

MERCADOLIBRE INC  
Form 10-Q  
May 07, 2013  
Table of Contents

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

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended March 31, 2013

-OR-

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 001-33647

**MercadoLibre, Inc.**

(Exact name of Registrant as specified in its Charter)

Edgar Filing: MERCADOLIBRE INC - Form 10-Q

**Delaware**  
(State or other jurisdiction)  
**98-0212790**  
(I.R.S. Employer)  
**Identification Number)**  
of incorporation or organization)  
**Arias 3751, 7th Floor**  
**Buenos Aires, C1430CRG, Argentina**  
(Address of registrant's principal executive offices)  
**(+5411) 4640-8000**  
(Registrant's telephone number, including area code)  
(Former name, former address and former fiscal year, if changed since last report)

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

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

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

Large accelerated filer  Accelerated filer

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange

Act). Yes  No

**APPLICABLE ONLY TO CORPORATE ISSUERS:**

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

44,152,933 shares of the issuer's common stock, \$0.001 par value, outstanding as of April 29, 2013.

**Table of Contents**

**MERCADOLIBRE, INC.**

**INDEX TO FORM 10-Q**

**PART I. FINANCIAL INFORMATION**

**Item 1 Unaudited Condensed Consolidated Financial Statements**

**Condensed Consolidated Balance Sheets as of March 31, 2013 and December 31, 2012** 4

**Condensed Consolidated Statements of Income for the three-month periods ended March 31, 2013 and 2012** 5

**Condensed Consolidated Statements of Comprehensive Income for the three-month periods ended March 31, 2013 and 2012** 6

**Condensed Consolidated Statements of Cash Flows for the three-month periods ended March 31, 2013 and 2012** 7

**Notes to Condensed Consolidated Financial Statements** 8

**Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations** 27

**Item 3 Qualitative and Quantitative Disclosures About Market Risk** 43

**Item 4 Controls and Procedures** 47

**PART II. OTHER INFORMATION**

**Item 1 Legal Proceedings** 47

**Item 1A Risk Factors** 48

**Item 4 Mine safety disclosure** 48

**Item 6 Exhibits** 48

**INDEX TO EXHIBITS** 51

Exhibit 3.1

Exhibit 3.2

Exhibit 10.1

Exhibit 10.17

Exhibit 31.1

Exhibit 31.2

Exhibit 32.1

Exhibit 32.2

EX-101 INSTANCE DOCUMENT

EX-101 SCHEMA DOCUMENT

EX-101 CALCULATION LINKBASE DOCUMENT

EX-101 LABELS LINKBASE DOCUMENT

EX-101 PRESENTATION LINKBASE DOCUMENT

EX-101 DEFINITION LINKBASE DOCUMENT

**Table of Contents**

**PART I. FINANCIAL INFORMATION**

**Item 1. Unaudited Condensed Consolidated Financial Statements  
MercadoLibre, Inc.**

**Condensed Consolidated Financial Statements**

**as of March 31, 2013 and December 31, 2012**

**and for the three-month periods**

**ended March 31, 2013 and 2012**

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

As of March 31, 2013 and December 31, 2012

|   | March 31,<br>2013<br>(Unaudited) | December 31,<br>2012<br>(Audited) |
|---|----------------------------------|-----------------------------------|
| <b>Assets</b>                                 |                                  |                                   |
| Current assets:                               |                                  |                                   |
| Cash and cash equivalents                     | \$ 122,167,381                   | \$ 101,489,002                    |
| Short-term investments                        | 75,545,528                       | 93,694,805                        |
| Accounts receivable, net                      | 20,438,433                       | 19,837,022                        |
| Credit cards receivables, net                 | 40,679,729                       | 35,816,506                        |
| Prepaid expenses                              | 3,082,814                        | 2,080,079                         |
| Deferred tax assets                           | 11,585,582                       | 11,040,543                        |
| Other assets                                  | 15,065,592                       | 11,403,218                        |
| <b>Total current assets</b>                   | <b>288,565,059</b>               | <b>275,361,175</b>                |
| Non-current assets:                           |                                  |                                   |
| Long-term investments                         | 94,956,562                       | 85,955,584                        |
| Property and equipment, net                   | 38,017,200                       | 37,726,222                        |
| Goodwill                                      | 62,818,466                       | 60,366,063                        |
| Intangible assets, net                        | 7,167,610                        | 7,279,865                         |
| Deferred tax assets                           | 5,367,752                        | 5,862,247                         |
| Other assets                                  | 6,328,143                        | 6,118,120                         |
| <b>Total non-current assets</b>               | <b>214,655,733</b>               | <b>203,308,101</b>                |
| <b>Total assets</b>                           | <b>\$ 503,220,792</b>            | <b>\$ 478,669,276</b>             |
| <b>Liabilities and Equity</b>                 |                                  |                                   |
| Current liabilities:                          |                                  |                                   |
| Accounts payable and accrued expenses         | \$ 26,744,961                    | \$ 23,976,613                     |
| Funds payable to customers                    | 110,349,603                      | 101,472,662                       |
| Salaries and social security payable          | 23,147,748                       | 19,974,463                        |
| Taxes payable                                 | 16,057,779                       | 19,210,568                        |
| Loans payable and other financial liabilities | 115,017                          | 84,570                            |
| Dividends payable                             | 6,313,869                        | 4,812,396                         |
| <b>Total current liabilities</b>              | <b>182,728,977</b>               | <b>169,531,272</b>                |
| Non-current liabilities:                      |                                  |                                   |
| Salaries and social security payable          | 4,130,101                        | 3,452,445                         |
| Loans payable and other financial liabilities | 46,463                           | 59,493                            |
| Deferred tax liabilities                      | 8,731,036                        | 8,975,290                         |
| Other liabilities                             | 3,575,796                        | 2,837,150                         |
| <b>Total non-current liabilities</b>          | <b>16,483,396</b>                | <b>15,324,378</b>                 |
| <b>Total liabilities</b>                      | <b>\$ 199,212,373</b>            | <b>\$ 184,855,650</b>             |
| Commitments and contingencies (Note 7)        |                                  |                                   |
| Redeemable noncontrolling interest            | \$ 4,000,000                     | \$ 4,000,000                      |

## Edgar Filing: MERCADOLIBRE INC - Form 10-Q

### Equity:

|   |                       |                       |
|---|-----------------------|-----------------------|
| Common stock, \$0.001 par value, 110,000,000 shares authorized, 44,152,933 and 44,150,920 shares issued and outstanding at March 31, 2013 and December 31, 2012, respectively | \$ 44,153             | \$ 44,151             |
| Additional paid-in capital  | 120,471,777           | 120,468,759           |
| Retained earnings   | 229,466,188           | 218,083,844           |
| Accumulated other comprehensive loss  | (49,973,699)          | (48,783,128)          |
| <b>Total Equity</b>   | <b>300,008,419</b>    | <b>289,813,626</b>    |
| <b>Total Liabilities, Redeemable Noncontrolling Interest and Equity</b>   | <b>\$ 503,220,792</b> | <b>\$ 478,669,276</b> |

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-month periods ended March 31, 2013 and 2012**

|   | <b>Three Months Ended March 31,</b> |               |
|---|-------------------------------------|---------------|
|   | <b>2013</b>                         | <b>2012</b>   |
|   | <b>(Unaudited)</b>                  |               |
| Net revenues  | \$ 102,725,747                      | \$ 83,736,006 |
| Cost of net revenues  | (28,649,167)                        | (21,096,297)  |
| Gross profit  | 74,076,580                          | 62,639,709    |
| Operating expenses:   |                                     |               |
| Product and technology development                                  | (9,382,389)                         | (7,586,074)   |
| Sales and marketing   | (22,337,937)                        | (17,427,679)  |
| General and administrative  | (13,785,070)                        | (12,695,212)  |
| Total operating expenses  | (45,505,396)                        | (37,708,965)  |
| Income from operations  | 28,571,184                          | 24,930,744    |
| Other income (expenses):  |                                     |               |
| Interest income and other financial gains                           | 3,394,006                           | 3,088,560     |
| Interest expense and other financial losses                         | (360,352)                           | (77,317)      |
| Foreign currency losses   | (6,249,714)                         | (1,032,978)   |
| Other losses, net   | (3,733)                             | (4,252)       |
| Net income before income / asset tax expense                        | 25,351,391                          | 26,904,757    |
| Income / asset tax expense  | (7,828,800)                         | (7,267,719)   |
| Net income  | \$ 17,522,591                       | \$ 19,637,038 |
| Less: Net Income attributable to Redeemable Noncontrolling Interest | 42,338                              | 2,428         |
| Net income attributable to MercadoLibre, Inc. shareholders          | \$ 17,480,253                       | \$ 19,634,610 |

|   | <b>Three Months Ended March 31,</b> |             |
|---|-------------------------------------|-------------|
|   | <b>2013</b>                         | <b>2012</b> |
|   | <b>(Unaudited)</b>                  |             |
| <b>Basic EPS</b>  |                                     |             |
| Basic net income attributable to MercadoLibre, Inc. Shareholders per common share   | \$ 0.40                             | \$ 0.45     |
| Weighted average of outstanding common shares                                       | 44,151,323                          | 44,142,076  |
| <b>Diluted EPS</b>  |                                     |             |
| Diluted net income attributable to MercadoLibre, Inc. Shareholders per common share | \$ 0.40                             | \$ 0.45     |

