188,181)	(877,971)
Prepaid expenses	(276,976)	(113,329)
Other assets	(5,228,268)	(2,600,348)
Accounts payable and accrued expenses	6,288,050	7,856,387
Funds payable to customers	16,052,471	7,393,673
Other liabilities	273,016	(2,923,832)
Net cash provided by operating activities	62,293,672	41,989,660
Cash flows from investing activities:		
Purchase of investments	(297,570,336)	(85,338,161)
Proceeds from sale and maturity of investments	268,529,776	51,145,297
Payment for acquired businesses, net of cash acquired	(5,468,180)	
Purchases of intangible assets	(119,262)	(12,788)
Purchases of property and equipment	(17,084,397)	(10,554,982)
Net cash used in investing activities	(51,712,399)	(44,760,634)
Cash flows from financing activities:		
Decrease in loans payable		(2,898,702)
Dividends distribution	(7,061,847)	
Stock options exercised	11,175	18,199
Net cash used in financing activities	(7,050,672)	(2,880,503)
Effect of exchange rate changes on cash and cash equivalents	(1,277,650)	299,975
Net increase / (decrease) in cash and cash equivalents	2,252,951	(5,351,502)
Cash and cash equivalents, beginning of the period	56,830,466	49,803,402

Cash and cash equivalents, end of the period	\$ 59,083,417	\$ 44,451,900
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Table of Contents**MercadoLibre, Inc.****Condensed Consolidated Statements of Cash Flows****For the nine-month periods ended September 30, 2011 and 2010 (unaudited)**

	Nine Months Ended September 30, 2011 2010 (Unaudited)	
Supplemental cash flow information:		
Cash paid for interest	\$ 45,247	\$ 5,765,634
Cash paid for income and asset taxes	\$ 22,355,122	\$ 16,603,211
Acquisition of AutoPlaza.com		
Cash and cash equivalents	\$ 3,876	\$
Tax credits	49,951	
Non current assets	99,522	
Total assets acquired	153,349	
Total liabilities assumed		
Net assets acquired	153,349	
Identifiable Intangible Assets	8,966,744	
Noncontrolling interest	(3,648,037)	
Total purchase price	\$ 5,472,056	
Cash and cash equivalents acquired	3,876	
Payment for acquired businesses, net of cash acquired	\$ 5,468,180	

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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, helping to make inefficient markets more efficient 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 state online classifieds platform. In 2006, the Company launched eShops, a new 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. On March 30, 2010, the Company started processing off-MercadoLibre transactions through its new direct payments product to any site in Brazil which elects to adopt it. On July 16, 2010, the Company launched MercadoPago 3.0 in Brazil for all of its marketplace transactions. In February 2011, the Company started processing off-platform transactions in Mexico using its new direct payments product, MercadoPago 3.0, for any site in Mexico that elects to adopt it, while maintaining the escrow product for on-platform transactions. On April 15, 2011, the Company launched a new and improved version of its MercadoPago payments platform for all its marketplace transactions in Mexico.

As of September 30, 2011, 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 payments 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.

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MercadoLibre, Inc.

Notes to Condensed Consolidated Financial Statements (unaudited)

2. Summary of Significant Accounting Policies

Basis of presentation

The accompanying unaudited interim condensed consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) and include the accounts of the Company and its wholly-owned subsidiaries. These 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 99.7% and 99.5% of the consolidated totals during the nine-month periods ended September 30, 2011 and 2010, respectively. Long-lived assets located in the foreign operations totaled \$94,052,845 and \$81,834,265 as of September 30, 2011 and December 31, 2010, respectively. Cash and cash equivalents as well as short and long-term investments, totaling \$167,664,673 and \$141,019,513 at September 30, 2011 and December 31, 2010, respectively, are mainly located in the United States of America and Brazil.

These unaudited interim condensed financial statements reflect the Company's consolidated financial position as of September 30, 2011 and December 31, 2010. These statements also show the Company's consolidated statement of income for the three- and nine-month periods ended September 30, 2011 and 2010, its consolidated statement of shareholders' equity and its consolidated statement of cash flows for the nine-month periods ended September 30, 2011 and 2010. These 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 generally accepted accounting principles in the United States of America for annual consolidated financial statements are not included herein, these interim financial statements should be read in conjunction with the audited financial statements and the notes thereto for the year ended December 31, 2010, contained in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission (SEC) on February 25, 2011. The condensed consolidated statements of income, equity and cash flows for the periods presented 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.

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MercadoLibre, Inc.

Notes to Condensed Consolidated Financial Statements (unaudited)

2. Summary of Significant Accounting Policies (Continued)

Revenue Recognition (Continued)

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:

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 payments 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.

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 platform and is not subject to successful sale of the items listed.

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

Credit Cards Receivables

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

The company maintains allowances for doubtful accounts for estimated losses that may result from the inability of its customers to make required payments. Allowances are based upon several factors including, but not limited to, historical experience and the current condition of specific customers.

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MercadoLibre, Inc.

Notes to Condensed Consolidated Financial Statements (unaudited)

2. Summary of Significant Accounting Policies (Continued)

Credit Cards Receivables (Continued)

Credit cards receivables are presented net of the related allowance for doubtful accounts and chargebacks.

As of September 30, 2011, there are no past due credit card receivables.