Edgar Filing: MERCADOLIBRE INC - Form 10-Q

|   |            |            |
|---|------------|------------|
| Weighted average of outstanding common shares | 44,151,357 | 44,147,796 |
|---|------------|------------|

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



**Table of Contents****MercadoLibre, Inc.****Condensed Consolidated Statements of Comprehensive Income****For the three-month periods ended March 31, 2013 and 2012**

|  | <b>Three Months Ended March 31,<br/>2013</b> | <b>2012</b>          |
|--|--|----------------------|
|  | <b>(Unaudited)</b>                           |                      |
| Net income   | \$ 17,522,591                                | \$ 19,637,038        |
| Other comprehensive (loss) income, net of income tax:  |  |                      |
| Currency translation adjustment  | (781,828)                                    | 3,579,147            |
| Unrealized net gains on available for sale investments   | 528,339                                      | 693,974              |
| Less: reclassification adjustment for gains on available for sale investments included in net income | (759,565)                                    | (924,657)            |
| Net change in accumulated other comprehensive (loss) income, net of income tax                       | (1,013,054)                                  | 3,348,464            |
| <b>Total Comprehensive Income</b>  | <b>\$ 16,509,537</b>                         | <b>\$ 22,985,502</b> |
| Less: Comprehensive Income attributable to Redeemable Noncontrolling Interest                        | 219,854                                      | 302,248              |
| <b>Comprehensive Income attributable to MercadoLibre, Inc. Shareholders</b>                          | <b>\$ 16,289,683</b>                         | <b>\$ 22,683,254</b> |

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 three-month periods ended March 31, 2013 and 2012**

|  | <b>Three Months Ended March 31,</b> |                      |
|--|-------------------------------------|----------------------|
|  | <b>2013</b>                         | <b>2012</b>          |
|  | <b>(Unaudited)</b>                  |                      |
| <b>Cash flows from operations:</b>   |                                     |                      |
| Net income attributable to MercadoLibre, Inc. Shareholders                               | \$ 17,480,253                       | \$ 19,634,610        |
| <b>Adjustments to reconcile net income to net cash provided by operating activities:</b> |                                     |                      |
| Net Income attributable to Redeemable Noncontrolling Interest                            | 42,338                              | 2,428                |
| Net Devaluation Loss in Venezuela  | 6,420,929                           |                      |
| Depreciation and amortization  | 2,621,339                           | 1,966,624            |
| Accrued interest   | 954,560                             | (816,543)            |
| LTRP accrued compensation  | 1,710,752                           | 1,849,633            |
| Deferred income taxes  | (140,238)                           | (190,810)            |
| <b>Changes in assets and liabilities:</b>  |                                     |                      |
| Accounts receivable  | (994,003)                           | 1,803,522            |
| Credit Card Receivables  | (5,734,899)                         | (116,468)            |
| Prepaid expenses   | (1,069,904)                         | (673,723)            |
| Other assets   | (4,595,498)                         | 493,886              |
| Accounts payable and accrued expenses  | 2,243,694                           | (6,375,961)          |
| Funds payable to customers   | 8,854,986                           | (159,063)            |
| Other liabilities  | 2,297,188                           | 1,568,047            |
| <b>Net cash provided by operating activities</b>   | <b>30,091,497</b>                   | <b>18,986,182</b>    |
| <b>Cash flows from investing activities:</b>   |                                     |                      |
| Purchase of investments  | (136,522,055)                       | (86,658,793)         |
| Proceeds from sale and maturity of investments   | 146,413,859                         | 83,583,664           |
| Payment for acquired businesses, net of cash acquired                                    | (3,224,162)                         |                      |
| Purchases of intangible assets   |                                     | (31,508)             |
| Purchases of property and equipment  | (2,861,295)                         | (3,696,281)          |
| <b>Net cash provided by (used in) investing activities</b>                               | <b>3,806,347</b>                    | <b>(6,802,918)</b>   |
| <b>Cash flows from financing activities:</b>   |                                     |                      |
| Dividends paid   | (4,812,396)                         | (3,531,362)          |
| Stock options exercised  | 3,020                               |                      |
| <b>Net cash used in financing activities</b>   | <b>(4,809,376)</b>                  | <b>(3,531,362)</b>   |
| Effect of exchange rate changes on cash and cash equivalents                             | (8,410,089)                         | (158,641)            |
| <b>Net increase in cash and cash equivalents</b>   | <b>20,678,379</b>                   | <b>8,493,261</b>     |
| Cash and cash equivalents, beginning of the period                                       | 101,489,002                         | 67,381,677           |
| <b>Cash and cash equivalents, end of the period</b>                                      | <b>\$ 122,167,381</b>               | <b>\$ 75,874,938</b> |

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



**Table of Contents**

**MercadoLibre, Inc.**

**Notes to Condensed Consolidated Financial Statements (unaudited)**

**1. Nature of Business**

MercadoLibre, Inc. ( MercadoLibre or the Company ) was incorporated in Delaware in October 1999. MercadoLibre is a Latin American e-commerce platform and payments leader. MercadoLibre is an e-commerce enabler whose mission is to build the necessary online and technology tools to allow practically anyone to trade almost anything in Latin America. MercadoLibre enables commerce through its marketplace platform (including online classifieds for motor vehicles, vessels, aircraft, services and real estate), the Latin American largest online marketplace, which allows users to buy and sell in nearly every country in Latin America; through MercadoPago, which enables individuals and businesses to send and receive online payments; through MercadoClics, which facilitates the advertising service to large retailers and brands to promote their product and services on the web; and through MercadoShops which facilitates users to set-up, manage promote their own on-line web-stores, to support MercadoLibre s mission of enabling e-commerce.

As of March 31, 2013, 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 State of Florida, U.S.A.

**2. Summary of Significant Accounting Policies**

**Basis of presentation**

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

**Table of Contents**

**MercadoLibre, Inc.**

**Notes to Condensed Consolidated Financial Statements (unaudited)**

**2. Summary of Significant Accounting Policies (Continued)**

**Basis of presentation (Continued)**

These interim condensed consolidated financial statements are stated in U.S. 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 three-month periods ended March 31, 2013 and 2012, respectively. Long-lived assets located in the foreign operations totaled \$102,282,986 and \$98,569,068 as of March 31, 2013 and December 31, 2012, respectively.

These interim condensed consolidated financial statements reflect the Company's consolidated financial position as of March 31, 2013 and December 31, 2012. These financial statements also show the Company's consolidated statements of income, of comprehensive income and of cash flows for the three-month periods ended March 31, 2013 and 2012. These interim condensed consolidated financial statements include all normal recurring adjustments that management believes are necessary to fairly state the Company's financial position, operating results and cash flows.

Because all of the disclosures required by U.S. GAAP for annual consolidated financial statements are not included herein, these unaudited interim condensed financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto for the year ended December 31, 2012, contained in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission (SEC) on February 28, 2013. The condensed consolidated statements of income, of comprehensive income and of cash flows for the periods presented herein are not necessarily indicative of results expected for any future period.

**Foreign Currency Translation**

All of the Company's foreign operations have determined the local currency to be their functional currency, except for Venezuela since the year ended December 31, 2010. Accordingly, these foreign subsidiaries translate assets and liabilities from their local currencies into U.S. dollars using period/year-end exchange rates while income and expense accounts are translated at the average rates in effect during the period/year. The resulting translation adjustment is recorded as part of accumulated other comprehensive income (loss). Gains and losses resulting from transactions denominated in non-functional currencies are recognized in earnings.

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

**Table of Contents**

**MercadoLibre, Inc.**

**Notes to Condensed Consolidated Financial Statements (unaudited)**

**2. Summary of Significant Accounting Policies (Continued)**

**Foreign Currency Translation (Continued)**

On February 8, 2013, the Government of Venezuela, through the Foreign Exchange Agreement No. 14, has devalued as from February 9, 2013, the official exchange rate from 4.3 to 6.3 Bolivares Fuertes per U.S. dollars. The devaluation did not have an effect on the 2012 consolidated financial statements; however, the devaluation required re-measurement of the Company's Venezuelan subsidiaries' non-U.S. dollar denominated monetary assets and liabilities as from February 9, 2013.

In addition, on February 8, 2013, the Government of Venezuela, through Decree No. 9381 (the Decree) has created the *Organo Superior para la Optimización del Sistema Cambiario* (or the Committee), a committee that will have the authority to design, plan and execute foreign exchange policies.

Finally, on February 9, 2013, the Central Bank of Venezuela (BCV) has eliminated the SITME, which was a former system that the Company's Venezuelan subsidiaries had for accessing to the foreign exchange market.

On March 19, 2013, the BCV announced the creation of the *Sistema Complementario de Administración de Divisas* (Complementary System for the Administration of Foreign Currencies or SICAD) which will act jointly with CADIVI (*Comisión de Administración de Divisas* Committee for Foreign Currency Management). In order to operate with this new system, the companies should be registered at the *Registro Automatizado* (Automatized Register or RUSAD). The acquisition of foreign currencies under this new system will be organized under an auction process where the minimum exchange rate to be offered would be 6.30 Bolivares Fuertes. At the date of issuance of these financial statements, the Company's Venezuelan subsidiaries were unable to access to the auction process and there is no information publicly available for foreign exchange rates or planned frequency of the SICAD mechanism.

Accordingly, as of March 31, 2013, the exchange rate used to re-measure the net monetary assets of the Company's Venezuelan subsidiaries was 6.30 Bolivares Fuertes per U.S. dollar. Moreover, transactions carried out by the Company's Venezuelan subsidiaries were re-measured at the monthly average exchange rate for the three months then ended. The SITME rate used to remeasure foreign currency transactions was 5.3 Bolivares Fuertes per U.S. dollar. The devaluation of the official exchange rate of the Bolivares Fuertes against the U.S. dollar from 5.3 to 6.3 Bolivares Fuertes per U.S. dollar has generated a foreign currency loss of approximately \$6.4 million. The Bolivares Fuertes could lose further value with respect to the U.S. dollar depending on the foreign currency exchange policies that might be adopted by the government of Venezuela in the future.

The following table sets forth the assets, liabilities and net assets of the Company's Venezuelan subsidiaries, before intercompany eliminations, as of March 31, 2013 and December 31, 2012 and net revenues for the three-month periods ended March 31, 2013 and 2012.

**Table of Contents**

MercadoLibre, Inc.

Notes to Condensed Consolidated Financial Statements (unaudited)

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

|                       | March 31,        |                     |
|-----------------------|------------------|---------------------|
|                       | 2013             | 2012                |
| Venezuelan operations |                  |                     |
| Net Revenues          | \$ 15,130,551    | \$ 11,241,572       |
|                       |                  |                     |
|                       | <b>March 31,</b> | <b>December 31,</b> |
|                       | <b>2013</b>      | <b>2012</b>         |
| Assets                | 60,364,056       | 62,938,728          |
| Liabilities           | (20,966,195)     | (22,652,965)        |
|                       |                  |                     |
| Net Assets            | \$ 39,397,861    | \$ 40,285,763       |

As of March 31, 2013, net assets (before intercompany eliminations) of the Venezuelan subsidiaries amounted to approximately 13.1% of our consolidated net assets, and cash and investments of the Venezuelan subsidiaries held in local currency in Venezuela amounted to approximately 14.6% of our consolidated cash and investments.

The Company's business and ability to obtain U.S. dollars in Venezuela are negatively affected by the abovementioned devaluation and exchange regulations in Venezuela. In addition, the Company's business and ability to obtain U.S. dollars in Venezuela would be further negatively affected by any additional devaluations or the imposition of additional or more stringent controls on foreign currency exchange that the government of Venezuela may decide in the future.

Despite the current difficult macroeconomic environment in Venezuela, the Company continues to actively manage, through its Venezuelan subsidiaries, its investment in and exposure to Venezuela. Based on current operating, political and economic conditions and certain other factors in Venezuela, management continues to believe that its business plans and operating strategy in Venezuela will not be materially adversely impacted in the long run.

**Income Tax Holiday in Argentina**

From fiscal year 2008, the Company's Argentine subsidiary is beneficiary of a software development law. Part of the benefits obtained from being beneficiary of the aforementioned law is a relief of 60% of total income tax determined in each year, until fiscal year 2014. Aggregate tax benefit totaled \$2,493,849 and \$1,971,478 for the three-month periods ended March 31, 2013 and 2012, respectively. Aggregate per share effect of the Argentine tax holiday amounts to \$0.06 and \$0.04 for the three-month periods ended March 31, 2013 and 2012, respectively.

In addition, the recently acquired software development company (see Note 4), located in the Province of Cordoba, Argentina, is also beneficiary of the aforementioned income tax holiday, however the total benefit obtained is immaterial.

## **Table of Contents**

### **MercadoLibre, Inc.**

#### **Notes to Condensed Consolidated Financial Statements (unaudited)**

## **2. Summary of Significant Accounting Policies (Continued)**

### **Income Tax Holiday in Argentina (Continued)**

If the Company had not been granted the Argentine tax holiday, the Company would have pursued an alternative tax planning strategy and, therefore, the impact of not having this particular benefit would not necessarily be the abovementioned U.S. dollar and per share effect.

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

### **Use of estimates**

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

### **Recent Accounting Pronouncements**

In March 2013, the Financial Accounting Standards Board ( FASB ) issued Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity a consensus of the FASB Emerging Issues Task Force clarifying the accounting for the release of cumulative translation adjustment into net income when a parent either sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business within a foreign entity. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2013. The Company does not anticipate that this adoption will have a significant impact on its financial position, results of operations or cash flows.

## **3. Net income per share**

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



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

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

The following table shows how net income available to common shareholders is allocated using the two-class method, for the three-month periods ended March 31, 2013 and 2012:

|  | 2013          |               | 2012          |               |
|--|---------------|---------------|---------------|---------------|
|  | Basic         | Diluted       | Basic         | Diluted       |
| Net income   | \$ 17,522,591 | \$ 17,522,591 | \$ 19,637,038 | \$ 19,637,038 |
| Net income attributable to noncontrolling interests                                      | (42,338)      | (42,338)      | (2,428)       | (2,428)       |
| Change in redeemable amount of noncontrolling interest                                   | 215,960       | 215,960       | 316,298       | 316,298       |
| Net income attributable to MercadoLibre, Inc. Shareholders corresponding to common stock | \$ 17,696,213 | \$ 17,696,213 | \$ 19,950,908 | \$ 19,950,908 |

Net income per share of common stock is as follows for the three-month periods ended March 31, 2013 and 2012:

|  | 2013          |               | 2012          |               |
|--|---------------|---------------|---------------|---------------|
|  | Basic         | Diluted       | Basic         | Diluted       |
| Net income attributable to MercadoLibre, Inc. Shareholders per common share          | \$ 0.40       | \$ 0.40       | \$ 0.45       | \$ 0.45       |
| <b><u>Numerator:</u></b>   |               |               |               |               |
| Net income attributable to MercadoLibre, Inc. Shareholders                           | \$ 17,696,213 | \$ 17,696,213 | \$ 19,950,908 | \$ 19,950,908 |
| <b><u>Denominator:</u></b>   |               |               |               |               |
| Weighted average of common stock outstanding for Basic earnings per share            | 44,151,323    | 44,151,323    | 44,142,076    | 44,142,076    |
| Adjustment for stock options   |               | 34            |               | 5,720         |
| Adjusted weighted average of common stock outstanding for Diluted earnings per share | 44,151,323    | 44,151,357    | 44,142,076    | 44,147,796    |

During the three-month periods ended March 31, 2013 and 2012, there were no anti-dilutive shares.

**Table of Contents**

**MercadoLibre, Inc.**

**Notes to Condensed Consolidated Financial Statements (unaudited)**

**4. Business combinations, Goodwill and Intangible assets**

**Business combinations**

On March 22, 2013, the Company completed, through its subsidiaries Meli Participaciones S.L. (ETVE) and MercadoLibre S.R.L. (MercadoLibre Argentina) (together referred to as the Buyer), the acquisition of the 100% of equity interest in a software development company located and organized under the laws of the Province of Cordoba, Argentina. The objective of the acquisition was to enhance the capabilities of the Company in terms of software development.

The aggregate purchase price for the acquisition of the 100% of the acquired business was \$ 3,454,497 (settled in Argentine pesos 17,652,480). On such same date, the Buyer paid and agreed to: i) pay \$ 2,191,781 in cash; ii) set an escrow amounting to \$ 489,237 for a 24-months period, aiming to cover unexpected liabilities and negative working capital; iii) set an escrow amounting to \$ 547,945 for a 36-months period, aiming to continue the employment relationship of certain key employees; and iv) pay \$ 225,534 subject to the collection of certain credits held by the acquired company with certain customer.

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

The escrow for the continuing employment relationship amounting to \$ 0.5 million, above mentioned, will be expensed over the 36-months period or a lesser period of time if certain other conditions determined in the Selling and Purchase Agreement (SPA) occur. The escrow will be released at the end of such period, together with the accrued interest.

The purchase price for the acquisition has been measured at its fair value at the acquisition date, and the portion corresponding to the contingent consideration will be subsequently re-measured at fair value with changes through the statement of income.

The Company's condensed consolidated statement of income includes the results of operations of the acquired business as from March 22, 2013. The net revenues and net income of the acquiree included in the Company's condensed consolidated statement of income since the acquisition amounted to \$ 56,164 and \$17,621, respectively.

**Table of Contents**

MercadoLibre, Inc.

Notes to Condensed Consolidated Financial Statements (unaudited)

**4. Business combinations, Goodwill and Intangible assets (Continued)****Business combinations (Continued)**

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

|                                    |              |
|------------------------------------|--------------|
| Net assets acquired                | \$ 333,701   |
| Goodwill                           | 2,572,851    |
| Purchase price                     | 2,906,552    |
| Escrow for employment relationship | 547,945      |
| Aggregate price paid               | \$ 3,454,497 |

The Company is still in the process of analyzing the assets acquired and liabilities assumed as a consequence of the short period of time elapsed since the acquisition date to the date of issuance of these unaudited condensed consolidated financial statements, as such, as permitted by U.S. GAAP, the above purchase price allocation is preliminary. In addition, supplemental pro-forma information required by U.S. GAAP, is impracticable after making every reasonable effort to do so, however, amounts involved are deemed to be immaterial.