Foreign Currency Translation

All of the Company's foreign operations have determined the local currency to be their functional currency, except for Venezuela, as described below. Accordingly, these foreign subsidiaries translate assets and liabilities from their local currencies to U.S. dollars using year end exchange rates while income and expense accounts are translated at the average rates in effect during the year. The resulting translation adjustment is recorded as part of accumulated other comprehensive income (loss), a component of MercadoLibre equity. 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 gain / (loss) and amounted to \$3,284,190 and \$(354,219) for the three-month periods ended September 30, 2011 and 2010, respectively. For the nine-month periods ended September 30, 2011 and 2010, Foreign currency gain / (loss) amounted to \$2,080,822 and \$7,275, respectively

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 loss adjustment of \$16,977,276 recorded in accumulated other comprehensive income/(loss). 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, we have transitioned our Venezuelan operations to highly inflationary status as of January 1, 2010 considering the US dollar as the functional currency. 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.

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MercadoLibre, Inc.

Notes to Condensed Consolidated Financial Statements (unaudited)

2. Summary of Significant Accounting Policies (Continued)

Foreign Currency Translation (Continued)

Until May 13, 2010, the only way by which US dollars could be purchased outside the official currency market was using an indirect mechanism consisting in the purchase and sale of securities, including national public debt bonds (DPNs) denominated in Bolivares Fuertes and bonds issued by the government that were denominated in U.S. dollars. This mechanism for transactions in certain securities created an indirect parallel foreign currency exchange market in Venezuela that enabled entities to obtain foreign currency through financial brokers without going through Commission for the Administration of Foreign Exchange (CADIVI). Although the parallel exchange rate was higher, and accordingly less beneficial, than the official exchange rate, some entities used the parallel market to exchange currency because of the delays of CADIVI in approving in a timely manner the exchange of currency requested by such entities. Until May 13, 2010, our Venezuelan subsidiaries used this mechanism to buy US dollars and accordingly we used the parallel average exchange rate to re-measure those foreign currency transactions.

However, on May 14th, 2010, the Venezuelan government enacted reforms to its exchange regulations and close-down such parallel market by declaring that foreign-currency-denominated securities issued by Venezuelan entities were included in the definition of foreign currency, thus 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.

Trading of foreign currencies was re-opened as a regulated market on June 9, 2010 with the Venezuelan Central Bank as the only institution through which foreign currency-denominated transactions can be brokered. 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 equivalent of \$50,000 per day, not to exceed \$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 a consequence of this new system, commencing on June 9, 2010, we have transitioned from the parallel exchange rate to the SITME rate and started re-measuring foreign currency transactions using the SITME rate published by BCV, which was 5.27 Bolivares Fuertes per U.S. dollar as of June 9, 2010.

For the period beginning on May 14, 2010 and ending on June 8, 2010 (during which there was no open foreign currency markets) we applied US GAAP guidelines, which state that if exchangeability between two currencies is temporarily lacking at the transaction date or balance sheet date, the first subsequent rate at which exchanges could be made shall be used.

Table of Contents**MercadoLibre, Inc.****Notes to Condensed Consolidated Financial Statements (unaudited)****2. Summary of Significant Accounting Policies (Continued)****Foreign Currency Translation (Continued)**

Accordingly, the June 9, 2010 exchange rate published by the Venezuelan Central Bank has been used to re-measure transactions during the abovementioned period. As of September 30, 2011, the exchange rate used to re-measure transactions is 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 September 30, 2011 and December 31, 2010.

	September 30, 2011	December 31, 2010
Venezuelan operations		
Assets	\$ 24,390,518	\$ 21,928,340
Liabilities	(7,729,510)	(8,212,581)
Net Assets	16,661,008	13,715,759

As of September 30, 2011, net assets of the Venezuelan subsidiaries (before intercompany eliminations) amount to approximately 8.0% of our consolidated net assets, and cash and investments of the Venezuelan subsidiaries held in local currency in Venezuela amount to approximately 5.2% of our consolidated cash and investments.

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

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MercadoLibre, Inc.

Notes to Condensed Consolidated Financial Statements (unaudited)

2. Summary of Significant Accounting Policies (Continued)

Foreign Currency Translation (Continued)

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 US 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 of January 1, 2010 considering the US dollar as the functional currency.

Taxes on Revenues

The Company's subsidiaries in Brazil, Argentina, Venezuela and Colombia are subject to certain taxes on revenues which are classified as cost of revenues. Taxes on revenues totaled \$5,948,244 and \$3,893,210 for the three-month periods ended September 30, 2011 and 2010, respectively. Taxes on revenues totaled \$15,698,754 and \$10,518,144 for the nine-month periods ended September 30, 2011 and 2010, 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 to fiscal year 2019, the Company's Argentine subsidiary is a beneficiary of a software development law. Part of the benefits obtained from being a beneficiary of the aforementioned law is a relief of 60% of total income tax determined in each year, until fiscal year 2019. Aggregate tax benefit totaled \$1,527,295 and \$1,250,042 for the three-month periods ended September 30, 2011 and 2010, respectively. Aggregate tax benefit totaled \$4,062,730 and \$3,220,530 for the nine-month periods ended September 30, 2011 and 2010, respectively. Aggregate per share effect of the Argentine tax holiday amounts to \$0.03 and \$0.03 for the three-month periods ended September 30, 2011 and 2010, respectively. Aggregate per share effect of the Argentine tax holiday amounts to \$0.09 and \$0.07 for the nine-month periods ended September 30, 2011 and 2010, 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 dollar and per share effect.

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MercadoLibre, Inc.