Arising goodwill has been assigned proportionally to each of the segments identified by the Company's management, considering the synergies expected from this acquisition and it is expected that the acquiree will contribute to the earnings generation process of such segments. However, as explained above, since the transaction has been completed close to the date of issuance of these condensed consolidated financial statements, the Company's management is still under the process of analyzing goodwill allocation.

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

Goodwill is not deductible for tax purposes.

**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, as of March 31, 2013 and December 31, 2012 was as follows:

|   | March 31,<br>2013<br>(Unaudited) | December 31,<br>2012<br>(Audited) |
|---|----------------------------------|-----------------------------------|
| Goodwill                                | \$ 62,818,466                    | \$ 60,366,063                     |
| Intangible assets with indefinite lives |                                  |                                   |
| - Trademarks                            | 5,442,830                        | 5,326,057                         |
| Amortizable intangible assets           |                                  |                                   |
| - Licenses and others                   | 3,718,584                        | 3,829,668                         |
| - Non-compete agreement                 | 1,193,312                        | 1,195,509                         |
| - Customer list                         | 1,704,258                        | 1,708,770                         |
| Total intangible assets                 | \$ 12,058,984                    | \$ 12,060,004                     |
| Accumulated amortization                | (4,891,374)                      | (4,780,139)                       |
| Total intangible assets, net            | \$ 7,167,610                     | \$ 7,279,865                      |

**Goodwill**

The changes in the carrying amount of goodwill for the three-month period ended March 31, 2013 and the year ended December 31, 2012, are as follows:

|                                    | Period ended March 31, 2013 (Unaudited) |               |              |               |              |              |                 |               |
|------------------------------------|---|---------------|--------------|---------------|--------------|--------------|-----------------|---------------|
|                                    | Brazil                                  | Argentina     | Chile        | Mexico        | Venezuela    | Colombia     | Other Countries | Total         |
| Balance, beginning of period       | \$ 10,706,281                           | \$ 18,889,094 | \$ 7,115,211 | \$ 11,404,780 | \$ 4,846,030 | \$ 5,897,136 | \$ 1,507,531    | \$ 60,366,063 |
| - Business acquisition             | 1,260,697                               | 635,494       |              | 180,100       | 391,073      | 66,894       | 38,593          | 2,572,851     |
| - Effect of exchange rates changes | 157,899                                 | (740,248)     | 119,534      | 559,800       |              | (205,893)    | (11,540)        | (120,448)     |
| Balance, end of the period         | \$ 12,124,877                           | \$ 18,784,340 | \$ 7,234,745 | \$ 12,144,680 | \$ 5,237,103 | \$ 5,758,137 | \$ 1,534,584    | \$ 62,818,466 |
|                                    | Year ended December 31, 2012 (Audited)  |               |              |               |              |              |                 |               |
|                                    | Brazil                                  | Argentina     | Chile        | Mexico        | Venezuela    | Colombia     | Other Countries | Total         |
| Balance, beginning of year         | \$ 11,663,443                           | \$ 21,583,774 | \$ 6,577,459 | \$ 10,621,839 | \$ 4,846,030 | \$ 5,367,526 | \$ 1,433,877    | \$ 62,093,948 |
| - Effect of exchange rates changes | (957,162)                               | (2,694,680)   | 537,752      | 782,941       |              | 529,610      | 73,654          | (1,727,885)   |

Edgar Filing: MERCADOLIBRE INC - Form 10-Q

|                          |               |               |              |               |              |              |              |               |
|--------------------------|---------------|---------------|--------------|---------------|--------------|--------------|--------------|---------------|
| Balance, end of the year | \$ 10,706,281 | \$ 18,889,094 | \$ 7,115,211 | \$ 11,404,780 | \$ 4,846,030 | \$ 5,897,136 | \$ 1,507,531 | \$ 60,366,063 |
|--------------------------|---------------|---------------|--------------|---------------|--------------|--------------|--------------|---------------|

**Table of Contents**

MercadoLibre, Inc.

**Notes to Condensed Consolidated Financial Statements (unaudited)****4. Business combinations, Goodwill and Intangible assets (Continued)****Goodwill and Intangible assets (Continued)**Intangible assets subject to amortization

Intangible assets subject to amortization 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 \$220,859 and \$268,163 for the three-month periods ended March 31, 2013 and 2012, respectively.

The estimated aggregate amortization expense for each of the five succeeding fiscal years, as of March 31, 2013 is as follows:

|                           |              |
|---------------------------|--------------|
| For year ended 12/31/2013 | \$ 592,872   |
| For year ended 12/31/2014 | 605,509      |
| For year ended 12/31/2015 | 462,890      |
| For year ended 12/31/2016 | 63,509       |
| Thereafter                |              |
|                           | \$ 1,724,780 |

**5. Segment reporting**

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

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

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

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

**Table of Contents**

MercadoLibre, Inc.

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

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

|   | Three Months Ended March 31, 2013 |               |              |               |                 | Total          |
|---|-----------------------------------|---------------|--------------|---------------|-----------------|----------------|
|   | Brazil                            | Argentina     | Mexico       | Venezuela     | Other Countries |                |
| Net revenues  | \$ 47,765,683                     | \$ 25,620,747 | \$ 7,790,301 | \$ 15,130,551 | \$ 6,418,465    | \$ 102,725,747 |
| Direct costs  | (30,993,544)                      | (13,475,710)  | (4,116,828)  | (6,008,108)   | (2,867,981)     | (57,462,171)   |
| Direct contribution                                   | 16,772,139                        | 12,145,037    | 3,673,473    | 9,122,443     | 3,550,484       | 45,263,576     |
| Operating expenses and indirect costs of net revenues |                                   |               |              |               |                 | (16,692,392)   |
| Income from operations                                |                                   |               |              |               |                 | 28,571,184     |
| Other income (expenses):                              |                                   |               |              |               |                 |                |
| Interest income and other financial gains             |                                   |               |              |               |                 | 3,394,006      |
| Interest expense and other financial results          |                                   |               |              |               |                 | (360,352)      |
| Foreign currency loss                                 |                                   |               |              |               |                 | (6,249,714)    |
| Other losses, net                                     |                                   |               |              |               |                 | (3,733)        |
| Net income before income / asset tax expense          |                                   |               |              |               |                 | \$ 25,351,391  |

|   | Three Months Ended March 31, 2012 |               |              |               |                 | Total         |
|---|-----------------------------------|---------------|--------------|---------------|-----------------|---------------|
|   | Brazil                            | Argentina     | Mexico       | Venezuela     | Other Countries |               |
| Net revenues  | \$ 42,164,654                     | \$ 18,116,469 | \$ 6,583,865 | \$ 11,241,572 | \$ 5,629,446    | \$ 83,736,006 |
| Direct costs  | (25,743,214)                      | (8,122,935)   | (3,646,637)  | (4,847,335)   | (2,815,667)     | (45,175,788)  |
| Direct contribution                                   | 16,421,440                        | 9,993,534     | 2,937,228    | 6,394,237     | 2,813,779       | 38,560,218    |
| Operating expenses and indirect costs of net revenues |                                   |               |              |               |                 | (13,629,474)  |
| Income from operations                                |                                   |               |              |               |                 | 24,930,744    |
| Other income (expenses):                              |                                   |               |              |               |                 |               |
| Interest income and other financial gains             |                                   |               |              |               |                 | 3,088,560     |
| Interest expense and other financial results          |                                   |               |              |               |                 | (77,317)      |
| Foreign currency loss                                 |                                   |               |              |               |                 | (1,032,978)   |
| Other losses, net                                     |                                   |               |              |               |                 | (4,252)       |

Net income before income / asset tax  
expense

\$ 26,904,757



**Table of Contents**

MercadoLibre, Inc.

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

The following table summarizes the allocation of the long-lived tangible assets based on geography, as of March 31, 2013 and December 31, 2012:

|  | <b>March 31,<br/>2013<br/>(Unaudited)</b> | <b>December 31,<br/>2012<br/>(Audited)</b> |
|--|---|--|
| US long-lived tangible assets              | \$ 5,701,911                              | \$ 6,782,077                               |
| Other countries long-lived tangible assets |   |  |
| Argentina                                  | 17,480,192                                | 16,955,438                                 |
| Brazil                                     | 2,416,870                                 | 2,421,618                                  |
| Mexico                                     | 367,901                                   | 378,653                                    |
| Venezuela                                  | 8,775,841                                 | 8,455,816                                  |
| Other countries                            | 3,274,485                                 | 2,732,620                                  |
|  | \$ 32,315,289                             | \$ 30,944,145                              |
| <b>Total long-lived tangible assets</b>    | <b>\$ 38,017,200</b>                      | <b>\$ 37,726,222</b>                       |

The following table summarizes the allocation of the goodwill and intangible assets based on geography, as of March 31, 2013 and December 31, 2012:

|  | <b>March 31,<br/>2013<br/>(Unaudited)</b> | <b>December 31,<br/>2012<br/>(Audited)</b> |
|--|---|--|
| US intangible assets                           | \$ 18,380                                 | \$ 21,005                                  |
| Other countries goodwill and intangible assets |   |  |
| Argentina                                      | 20,048,789                                | 20,328,154                                 |
| Brazil   | 12,140,227                                | 10,724,007                                 |
| Mexico   | 15,496,348                                | 14,644,795                                 |
| Venezuela                                      | 6,986,099                                 | 6,595,117                                  |
| Other countries                                | 15,296,233                                | 15,332,850                                 |
|  | \$ 69,967,696                             | \$ 67,624,923                              |
| <b>Total goodwill and intangible assets</b>    | <b>\$ 69,986,076</b>                      | <b>\$ 67,645,928</b>                       |

**Table of Contents****MercadoLibre, Inc.****Notes to Condensed Consolidated Financial Statements (unaudited)****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 March 31, 2013 and December 31, 2012:

| Description                   | Balances as of<br>March 31,<br>2013<br>(Unaudited) | Quoted Prices in<br>active markets for<br>identical Assets<br>(Level 1) | Significant other<br>observable inputs<br>(Level 2) | Balances as of<br>December 31,<br>2012<br>(Audited) | Quoted Prices in<br>active markets for<br>identical Assets<br>(Level 1) | Significant other<br>observable inputs<br>(Level 2) |
|-------------------------------|--|---|---|---|---|---|
| <b>Assets</b>                 |  |   |   |   |   |   |
| Cash and Cash Equivalents:    |  |   |   |   |   |   |
| Money Market Funds            | \$ 24,327,225                                      | \$ 24,327,225   | \$  | \$ 23,033,357                                       | \$ 23,033,357   | \$  |
| Investments:                  |  |   |   |   |   |   |
| Asset backed securities       | 17,645,028   |   | 17,645,028  | 18,826,833  |   | 18,826,833  |
| Sovereign Debt Securities     | 20,948,701   | 20,948,701  |   | 21,453,141  | 21,453,141  |   |
| Corporate Debt Securities     | 59,383,533   | 59,383,533  |   | 51,991,294  | 51,991,294  |   |
| <b>Total Financial Assets</b> | <b>\$ 122,304,487</b>                              | <b>\$ 104,659,459</b>   | <b>\$ 17,645,028</b>                                | <b>\$ 115,304,625</b>                               | <b>\$ 96,477,792</b>  | <b>\$ 18,826,833</b>                                |

As of March 31, 2013, the Company's financial assets valued at fair value consisted of assets valued using i) unadjusted quoted prices in active markets (level 1) and ii) other observable inputs (level 2). Level 1 instrument valuations are obtained from observable inputs that reflect quoted prices (unadjusted) for identical assets in active markets. Level 2 instruments are obtained from readily-available pricing sources for comparable instruments (level 2). As of March 31, 2013, the Company did not have any assets without observable market values that would require a high level of judgment to determine fair value (level 3).

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

In addition, as of March 31, 2013 and December 31, 2012, the Company had \$72,524,827 and \$87,379,121 of short-term investments, which consisted of time deposits. Those investments are accounted for at amortized cost which, as of March 31, 2013 and December 31, 2012, approximates their fair values.

As of March 31, 2013 and December 31, 2012, the carrying value of the Company's financial assets and liabilities measured at amortized cost approximated their fair value because of its short term maturity. These assets and liabilities included cash and cash equivalents (excluding money markets funds), accounts receivables, credit card receivables, funds payable to customers, other receivables, other assets, accounts payables, social security payables, taxes payables, loans and provisions and other liabilities.

**Table of Contents**

MercadoLibre, Inc.

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

The following table summarizes the fair value level for those financial assets and liabilities of the Company measured at amortized cost as of March 31, 2013 and December 31, 2012:

|                                      | Balances as of<br>March 31,<br>2013<br>(Unaudited) | Significant other<br>observable inputs<br>(Level 2) | Balances as of<br>December 31,<br>2012<br>(Audited) | Significant other<br>observable inputs<br>(Level 2) |
|--------------------------------------|--|---|---|---|
| <b>Assets</b>                        |  |   |   |   |
| Time Deposits                        | \$ 72,524,827                                      | 72,524,827  | \$ 87,379,121                                       | 87,379,121  |
| Accounts and Credit Cards receivable | 61,118,162   | 61,118,162  | 55,653,528  | 55,653,528  |
| Prepaid expenses and Other assets    | 24,476,549   | 24,476,549  | 19,601,417  | 19,601,417  |
| <b>Total Assets</b>                  | <b>\$ 158,119,538</b>                              | <b>\$ 158,119,538</b>                               | <b>\$ 162,634,066</b>                               | <b>\$ 162,634,066</b>                               |
| <b>Liabilities</b>                   |  |   |   |   |
| Accounts and funds payable           | \$ 137,094,564                                     | \$ 137,094,564                                      | \$ 125,449,275                                      | \$ 125,449,275                                      |
| Salaries and social security payable | 17,286,907   | 17,286,907  | 14,994,186  | 14,994,186  |
| Tax payable                          | 16,057,779   | 16,057,779  | 19,210,568  | 19,210,568  |
| <b>Other liabilities:</b>            | <b>10,051,147</b>                                  | <b>10,051,147</b>                                   | <b>7,793,608</b>                                    | <b>7,793,608</b>                                    |
| <b>Total Liabilities</b>             | <b>\$ 180,490,397</b>                              | <b>\$ 180,490,397</b>                               | <b>\$ 167,447,637</b>                               | <b>\$ 167,447,637</b>                               |

As of March 31, 2013 and December 31, 2012, the Company held no direct investments in auction rate securities, collateralized debt obligations or structured investment vehicles. As of March 31, 2013 and December 31, 2012, the Company does not have any non-financial assets or liabilities measured at fair value.

**Table of Contents**

MercadoLibre, Inc.

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

As of March 31, 2013 and December 31, 2012, the fair value of short and long-term investments classified as available for sale securities are as follows:

|  | Cost                  | March 31, 2013 (Unaudited) |                             | Estimated Fair Value  |
|--|-----------------------|----------------------------|-----------------------------|-----------------------|
|  |                       | Gross Unrealized Gains     | Gross Unrealized Losses (1) |                       |
| <b>Cash and cash equivalents</b>       |                       |                            |                             |                       |
| Money Market Funds                     | \$ 24,324,600         | \$ 3,349                   | \$ (724)                    | \$ 24,327,225         |
| <b>Total Cash and cash equivalents</b> | <b>\$ 24,324,600</b>  | <b>\$ 3,349</b>            | <b>\$ (724)</b>             | <b>\$ 24,327,225</b>  |
| <b>Short-term investments</b>          |                       |                            |                             |                       |
| Sovereign Debt Securities              | \$ 1,465,966          | \$ 1,831                   | \$                          | \$ 1,467,797          |
| Corporate Debt Securities              | 1,548,549             | 4,529                      | (175)                       | 1,552,903             |
| <b>Total Short-term investments</b>    | <b>\$ 3,014,515</b>   | <b>\$ 6,360</b>            | <b>\$ (175)</b>             | <b>\$ 3,020,700</b>   |
| <b>Long-term investments</b>           |                       |                            |                             |                       |
| Sovereign Debt Securities              | \$ 19,230,204         | \$ 250,700                 | \$                          | \$ 19,480,904         |
| Corporate Debt Securities              | 57,427,241            | 516,991                    | (113,603)                   | 57,830,629            |
| Asset Backed Securities (2)            | 17,517,998            | 207,795                    | (80,764)                    | 17,645,029            |
| <b>Total Long-term investments</b>     | <b>\$ 94,175,443</b>  | <b>\$ 975,486</b>          | <b>\$ (194,367)</b>         | <b>\$ 94,956,562</b>  |
| <b>Total</b>                           | <b>\$ 121,514,558</b> | <b>\$ 985,195</b>          | <b>\$ (195,266)</b>         | <b>\$ 122,304,487</b> |

|  | Cost                 | December 31, 2012 (Audited) |                             | Estimated Fair Value |
|--|----------------------|-----------------------------|-----------------------------|----------------------|
|  |                      | Gross Unrealized Gains      | Gross Unrealized Losses (1) |                      |
| <b>Cash and cash equivalents</b>       |                      |                             |                             |                      |
| Money Market Funds                     | \$ 23,030,970        | \$ 3,400                    | \$ (1,013)                  | \$ 23,033,357        |
| <b>Total Cash and cash equivalents</b> | <b>\$ 23,030,970</b> | <b>\$ 3,400</b>             | <b>\$ (1,013)</b>           | <b>\$ 23,033,357</b> |
| <b>Short-term investments</b>          |                      |                             |                             |                      |
| Corporate Debt Securities              | \$ 6,314,939         | \$ 1,032                    | \$ (287)                    | \$ 6,315,684         |
| <b>Total Short-term investments</b>    | <b>\$ 6,314,939</b>  | <b>\$ 1,032</b>             | <b>\$ (287)</b>             | <b>\$ 6,315,684</b>  |

| <b>Long-term investments</b>       |                       |                     |                    |                       |
|------------------------------------|-----------------------|---------------------|--------------------|-----------------------|
| Sovereign Debt Securities          | \$ 21,153,227         | \$ 299,914          | \$                 | \$ 21,453,141         |
| Corporate Debt Securities          | 45,089,831            | 630,807             | (45,028)           | 45,675,610            |
| Asset Backed Securities (2)        | 18,568,996            | 301,544             | (43,707)           | 18,826,833            |
| <b>Total Long-term investments</b> | <b>\$ 84,812,054</b>  | <b>\$ 1,232,265</b> | <b>\$ (88,735)</b> | <b>\$ 85,955,584</b>  |
| <b>Total</b>                       | <b>\$ 114,157,963</b> | <b>\$ 1,236,697</b> | <b>\$ (90,035)</b> | <b>\$ 115,304,625</b> |

- (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 March 31, 2013 and December 31, 2012.
- (2) Asset backed securities have investment grade credit ratings.