Notes to Condensed Consolidated Financial Statements (unaudited)

2. Summary of Significant Accounting Policies (Continued)

Income and Asset Taxes (Continued)

As of September 30, 2011 and December 31, 2010, 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 \$3,000,169 and \$2,436,224, respectively. Those foreign tax credits will be used to offset the future domestic income tax payable.

Use of estimates

The preparation of condensed consolidated financial statements in conformity with generally accepted accounting principles 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 and restricted shares, 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), 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 and unrealized gains/(losses) on investments classified as available-for-sale securities. Total comprehensive income for the three-month periods ended September 30, 2011 and 2010 amounted to \$10,096,602 and \$22,447,005, respectively and for the nine-month periods ended September 30, 2011 and 2010 amounted to \$43,031,650 and \$41,858,091 respectively.

Recent Accounting Pronouncements

Goodwill Impairment Test

On September 15, 2011, the Financial Accounting Standards Board (FASB) issued an amendment to the guidance on testing goodwill for impairment. Under the revised guidance, entities testing goodwill for impairment have the option of performing a qualitative assessment before calculating the fair value of the reporting unit (i.e., step 1 of the goodwill impairment test). If entities determine, on the basis of qualitative factors, that the fair value of the reporting unit is more likely than not less than the

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MercadoLibre, Inc.

Notes to Condensed Consolidated Financial Statements (unaudited)

2. Summary of Significant Accounting Policies (Continued)

Recent Accounting Pronouncements (Continued)

Goodwill Impairment Test (Continued)

carrying amount, the two-step impairment test would be required. The accounting standard update does not change how goodwill is calculated or assigned to reporting units, nor does it revise the requirement to test goodwill annually for impairment. In addition, it does not amend the requirement to test goodwill for impairment between annual tests if events or circumstances warrant; however, it does revise the examples of events and circumstances that an entity should consider. The amendments are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011 and early adoption is permitted. The Company expects to adopt this new guidance for its financial statements related to the fiscal year ending December 31, 2011.

Presentation of Comprehensive Income

On June 16, 2011 the Financial Accounting Standards Board (FASB) issued an amendment to disclosures about the presentation of the comprehensive income in the financial statements. The new guidance provides two ways to present the components of the comprehensive income, in either (a) a continuous statement of comprehensive income, or (b) two separate but consecutive statements. The amended disclosures about the presentation of the comprehensive income in the financial statements are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The Company does not expect to have a significant impact on the presentation of the consolidated financial statements.

Fair value measurement and disclosure

In May 2011, the FASB issued new accounting guidance that amends some fair value measurement principles and it expands the ASC 820 existing disclosure requirements for fair value measurements. The new guidance states that the concepts of highest and best use and valuation premise are only relevant when measuring the fair value of nonfinancial assets and prohibits the grouping of financial instruments for purposes of determining their fair values when the unit of account is specified in other guidance. We will adopt this accounting standard upon its effective date for periods beginning on or after December 15, 2011, and do not anticipate that this adoption will have a significant impact on our financial position or results of operations.

3. Net Income per Share

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

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

The Company's restricted shares granted to its outside directors were participating securities. Accordingly, net income attributable to MercadoLibre, Inc. for the nine-month periods ended September 30, 2010, was allocated between unvested restricted shares and common stock under the two class method for purposes of computing basic and diluted earnings per share.

Diluted earnings per share for the Company's common stock assume the exercise of outstanding stock options and vesting restricted shares, additional shares and shares granted under the 2008 Long Term Retention Plan under the Company's stock based employee compensation plans.

The following table shows how net income attributable to MercadoLibre, Inc. is allocated using the two-class method, for the three-month periods ended September 30, 2011 and 2010:

	Three Months Ended September 30,			
	2011		2010	
	Basic	Diluted	Basic	Diluted
Net income	\$ 26,296,447	\$ 26,296,447	\$ 18,790,963	\$ 18,790,963
Net income attributable to MercadoLibre, Inc. corresponding to unvested restricted shares				
Net income attributable to Noncontrolling interests	522	522		
Net income attributable to MercadoLibre, Inc. corresponding to common stock	\$ 26,295,925	\$ 26,295,925	\$ 18,790,963	\$ 18,790,963

The following table shows how net income attributable to MercadoLibre, Inc. is allocated using the two-class method, for the nine-month periods ended September 30, 2011 and 2010:

	Nine Months Ended September 30,			
	2011		2010	
	Basic	Diluted	Basic	Diluted
Net income	\$ 55,174,909	\$ 55,174,909	\$ 40,085,526	\$ 40,085,526
Net income attributable to MercadoLibre, Inc. corresponding to unvested restricted shares			4,474	4,474
Net income attributable to Noncontrolling interests	522	522		

Net income attributable to MercadoLibre, Inc. corresponding to common stock	\$ 55,174,387	\$ 55,174,387	\$ 40,081,052	\$ 40,081,052
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Table of Contents**MercadoLibre, Inc.****Notes to Condensed Consolidated Financial Statements (unaudited)****3. Net Income per Share (Continued)**

Net income attributable to MercadoLibre, Inc. per share of common stock is as follows for the three-month periods ended September 30, 2011 and 2010:

	Three Months Ended September 30,			
	2011		2010	
	Basic	Diluted	Basic	Diluted
Net income attributable to MercadoLibre, Inc. per common share	\$ 0.60	\$ 0.60	\$ 0.43	\$ 0.43
Numerator:				
Net income attributable to MercadoLibre, Inc.	\$ 26,295,925	\$ 26,295,925	\$ 18,790,963	\$ 18,790,963
Denominator:				
Weighted average of common stock outstanding for Basic earnings per share	44,141,925	44,141,925	44,129,762	44,129,762
Adjustment for stock options		4,513		12,949
Adjustment for shares granted under LTRP		4,780		8,656
Adjusted weighted average of common stock outstanding for Diluted earnings per share	44,141,925	44,151,218	44,129,762	44,151,367

Net income attributable to MercadoLibre, Inc. per share of common stock is as follows for the nine-month periods ended September 30, 2011 and 2010:

	Nine Months Ended September 30,			
	2011		2010	
	Basic	Diluted	Basic	Diluted
Net income attributable to MercadoLibre, Inc. per common share	\$ 1.25	\$ 1.25	\$ 0.91	\$ 0.91
Numerator:				
Net income attributable to MercadoLibre, Inc.	\$ 55,174,387	\$ 55,174,387	\$ 40,081,052	\$ 40,081,052
Denominator:				
Weighted average of common stock outstanding for Basic earnings per share	44,137,176	44,137,176	44,121,539	44,121,539
Adjustment for stock options		8,894		14,821
Adjustment for shares granted under LTRP		4,802		8,318
Adjusted weighted average of common stock outstanding for Diluted earnings per share	44,137,176	44,150,872	44,121,539	44,144,678

The calculation of diluted net income per share excludes all anti-dilutive shares. For the three- and nine-month periods ended September 30, 2011 and 2010, there were no anti-dilutive shares.

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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 member's 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.

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.

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

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

The following table summarizes the preliminary 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 were valued at their respective fair values at the acquisition date according 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 a 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 purchase price allocation, as fully described above, is preliminary.

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:

	September 30, 2011	December 31, 2010
Goodwill	\$ 62,861,760	\$ 60,496,314
Intangible assets with indefinite lives		
- Trademarks	5,106,747	2,460,952
Amortizable intangible assets		
- Licenses and others	2,671,058	2,606,402
- Non-compete agreement	1,288,216	1,241,357
- Customer list	1,765,069	1,607,097
Total intangible assets	\$ 10,831,090	\$ 7,915,808
Accumulated amortization	(4,120,965)	(3,774,641)
Total intangible assets, net	\$ 6,710,125	\$ 4,141,167

Goodwill

The changes in the carrying amount of goodwill for the nine-month period ended September 30, 2011 and the year ended December 31, 2010, are as follows:

	Nine Months Ended September 30, 2011							
	Brazil	Argentina	Chile	Mexico	Venezuela	Colombia	Other Countries	Total
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	(1,332,609)	(1,272,397)	(751,701)	(951,712)		(3,186)	14,006	(4,297,599)
Balance, end of the period	\$ 11,798,040	\$ 22,091,929	\$ 6,545,187	\$ 10,736,956	\$ 4,846,030	\$ 5,444,882	\$ 1,398,736	\$ 62,861,760

Year Ended December 31, 2010

	Brazil	Argentina	Chile	Mexico	Venezuela	Colombia	Other Countries	Total
Balance, beginning of year	\$ 12,565,062	\$ 24,446,463	\$ 6,734,405	\$ 4,770,560	\$ 4,846,030	\$ 5,100,939	\$ 1,359,287	\$ 59,822,746
	565,587	(1,082,137)	562,483	255,063		347,129	25,443	673,568

- Effect of
exchange
rates
changes

Balance,
end of the

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
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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 \$252,293 and \$236,637 for the three-month periods ended September 30, 2011 and 2010, respectively. Aggregate amortization expense for intangible assets totaled \$730,815 and \$616,984 for the nine-month periods ended September 30, 2011 and 2010, respectively.

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

Expected future intangible asset amortization from acquisitions completed as of September 30, 2011 is as follows:

For year ended 12/31/2011	\$ 211,694
For year ended 12/31/2012	698,693
For year ended 12/31/2013	430,549
For year ended 12/31/2014	112,035
For year ended 12/31/2015	85,947
Thereafter	64,460
	\$ 1,603,378

5. Segments

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 MercadoLibre 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. Segments (Continued)**

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

Three Months Ended September 30, 2011						
	Brazil	Argentina	Mexico	Venezuela	Other Countries	Total
Net revenues	\$ 46,003,915	\$ 15,828,272	\$ 5,608,572	\$ 9,045,783	\$ 5,141,602	\$ 81,628,144
Direct costs	(25,709,957)	(6,264,769)	(3,183,432)	(3,180,061)	(2,636,836)	(40,975,055)
Direct contribution	20,293,958	9,563,503	2,425,140	5,865,722	2,504,766	40,653,089
Operating expenses and indirect costs of net revenues						(10,689,366)
Income from operations						29,963,723
Other income (expenses):						
Interest income and other financial gains						2,913,596
Interest expense and other financial results						(1,052,865)
Foreign currency gain						3,284,190
Other losses, net						(7,292)
Net income before income / asset tax expense						\$ 35,101,352

Three Months Ended September 30, 2010						
	Brazil	Argentina	Mexico	Venezuela	Other Countries	Total
Net revenues	\$ 31,077,654	\$ 10,802,682	\$ 4,722,635	\$ 5,762,290	\$ 3,586,117	\$ 55,951,378
Direct costs	(19,235,066)	(5,353,452)	(2,914,273)	(2,653,357)	(2,230,064)	(32,386,212)
Direct contribution	11,842,588	5,449,230	1,808,362	3,108,933	1,356,053	23,565,166
Operating expenses and indirect costs of						(4,254,460)

net revenues

Income from
operations

19,310,706

Other income
(expenses):