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

As of March 31, 2013, the estimated fair values of short-term and long-term investments classified by its contractual maturities were as follows:

|                           |                       |
|---------------------------|-----------------------|
| One year or less          | \$ 27,347,926         |
| One year to two years     | 15,623,637            |
| Two years to three years  | 16,763,846            |
| Three years to four years | 20,505,211            |
| Four years to five years  | 17,353,553            |
| More than five years      | 24,710,314            |
| <b>Total</b>              | <b>\$ 122,304,487</b> |

**7. Commitments and Contingencies****Litigation and Other Legal Matters**

The Company is subject to certain contingent liabilities with respect to existing or potential claims, lawsuits and other proceedings. The Company accrues liabilities when it considers probable that future costs will be incurred and such costs can be reasonably estimated. The proceeding-related reserve is based on developments to date and historical information related to actions filed against the Company. As of March 31, 2013, the Company had established reserves for proceeding-related contingencies of \$3,538,755 to cover legal actions against the Company. In addition, as of March 31, 2013 the Company and its subsidiaries are subject to certain legal actions considered by the Company's management and its legal counsels to be reasonably possible for an aggregate amount up to \$4,215,317.

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

As of March 31, 2013, 557 legal actions were pending in the Brazilian ordinary courts. In addition, as of March 31, 2013, there were 3,563 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.

**Table of Contents****MercadoLibre, Inc.****Notes to Condensed Consolidated Financial Statements (unaudited)****7. Commitments and Contingencies (Continued)****Litigation and Other Legal Matters (Continued)**

On August 25, 2010, Citizen Watch do Brasil S/A, or Citizen, sued Brazilian subsidiaries MercadoLivre.com Atividades de Internet Ltda. and eBazar.com.br Ltda. in the 31th Central Civil Court State of São Paulo, Brazil. Citizen alleged that the Brazilian subsidiaries were infringing Citizen's trademarks as a result of users selling allegedly counterfeit Citizen watches through the Brazilian page of the Brazilian subsidiaries website. Citizen sought an order enjoining the sale of Citizen-branded watches on the Brazilian subsidiaries Marketplace with a \$6,000 daily non-compliance penalty. On September 23, 2010, the Brazilian subsidiaries were summoned of an injunction granted to prohibit the offer of Citizen products on its platform, but the penalty was established at \$6,000. On September 26, 2010, the Brazilian subsidiaries presented their defense and appealed the decision of the injunction relief on September 27, 2010. On October 22, 2010 the injunction granted to Citizen was suspended. On May 28, 2012, the Plaintiff filed an appeal related to the injunction relief to the State Court of Appeals and the Brazilian subsidiaries presented their defense on August 16, 2012. The Superior court's ruling is still pending. In September 2012, the Plaintiff filed a legal action against the Brazilian subsidiaries with same arguments alleged in the injunction request and seeking for compensatory and statutory damages and defenses were presented on March 20, 2013. As of March 31, 2013 the lower court's ruling was still pending. In the opinion of the Brazilian subsidiaries' management and its legal counsel the risk of loss is reasonably possible but not probable.

**City of São Paulo Tax Claims**

In September 2012 São Paulo tax authorities have asserted taxes and fines against our Brazilian subsidiary related to our Brazilian subsidiary's activities in São Paulo for the period from 2007 through 2010 in an approximate amount of R\$23 million or \$11.4 million according to the exchange rate as of September 30, 2012. In January 2005 we moved our operations to Santana de Parnaíba City, Brazil and began paying taxes to that jurisdiction and therefore we believe we have strong defenses to the claims of the São Paulo authorities with respect to this period. On July 27, 2012, the Company presented administrative defenses against the authorities' claim. On February 2, 2013, São Paulo tax authorities ruled against the Brazilian subsidiary maintaining claimed taxes and fines. On March 4, 2013, the Company presented an appeal to the Conselho Municipal de Tributos or São Paulo Municipal Council of Taxes. As of March 31, 2013, the ruling of mentioned appeal was still pending. The Company's management and its legal counsel believe that the risk of loss is remote, and as a result, the Company has not reserved any provisions for this claim.

**State of Rio de Janeiro Customer Service Level Claim**

On August 19, 2011, a state prosecutor of the State of Rio de Janeiro, Brazil presented a claim against the Company's Brazilian subsidiary. The state prosecutor alleges that the Brazilian subsidiary should improve its customer service level and provide (among other things) a telephone number for customer support and requested an injunction against our Brazilian subsidiary. On August 23, 2011, the Judge of the first instance court denied the aforementioned injunction. On December 7, 2011, the Company was summoned of the lawsuit. On March 1, 2012 the Company presented its defense. On August 29, 2012 a conciliatory hearing was held, but no agreement was reached. On October 22, 2012, the Lower Court Judges ruled in favor of MercadoLivre and dismissed the claim against MercadoLivre. The Public Prosecutor appealed the decision and MercadoLivre presented its defense on December 12, 2012. On April 9, 2013, the State Court of Appeals ruled in favor of the Company confirming the dismissal of the claim. As of the date of these condensed consolidated financial statements, the decision was not yet appealed by the state prosecutor to the Brazilian Superior Court of Justice. In the opinion of the Company's management and its legal counsel the risk of loss is remote.

**Table of Contents**

MercadoLibre, Inc.

**Notes to Condensed Consolidated Financial Statements (unaudited)****7. Commitments and Contingencies (Continued)****Litigation and Other Legal Matters (Continued)**

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.

**8. Long Term Retention Plan**

The following tables summarize the 2009, 2010, 2011 and 2012 Long Term Retention Plans (LTRP) accrued compensation expense for the three-month periods ended March 31, 2013 and 2012:

|           | <b>Three Months Ended March 31,</b> |             |
|-----------|-------------------------------------|-------------|
|           | <b>2013</b>                         | <b>2012</b> |
| LTRP 2009 | \$ 407,920                          | \$ 677,819  |
| LTRP 2010 | 393,796                             | 584,157     |
| LTRP 2011 | 411,200                             | 567,062     |
| LTRP 2012 | 497,835                             |             |



**Table of Contents**

**MercadoLibre, Inc.**

**Notes to Condensed Consolidated Financial Statements (unaudited)**

**9. Cash dividend distribution**

On January 15, 2013, the Company paid the 2012 last quarterly cash dividend distribution of \$4.8 million (or \$0.109 per share) to stockholders of record as of the close of business on December 31, 2012.

On February, 22 2013 the board of directors had approved the first 2013 quarterly cash dividend of \$6.3 million (or \$0.143 per share) on our outstanding shares of common stock. This first quarterly dividend has been paid on April 15, 2013 to stockholders of record as of the close of business on March 29, 2013.

On April 30, 2013, the board of directors declared the second 2013 quarterly cash dividend of \$6.3 million (or \$0.143 per share), payable to the holders of the Company's common stock. This second quarterly cash dividend will be paid on July 15, 2013 to stockholders of record as of the close of business on June 28, 2013.

**10. Subsequent events**

*Office building acquisition agreement*

On April 2013, the Company agreed to acquire three floors or 3,865 square meters in a new office building located in Buenos Aires for a total amount of \$17,972,250 plus VAT. The price will be paid in Argentine pesos. The Company paid \$359,445 plus VAT in advance and will pay \$3,235,005 plus VAT at the date of signing of the purchase agreement. The remaining \$14,377,800 plus VAT will be paid in seven monthly installments beginning in June 2013.

\* \* \* \*

**Table of Contents**

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

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

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

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

government regulation;

litigation and legal liability;

systems interruptions or failures;

our ability to attract and retain qualified personnel;

consumer trends;

security breaches and illegal uses of our services;

competition;

reliance on third-party service providers;

enforcement of intellectual property rights;

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

seasonal fluctuations; and

political, social and economic conditions in Latin America in general, and Venezuela and Argentina in particular, including Venezuela's status as a highly inflationary economy and the changes to the exchange rate system, by including the Complementary System for the Administration of Foreign Currencies (SICAD as for its Spanish acronym).

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 as well as potentially inaccurate assumptions that could cause actual results to differ materially from our expectations and projections. 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, 2012 filed with the Securities and Exchange Commission on February 28, 2013 and in other reports we file from time to time with the U.S. Securities and Exchange Commission (SEC).