Interest income and
other financial gains

1,361,899

Interest expense and
other financial
results

(567,969)

Foreign currency
loss

(354,219)

Net income before
income / asset tax
expense

\$ 19,750,417

Nine Months Ended September 30, 2011

	Brazil	Argentina	Mexico	Venezuela	Other Countries	Total
Net revenues	\$ 120,659,242	\$ 38,800,077	\$ 16,212,999	\$ 23,051,176	\$ 13,742,478	\$ 212,465,972
Direct costs	(69,712,512)	(15,845,674)	(8,881,811)	(9,096,997)	(7,230,721)	(110,767,715)
Direct contribution	50,946,730	22,954,403	7,331,188	13,954,179	6,511,757	101,698,257
Operating expenses and indirect costs of net revenues						(30,891,982)
Income from operations						70,806,275
Other income (expenses):						
Interest income and other financial gains						7,037,264
Interest expense and other financial results						(2,562,633)
Foreign currency gains						2,080,822
Other income, net						253,148

Net income before income / asset tax expense	\$ 77,614,876
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Table of Contents**MercadoLibre, Inc.****Notes to Condensed Consolidated Financial Statements (unaudited)****5. Segments (Continued)**

Nine Months Ended September 30, 2010						
	Brazil	Argentina	Mexico	Venezuela	Other Countries	Total
Net revenues	\$ 88,210,536	\$ 28,609,190	\$ 13,861,921	\$ 13,705,926	\$ 10,011,910	\$ 154,399,483
Direct costs	(50,090,123)	(13,985,689)	(8,544,912)	(6,759,831)	(5,694,502)	\$ (85,075,057)
Direct contribution	38,120,413	14,623,501	5,317,009	6,946,095	4,317,408	69,324,426
Operating expenses and indirect costs of net revenues						(15,694,887)
Income from operations						53,629,539
Other income (expenses):						
Interest income and other financial gains						3,073,427
Interest expense and other financial results						(6,919,307)
Foreign currency gains						7,275
Net income before income / asset tax expense						\$ 49,790,934

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

	September 30, 2011	December 31, 2010
US long-lived tangible assets	\$ 6,871,005	\$ 3,617,420
Other countries long-lived tangible assets		
Argentina	14,147,946	13,580,175
Brazil	2,637,183	3,264,625
Mexico	456,358	68,878
Venezuela (*)	6,823,256	206,815
Other countries	416,218	79,799

	\$	24,480,961	\$	17,200,292
Total long-lived tangible assets	\$	31,351,966	\$	20,817,712

(*) On June 2, 2011, the Company's Venezuelan subsidiary acquired an office property of 992 square meters in a building located in Caracas, Venezuela. The purchase price of \$6.6 million was paid in cash.

Table of Contents**MercadoLibre, Inc.****Notes to Condensed Consolidated Financial Statements (unaudited)****5. Segments (Continued)**

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

	September 30, 2011	December 31, 2010
US intangible assets	\$	\$ 3,507
Other countries goodwill and intangible assets		
Argentina	23,044,009	24,825,718
Brazil	11,813,433	13,137,658
Mexico	13,898,219	5,043,335
Venezuela	6,595,409	6,595,866
Other countries	14,220,815	15,031,397
	\$ 69,571,885	\$ 64,633,974
Total goodwill and intangible assets	\$ 69,571,885	\$ 64,637,481

6. Fair Value Measurement of Assets and Liabilities

The following table summarizes the Company's financial assets and liabilities measured at fair value on a recurring basis as of September 30, 2011 and December 31, 2010:

Description	Balances as of September 30, 2011	Quoted Prices in active markets for identical Assets (Level 1)	Balances as of December 31, 2010	Quoted Prices in active markets for identical Assets (Level 1)
Assets				
Cash and Cash Equivalents:				
Money Market Funds	\$ 14,533,599	\$ 14,533,599	\$ 14,578,477	\$ 14,578,477
Investments:				
Asset backed securities	17,762,521	17,762,521	14,319,103	14,319,103
Sovereign Debt Securities	10,635,822	10,635,822	13,147,239	13,147,239
Corporate Debt Securities	14,720,669	14,720,669	11,381,761	11,381,761
Total financial Assets	\$ 57,652,611	\$ 57,652,611	\$ 53,426,580	\$ 53,426,580

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 September 30, 2011 and December 31, 2010, 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).

Table of Contents**MercadoLibre, Inc.****Notes to Condensed Consolidated Financial Statements (unaudited)****6. Fair Value Measurement of Assets and Liabilities (Continued)**

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 September 30, 2011, the Company had \$65,462,243 of short-term investments, which consisted of time deposits maintained as held to maturity investments. As of December 31, 2010, the Company had \$45,340,944 of short-term and long-term investments, which consisted of time deposits considered held to maturity securities. Those investments are accounted for at amortized cost which, as of September 30, 2011 and December 31, 2010, approximates their fair values.

As of September 30, 2011 and December 31, 2010, 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, funds receivables from 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 nine-month periods ended September 30, 2011 and 2010, the Company held no direct investments in auction rate securities, collateralized debt obligations, structured investment vehicles. As of September 30, 2011 and December 31, 2010, the Company does not have any non-financial assets or liabilities measured at fair value.