## **Table of Contents**

You should read that information in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 2 of Part I of this report, our unaudited condensed consolidated financial statements and related notes in Item 1 of Part I of this report and our audited consolidated financial statements and related notes in Item 8 of Part II of our Annual Report on Form 10-K for the year ended December 31, 2012. We note such information for investors as permitted by the Private Securities Litigation Reform Act of 1995. There also may be other factors that we cannot anticipate or that are not described in this report, generally because they are unknown to us or we do not perceive them to be a material risk at this time that could cause results to differ materially from our expectations.

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

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

a brief overview of our company;

a discussion of our principal trends and results of operations for the three-month periods ended March 31, 2013 and 2012;

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](http://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 584 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.

## Edgar Filing: MERCADOLIBRE INC - Form 10-Q

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

As a further enhancement to the MercadoLibre Marketplace, in 2009, we launched our MercadoClics program to enable businesses to promote their products and services on the Internet. Through MercadoClics (our advertising service) 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 that enables advertisers to acquire traffic through advertisements placed on our platform. Advertisers purchase, on a cost per clicks basis, advertising space that appears around product search results for specific categories and other pages. These advertising placements are clearly differentiated from product search results and direct traffic both to and off our platform depending on the advertiser.

## **Table of Contents**

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

## **Reporting Segments and Geographic information**

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 (including Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Panama, Peru, Portugal, Uruguay and United States of America (real estate classified in the State of Florida)).

## **Recent developments**

### *Acquisition of a software development company*

On March 22, 2013, the Company completed, through its subsidiaries Meli Participaciones S.L. (ETVE) and MercadoLibre S.R.L. (MercadoLibre Argentina) (together referred to as the Buyer), the acquisition of the 100% of equity interest in a software development company located and organized under the laws of the Province of Cordoba, Argentina. The objective of the acquisition was to enhance the capabilities of the Company in terms of software development.

The aggregate purchase price for the acquisition of the 100% of the acquired business was \$ 3.5 million (settled in Argentine pesos 17.7 million). On such same date, the Buyer paid and agreed to paid the purchase price as follows: i) \$ 2.2 million paid in cash; ii) set an escrow amounting to \$ 0.5 million for a 24-months period, aiming to cover unexpected liabilities and working capital; iii) set an escrow amounting to \$ 0.5 million for a 36-months period, aiming to continue the employment relationship of certain key employees; and iv) \$ 0.2 million subject to the collection of certain credits held by the acquired company with certain customer.

### *Acquisition of office building*

On April 2013, the Argentine subsidiary agreed to acquire three floors or 3,865 square meters in a new office building located in Buenos Aires for a total amount of \$18.0 million plus VAT. The price will be paid in Argentine pesos. At the date of this report, the Company paid \$0.4 million plus VAT in advance and will pay \$3.2 million plus VAT at the date of the signing of the purchase agreement. The remaining \$14.4 million plus VAT will be paid in seven monthly installments beginning in June 2013.

## **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, Uruguay and United States of America).

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. Revenues from MercadoLibre Marketplace transactions are generated by:

up-front fees (including classifieds revenues);

final value fees; and

online advertising fees.

## Edgar Filing: MERCADOLIBRE INC - Form 10-Q

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 and November 10, 2011, we launched a new and improved version of our MercadoPago payments platform that may be used for all our marketplace transactions in Mexico and Venezuela, respectively. We also made offering MercadoPago mandatory in our Mexican, and more recently, in our Venezuelan, marketplace listings (with the exception of free listings). This change in pricing results, with respect to marketplace transactions, in our no longer charging our users in Mexico or Venezuela a specific fee for processing on-platform payments as we did in the past. When more than one service is included in one single arrangement with the customer, we recognize revenue according to multiple element arrangements accounting, distinguishing between each of the services provided and allocating revenues based on their respective selling prices.

**Table of Contents**

We continue generating payment related revenues, reported within each of our reporting segments, attributable to:

commissions charged to sellers for the use of the MercadoPago on off-marketplace-platform transactions; and

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

The following table sets forth the percentage of consolidated net revenues by segment for the three-month periods ended March 31, 2013 and 2012:

| (% of total consolidated net revenues) | Three-Month Period Ended<br>March 31, |       |
|--|---------------------------------------|-------|
|  | 2013                                  | 2012  |
| Brazil                                 | 46.5%                                 | 50.4% |
| Argentina                              | 24.9                                  | 21.6  |
| Venezuela                              | 14.7                                  | 13.4  |
| Mexico                                 | 7.6                                   | 7.9   |
| Other Countries                        | 6.2                                   | 6.7   |

(\*) 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-month periods ended March 31, 2013 and 2012:

|                                   | Three Month Period Ended<br>March 31, |                | Change from 2012<br>to 2013 (*) |              |
|-----------------------------------|---------------------------------------|----------------|---------------------------------|--------------|
|                                   | 2013                                  | 2012           | in Dollars                      | in %         |
| (in millions, except percentages) |                                       |                |                                 |              |
| <b>Net Revenues:</b>              |                                       |                |                                 |              |
| Brazil                            | \$ 47.8                               | \$ 42.2        | \$ 5.6                          | 13.3%        |
| Argentina                         | 25.6                                  | 18.1           | 7.5                             | 41.4         |
| Venezuela                         | 15.1                                  | 11.2           | 3.9                             | 34.6         |
| Mexico                            | 7.8                                   | 6.6            | 1.2                             | 18.3         |
| Other Countries                   | 6.4                                   | 5.6            | 0.8                             | 14.0         |
| <b>Total Net Revenues</b>         | <b>\$ 102.7</b>                       | <b>\$ 83.7</b> | <b>\$ 19.0</b>                  | <b>22.7%</b> |

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

We have a highly fragmented customer revenue base given the large numbers of sellers and buyers who use our platforms. For the three-month periods ended March 31, 2013 and 2012, no single customer accounted for more than 5.0% of our net revenues. Our MercadoLibre Marketplace is available in thirteen countries (Argentina, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Mexico, Panama, Peru, Portugal, Uruguay and Venezuela), and MercadoPago is available in six countries (Argentina, Brazil, Chile, Colombia, Mexico and Venezuela). The functional currency for each country's operations is the country's local currency, except for Venezuela where the functional currency is the U.S. dollar due to Venezuela's status as a highly inflationary economy. See Critical accounting policies and estimates Foreign Currency Translation included below. Therefore, our net revenues are generated in multiple foreign currencies and then translated into U.S. dollars at the average monthly exchange rate.



## Edgar Filing: MERCADOLIBRE INC - Form 10-Q

Our subsidiaries in Brazil, Argentina, Venezuela and Colombia are subject to certain taxes on revenues which are classified as a cost of net revenues. These taxes represented 6.2% and 6.5% of net revenues for the three-month periods ended March 31, 2013 and 2012.

### *Cost of net revenues*

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

## **Table of Contents**

### ***Product and technology development expenses***

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

### ***Sales and marketing expenses***

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

We carry out the vast majority of our marketing efforts on the Internet. In that context, we enter into 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 occasionally 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 (expenses) income, net***

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

### ***Income and asset tax***

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

### ***Critical accounting policies and estimates***

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

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

## Edgar Filing: MERCADOLIBRE INC - Form 10-Q

There have been no significant changes in critical accounting policies, management estimates or accounting policies followed since the year ended December 31, 2012.



Edgar Filing: MERCADOLIBRE INC - Form 10-Q

|                       |                                 |                                    |
|-----------------------|---------------------------------|------------------------------------|
| Venezuelan operations |                                 |                                    |
| Net Revenues          | \$ 15,130,551                   | \$ 11,241,572                      |
|                       | <b>As of March 31,<br/>2013</b> | <b>As of December 31,<br/>2012</b> |
| Assets                | 60,364,056                      | 62,938,728                         |
| Liabilities           | (20,966,195)                    | (22,652,965)                       |
| Net Assets            | \$ 39,397,861                   | \$ 40,285,763                      |

---

## **Table of Contents**

As of March 31, 2013, net assets of our Venezuelan subsidiaries amount to approximately 13.1% of our consolidated net assets, and cash and investments of our Venezuelan subsidiaries held in local currency in Venezuela amount to approximately 14.6% of our consolidated cash and investments.

Our business and ability to obtain U.S. dollars in Venezuela are negatively affected by the abovementioned devaluation and exchange regulations in Venezuela. In addition, our business and ability to obtain U.S. dollars in Venezuela would be further negatively affected by additional devaluations or the imposition of additional or more stringent controls on foreign currency exchange that the government of Venezuela may decide in the future.

Despite the current difficult macroeconomic environment in Venezuela, we continue to actively manage, through our Venezuelan subsidiaries, our investment in and exposure to Venezuela. Based on current operating, political and economic conditions and certain other factors in Venezuela, we continue to believe that our business plans and operating strategy in Venezuela will not be materially adversely impacted in the long run.

### *Argentine currency status*

The Argentine government has implemented certain measures that control and restrict the ability of companies and individuals to exchange Argentine Pesos for foreign currencies. Those measures include, among other things, the requirement to obtain the prior approval from the Argentine Tax Authority of the foreign currency transaction (for example and without limitation, for the payment of non-Argentine goods and services, payment of principal and interest on non-Argentine debt and also payment of dividends to parties outside of the country), which approval process could delay, and eventually restrict, the ability to exchange Argentine pesos for other currencies, such as U.S. dollars. Those approvals are administered by the Argentine Central Bank through the Local Exchange Market ( Mercado Unico Libre de Cambios or MULC ), which is the only market where exchange transactions may be lawfully made.