As of September 30, 2011 and December 31, 2010, the fair value of short and long-term investments classified as available for sale securities are as follows:

		September 30, 2011		
	Gross	Gross	Gross	
	Amortized	Unrealized	Unrealized	Estimated Fair
	Cost	Gains	Losses (1)	Value
Short-term investments				
Sovereign Debt Securities	\$ 1,733,173	\$ 3,035	\$	\$ 1,736,208
Corporate Debt Securities	384,983		(4,940)	380,043
Total Short-term investments	\$ 2,118,156	\$ 3,035	\$ (4,940)	\$ 2,116,251
Long-term investments				
Sovereign Debt Securities	\$ 8,269,512	\$ 630,102	\$	\$ 8,899,614
Corporate Debt Securities	14,312,659	172,068	(144,099)	14,340,628
Asset Backed Securities (2)	17,022,343	754,516	(14,339)	17,762,520
Total Long-term investments	\$ 39,604,514	\$ 1,556,686	\$ (158,438)	\$ 41,002,762
Total	\$ 41,722,670	\$ 1,559,721	\$ (163,378)	\$ 43,119,013

Table of Contents**MercadoLibre, Inc.****Notes to Condensed Consolidated Financial Statements (unaudited)****6. Fair Value Measurement of Assets and Liabilities (Continued)**

	December 31, 2010			
	Gross Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses (1)	Estimated Fair Value
Short-term investments				
Corporate Debt Securities	\$ 398,752	\$ 26	\$ (773)	\$ 398,005
Total short-term investments	\$ 398,752	\$ 26	\$ (773)	\$ 398,005
Long-term investments				
Sovereign Debt Securities	\$ 13,282,207	\$ 98,958	\$ (233,926)	\$ 13,147,239
Corporate Debt Securities	10,987,910	110,521	(114,675)	10,983,756
Asset Backed Securities	14,107,501	439,239	(227,637)	14,319,103
Total long-term investments	\$ 38,377,618	\$ 648,718	\$ (576,238)	\$ 38,450,098
Total	\$ 38,776,370	\$ 648,744	\$ (577,011)	\$ 38,848,103

- (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 September 30, 2011 and December 31, 2010.
- (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 September 30, 2011, the estimated fair values of short-term and long-term investments classified by its contractual maturities are as follows:

One year or less	\$ 2,116,252
One year to two years	5,452,507
Two years to three years	3,228,204
Three years to four years	3,812,512
Four years to five years	1,781,791
More than five years	26,727,747
Total	\$ 43,119,013

7. Compensation Plan for Outside Directors

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

On June 10, 2009, the Company issued an aggregate of 2,305 shares of common stock and 8,350 restricted shares of common stock (the Restricted Shares) to our outside directors. The Restricted Shares vested in full in June 2010. Restricted Shares awarded to employees and directors are measured at their fair market value using the grant-date price of the Company's shares. For the three- and nine-month periods ended September 30, 2010, the Company recognized nil and \$37,696, respectively, of compensation expense related to these awards, which are included in operating expenses in the accompanying condensed consolidated statement of income.

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MercadoLibre, Inc.

Notes to Condensed Consolidated Financial Statements (unaudited)

7. Compensation Plan for Outside Directors (Continued)

The total accrued compensation cost for the three-month periods ended September 30, 2011 and 2010 in cash and equity awards amounts to \$105,112 and \$132,718, respectively which were included in operating expenses. For the nine-month periods ended September 30, 2011 and 2010, the Company recognized \$428,402 and \$279,947 respectively, which amounts are included in operating expenses in the accompanying condensed consolidated statement 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 September 30, 2011, the Company had established reserves for proceeding-related contingencies of \$1,738,721 to cover legal actions against the Company. In addition, as of September 30, 2011 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 \$2,660,672.

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 September 30, 2011, 343 legal actions were pending in the Brazilian ordinary courts, 8 of which were related to alleged intellectual property infringement. In addition, as of September 30, 2011, there were 1,759 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.

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MercadoLibre, Inc.

Notes to Condensed Consolidated Financial Statements (unaudited)

8. Commitments and Contingencies (Continued)

Litigation and Other Legal Matters (Continued)

per defendant per day of non-compliance. The Company appealed that fine and obtained its 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 September 30, 2011, the amount of \$215,703 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.

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MercadoLibre, Inc.

Notes to Condensed Consolidated Financial Statements (unaudited)

8. Commitments and Contingencies (Continued)

City of São Paulo Tax Claim

In 2007 São Paulo tax authorities have asserted taxes and fines against our Brazilian subsidiary relating to the period from 2005 to 2007 in an approximate amount of \$5.9 million according to the exchange rate 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 financial statements, the total amount of the claim is approximately \$5.1 million including surcharges and interest. With this decision the administrative stage is finished. On August 15, 2011, the Company made a deposit in court of approximately R\$9.5 million or \$5.1 million, according to the exchange rate at September 30, 2011, 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 advisors believe that the risk of loss is remote, and as a result, it 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\$5.1 million or \$2.8 million, according to the exchange rate at September 30, 2011. On September 30, 2011 the Company presented administrative defenses against the tax authorities' claim. The Company's management and its legal advisors believe that the risk of loss is remote, and as a result, the Company has not reserved any provisions 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 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 08, 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 start running as of 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. In the opinion of the Company's management and its legal counsel the risk associated with this claim has considered as reasonably possible and therefore an amount of approximately \$500,000 was reserved.

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MercadoLibre, Inc.

Notes to Condensed Consolidated Financial Statements (unaudited)

8. Commitments and Contingencies (Continued)

State of Rio de Janeiro Fraud Claim

On April 15, 2011, a state prosecutor of the State of Rio de Janeiro, Brazil presented a claim against the Brazilian subsidiary. The state prosecutor requests several clauses of the Terms of Service of the Website shall be considered null and void. The prosecutor alleged 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 August 30, 2011 the case filed by a state prosecutor of the State of Rio de Janeiro, Brazil against our Brazilian subsidiary was settled with no financial or legal liability for the Company. By the settlement, the Brazilian subsidiary agreed to modify some clauses of the General Terms and Conditions of Use from the Brazilian website. The settlement was homologated on September 15, 2011.

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

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

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

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MercadoLibre, Inc.

Notes to Condensed Consolidated Financial Statements (unaudited)

9. Long Term Retention Plan

On August 8, 2008, the Board of Directors approved an employee retention program 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 PF \$36.8 per share. As of September 30, 2011, the Company paid the 66% related to the years one to three of the 2008 LTRP.

For the three-month period ended September 30, 2011, the related accrued compensation was \$28,034 corresponding \$11,127 to the share portion of the award credited to Additional Paid-in Capital and \$16,907 to the cash portion included in the Balance Sheet as Payroll and social security payable. For the nine-month period ended September 30, 2011, the related accrued compensation expense was \$70,417 corresponding \$38,120 to the share portion of the award credited to Additional Paid-in Capital and \$32,297 to the cash portion included in the Balance Sheet as Payroll and social security payable.

For the three-month period ended September 30, 2010, the related accrued compensation expense was \$46,523 corresponding \$14,504 to the share portion of the award credited to Additional Paid-in Capital and \$32,019 to the cash portion included in the Balance Sheet as Payroll and social security payable.

For the nine-month period ended September 30, 2010, the related accrued compensation expenses was \$182,142 corresponding \$78,516 to the share portion of the award credited to Additional Paid-in Capital and \$103,626 to the cash portion included in the Balance Sheet as Social security payable.

On July 15, 2009, June 25, 2010 and August 1, 2011, the Board of Directors, upon the recommendation of the compensation Committee approved the 2009, the 2010 and the 2011 employee retention programs (the 2009, 2010 and 2011 LTRP). The 2011 LTRP was approved by the Compensation Committee on June 27, 2011. The awards under the 2009, 2010 and 2011 LTRP are fully payable in cash in addition to the annual salary and bonus of each employee.

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

Table of Contents**MercadoLibre, Inc.****Notes to Condensed Consolidated Financial Statements (unaudited)****9. Long Term Retention Plan (Continued)**

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 and 2010 for the 2009, 2010 and 2011 LTRP, respectively. The average closing stock price for the 2009, 2010 and 2011 LTRP amounted to \$13.81, \$45.75 and \$65.41, respectively (the variable share).

The 2008, 2009, 2010 and 2011 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 2008 LTRP compensation cost and the variable share compensation cost of the 2009, 2010 and 2011 LTRP are recognized in accordance with the graded-vesting attribution method and are accrued up to each payment date. The 2009, 2010 and 2011 LTRP nominal basis share are recognized in straight line bases using the equal annual accrual method.

The following tables summarize the LTRP accrued compensation expense for the three- and nine-month periods ended September 30, 2011 and 2010:

	Three Months Ended September		Nine Months Ended September	
	30,		30,	
	2011	2010	2011	2010
LTRP 2009	\$ (138,721)	\$ 673,842	\$ 870,504	\$ 1,382,883
LTRP 2010	46,942	598,709	864,413	1,258,700
LTRP 2011	287,697		1,049,182	

10. Cash dividend distribution

On October 15, 2011, the Company paid the third quarterly cash dividend distribution of \$3.5 million or \$0.08 per share, which was approved on August 1, 2011 by the Board of Directors.

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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, should, may, could, will and similar words and expressions are intended to identify forward-looking statements. Forward-looking statements generally relate to information concerning our possible or assumed future results of operations, business strategies, financing plans, competitive position, industry environment, potential growth opportunities, 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 new 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, 2010 filed with the Securities and Exchange Commission on February 25, 2011.

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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 and our unaudited condensed consolidated financial statements and related notes in Item 1 of Part I of this report. 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 Securities and Exchange Commission.

Management's Discussion and Analysis of Financial Condition and Results of Operations

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 nine-month periods ended September 30, 2011 and 2010;

- 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 MercadoClics 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.

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 appear alongside 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.

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To close out our suite of e-commerce services we launched, during 2010, 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

Business Combination

On September 14, 2011, we completed, through one of our subsidiaries, Meli Participaciones S.L. (ETVE or the Buyer), the acquisition of the 60% of outstanding membership interests 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, which previously owned all the shares of the capital stock of the Autopark LLC.

Autopark LLC owns directly and indirectly 100% of the capital stock 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 aggregate purchase price paid in cash by us to the Seller for its 60% interest in Autopark LLC was \$5.5 million and includes URLs, domain names, trademarks, databases non-compete agreements and intellectual property rights that are used or useful in connection with the online platforms of the acquired business.

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

ETVE has the right and option 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. Within such period, Hasteny shall be obligated to sell and transfer all of the membership interests, free and clear of all Encumbrances, to ETVE. 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 interests 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.

In addition, Hasteny shall have the right and option to sell and transfer, all of the membership interests to ETVE in Autopark LLC with thirty (30) days prior written notice. Within such thirty (30) day period, ETVE shall be obligated to purchase all, of the Hasteny membership interests, from Hasteny. The total consideration to be paid by ETVE for the membership interest hold by Hasteny shall be the same as described in the preceding paragraph.

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).

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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 for the MercadoLibre Marketplace transactions are now generated by:

up front fees;

final value fees; and

online advertising fees.

Since the third quarter of 2010, we have offered payment processing through our MercadoPago solution at no added cost in Brazil and Argentina. On April 15, 2011, we launched a new and improved version of our MercadoPago payments platform that may be used for all our marketplace transactions in Mexico. We also made offering MercadoPago obligatory in our Mexican marketplace listings (with the exception of free listings). This change in pricing implies that for Marketplace transactions we no longer charge our users a specific fee for processing on-platform payments as we did in the past. We do continue, however, 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 with respect to transactions that occur outside of our Marketplace platform;

revenues from a financial charge when a buyer elects to pay in installments through our MercadoPago platform, for both transactions that occurs on or off our Marketplace platform.

The following table sets forth the percentage of consolidated net revenues by segment for the three- and nine-month periods ended September 30, 2011 and 2010:

(% of total consolidated net revenues)	Nine-Month Periods Ended September 30,		Three-Month Periods Ended September 30,	
	2011	2010	2011	2010
Brazil	56.8%	57.1%	56.4%	55.5%
Argentina	18.3	18.5	19.4	19.3
Venezuela	10.8	8.9	11.1	10.3
Mexico	7.6	9.0	6.9	8.4
Other Countries	6.5	6.5	6.2	6.5

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

The following table summarizes the changes in net revenues for the three- and nine-month periods ended September 30, 2011 and 2010:

	Nine-Month Periods Ended September 30,		Change from 2010 to 2011 (*)		Three-Month Periods Ended September 30,		Change from 2010 to 2011 (*)	
	2011	2010	in Dollars in %		2011	2010	in Dollars in %	
	(in millions, except percentages)				(in millions, except percentages)			

Net Revenues:

Brazil	\$ 120.7	\$ 88.2	\$ 32.5	36.8%	\$ 46.0	\$ 31.1	\$ 14.9	48.0%
Argentina	38.8	28.6	10.2	35.6	15.8	10.8	5.0	46.5

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Venezuela	23.1	13.7	9.4	68.2	9.0	5.8	3.2	57.0
Mexico	16.2	13.9	2.3	17.0	5.6	4.7	0.9	18.8
Other Countries	13.7	10.0	3.7	37.3	5.2	3.6	1.6	43.4
Total Net Revenues	\$ 212.5	\$ 154.4	\$ 58.1	37.6%	\$ 81.6	\$ 56.0	\$ 25.6	45.9%

(*) 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.

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We have a highly fragmented customer revenue base given the large numbers of sellers and buyers who use our platforms. For the three- and nine-month periods ended September 30, 2011 and 2010, no single customer accounted for more than 1.0% 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 local currency, except for Venezuela whose 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 in this report. 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 7.3% and 7.4% of net revenues for the three- and nine-month periods ended September 30, 2011.

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, 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 of interest income derived primarily from our investments and cash equivalents, foreign currency gains or losses, and other non-operating results. Prior to the third quarter of 2010, other income (expenses) included mainly interest expense related to the working capital requirements for our MercadoPago operations. Since the third quarter of 2010 and for as long as we continue pre-selling credit card receivables there has been, and we expect in the future will be, no interest expense included in other income (expenses) line, related to MercadoPago's working capital requirements.

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.

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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 there to and other disclosures included in this report.

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 year-end exchange rates while income and expense accounts are translated at the average rates in effect during the 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) / gain .

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 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 at 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 of the use of the Official Rate was down 50% on a year-to-year basis as of July 2009.

CADIVI has not only delayed approvals but also removed many items from 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 assets, liabilities, income and expense accounts using the parallel exchange rate.

As of the date of this report the Company did not buy 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 and have used the U.S. dollar to be 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.

Until May 13, 2010, the only way by which U.S. dollars could be purchased outside the official currency market was using an indirect mechanism consisting in the purchase and sale of securities, including national public debt bonds (DPNs) denominated in Bolivares Fuertes and bonds issued by the government that were denominated in U.S. dollars. This mechanism for transactions in certain securities created an indirect parallel foreign currency exchange market in Venezuela that enabled entities to obtain foreign currency through financial brokers without going through CADIVI. Although the parallel exchange rate was higher, and accordingly less beneficial, than the official exchange rate, some entities have used the parallel market to exchange currency because, as already mentioned, CADIVI had typically failed to approve in a timely manner the exchange of currency requested by such entities. Until May 13, 2010, our Venezuelan subsidiaries used this mechanism to buy U.S. dollars and accordingly we used the parallel average exchange rate to re-measure those foreign currency transactions.

However, on May 14th, 2010, the Venezuelan government enacted reforms to its exchange regulations and close-down such parallel market by declaring that foreign-currency-denominated securities issued by Venezuelan entities were included in the definition of foreign currency, thus 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.

Trading of foreign currencies was re-opened as a regulated market on June 9, 2010 with the Venezuelan Central Bank as the only institution through which foreign currency-denominated transactions can be brokered. 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 equivalent of \$50,000 per day, not to exceed \$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.

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As a consequence of this new system, commencing on June 9, 2010, we have transitioned from the parallel exchange rate to the SITME rate and started re-measuring foreign currency transactions using the SITME rate published by BCV, which was 5.27 ¢