Further, restrictions also currently apply to the acquisition of any foreign currency for holding as cash within Argentina. Although the controls and restrictions on the acquisition of foreign currencies in Argentina do place certain limitations on our current ability to convert cash generated by our Argentine subsidiaries to currencies different from the Argentine peso, based on the current state of Argentine currency rules and regulations, we do not expect that the current controls and restrictions, will have a material adverse effect on our business plans in Argentina nor on our overall business, financial condition and results of operations.

### *Allowances for doubtful accounts and for chargebacks*

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

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

### *Legal contingencies*

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

From time to time, we are involved in disputes that arise in the ordinary course of business. We are currently involved in certain legal proceedings as described in Legal Proceedings in Item 1 of Part II of this report, Item 3 of Part I of our annual report on Form 10-K for our fiscal year ended December 31, 2012 and in Note 7 to our unaudited interim condensed consolidated financial statements, included in this report. We believe that we have meritorious defenses to the claims against us, and we will defend ourselves accordingly. However, even if successful, our defense could be costly and could divert management's time. If the plaintiffs were to prevail on certain claims, we might be forced to pay damages or modify our business practices. Any of these consequences could materially harm our business and could have a material adverse impact on our financial position, results of operations or cash flows.

**Results of operations for the three-month period ended March 31, 2013 compared to three-month period ended March 31, 2012**

The selected financial data for the three-month periods ended March 31, 2013 and 2012 have been derived from our unaudited condensed consolidated financial statements included in Item 1 of Part I of this report. These statements include all normal recurring adjustments that management believes are necessary to fairly state our financial position, results of operations and cash flows. Results of operations for the three-month periods ended March 31, 2013 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2013 or for any other period.

**Table of Contents****Statement of income data**

| (In millions)                                   | Three Months Ended March 31, |          |
|---|------------------------------|----------|
|   | 2013 (*)                     | 2012 (*) |
|   | (Unaudited)                  |          |
| Net revenues                                    | \$ 102.7                     | \$ 83.7  |
| Cost of net revenues                            | (28.6)                       | (21.1)   |
| Gross profit                                    | 74.1                         | 62.6     |
| Operating expenses:                             |                              |          |
| Product and technology development              | (9.4)                        | (7.6)    |
| Sales and marketing                             | (22.3)                       | (17.4)   |
| General and administrative                      | (13.8)                       | (12.7)   |
| Total operating expenses                        | (45.5)                       | (37.7)   |
| Income from operations                          | 28.6                         | 24.9     |
| Other income (expenses):                        |                              |          |
| Interest income and other financial gains       | 3.4                          | 3.1      |
| Interest expense and other financial charges    | (0.4)                        | (0.1)    |
| Foreign currency losses                         | (6.2)                        | (1.0)    |
| Other losses, net                               | (0.0)                        | (.0)     |
| Net income before income / asset tax expense    | 25.4                         | 26.9     |
| Income / asset tax expense                      | (7.8)                        | (7.3)    |
| Net income                                      | \$ 17.5                      | \$ 19.6  |
| Less: Net Income attributable to Noncontrolling | .0                           | .0       |
| Net income available to common shareholders     | \$ 17.5                      | \$ 19.6  |

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

**Other Data**

| (In millions)   | Three Months Ended March 31, |         |
|---|------------------------------|---------|
|   | 2013                         | 2012    |
| Number of confirmed registered users at end of the period <sup>1</sup>  | 85.7                         | 69.5    |
| Number of confirmed new registered users during the period <sup>2</sup> | 4.2                          | 3.6     |
| Gross merchandise volume <sup>3</sup>                                   | 1,563.3                      | 1,321.7 |
| Number of items sold <sup>4</sup>                                       | 18.1                         | 15.0    |
| Total payment volume <sup>5</sup>                                       | 532.1                        | 370.1   |
| Total payment transactions <sup>6</sup>                                 | 6.7                          | 4.9     |
| Capital expenditures  | 6.7                          | 3.0     |
| Depreciation and amortization   | 2.6                          | 2.0     |



## Edgar Filing: MERCADOLIBRE INC - Form 10-Q

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

**Table of Contents***Net revenues*

|                                     | Three Month Period Ended<br>March 31, |         | Change from 2012<br>to 2013 (*) |       |
|-------------------------------------|---------------------------------------|---------|---------------------------------|-------|
|                                     | 2013                                  | 2012    | in Dollars                      | in %  |
|                                     | (in millions, except percentages)     |         |                                 |       |
| Total Net Revenues                  | \$ 102.7                              | \$ 83.7 | \$ 19.0                         | 22.7% |
| As a percentage of net revenues (*) | 100.0%                                | 100.0%  |                                 |       |

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

The 22.7% growth in net revenues in the first quarter of 2013 as compared to the same period of 2012 resulted mainly from a 18.3% increase in the gross merchandise volume ( GMV ) transacted through our platform during the first quarter of 2013 as compared to the same period of 2012. This GMV growth resulted from a 20.5% increase in items sold when comparing those periods. Non-marketplace revenues from financing and off-platform payments grew 44.9% in the first quarter of 2013 as compared to the same period in 2012, mainly as a consequence of a 43.8% increase in the total payments volume ( TPV ) paid using MercadoPago. Finally, classified and ad sales revenues for the first quarter of 2013 grew 20.7% as compared to the same period of 2012.

Measured in local currencies, net revenues grew 36.3% during the three-month period ended March 31, 2013 as compared to the same period in 2012. The local currency revenue growth was calculated by using the average monthly exchange rates for each month during 2012 and applying them to the corresponding months in 2013, so as to calculate what our financial results would have been had exchange rates remained stable from one year to the next.

The following table summarizes the changes in net revenues by each reporting segment for the three-month periods ended March 31, 2013 and 2012:

|                      | Three Month Period Ended<br>March 31, |         | Change from 2012<br>to 2013 (*) |       |
|----------------------|---------------------------------------|---------|---------------------------------|-------|
|                      | 2013                                  | 2012    | in Dollars                      | in %  |
|                      | (in millions, except percentages)     |         |                                 |       |
| <b>Net Revenues:</b> |                                       |         |                                 |       |
| Brazil               | \$ 47.8                               | \$ 42.2 | \$ 5.6                          | 13.3% |
| Argentina            | 25.6                                  | 18.1    | 7.5                             | 41.4  |
| Venezuela            | 15.1                                  | 11.2    | 3.9                             | 34.6  |
| Mexico               | 7.8                                   | 6.6     | 1.2                             | 18.3  |
| Other Countries      | 6.4                                   | 5.6     | 0.8                             | 14.0  |
| Total Net Revenues   | \$ 102.7                              | \$ 83.7 | \$ 19.0                         | 22.7% |

(\*) 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.

On a segment basis, our net revenues for the three-month periods ended March 31, 2013 and 2012, increased across all segments.

**Table of Contents**

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

|                                   | March 31, | Quarter Ended                     |               | December 31, |
|-----------------------------------|-----------|-----------------------------------|---------------|--------------|
|                                   |           | June 30,                          | September 30, |              |
|                                   |           | (in millions, except percentages) |               |              |
|                                   |           | (*)                               |               |              |
| <b>2013</b>                       |           |                                   |               |              |
| Net Revenues                      | \$ 102.7  | n/a                               | n/a           | n/a          |
| Percent change from prior quarter | -1%       |                                   |               |              |
| <b>2012</b>                       |           |                                   |               |              |
| Net Revenues                      | \$ 83.7   | \$ 88.8                           | \$ 97.3       | \$ 103.8     |
| Percent change from prior quarter | -3%       | 6%                                | 9%            | 7%           |
| <b>2011</b>                       |           |                                   |               |              |
| Net Revenues                      | \$ 61.5   | \$ 69.4                           | \$ 81.6       | \$ 86.5      |
| Percent change from prior quarter | -1%       | 13%                               | 18%           | 6%           |

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

**Cost of net revenues**

|                                     | Three-Month Period Ended          |         | Change from 2012 |       |
|-------------------------------------|-----------------------------------|---------|------------------|-------|
|                                     | March 31,                         |         | to 2013 (*)      |       |
|                                     | 2013                              | 2012    | in Dollars       | in %  |
|                                     | (in millions, except percentages) |         |                  |       |
| Total cost of net revenues          | \$ 28.6                           | \$ 21.1 | \$ 7.5           | 35.7% |
| As a percentage of net revenues (*) | 27.9%                             | 25.2%   |                  |       |

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

For the three-month period ended March 31, 2013, the increase in cost of net revenues as compared to the same period of 2012 was primarily attributable to an increase of collection fees by \$3.1 million. The increase in collection fees, which occurred primarily in Brazil and Argentina, was a result of the higher penetration of our payment solution into our marketplace, which derived in higher collection fee cost and additional collections related services contracted. For the three months ended March 31, 2013, total TPV represents 34.0% of our total GMV (excluding motor vehicles, vessels, aircraft and real estate) as compared to 28.0% for the three months ended 2012. Moreover, during the three months ended March 31, 2013 as compared to the same period in 2012, expenditures related to our in-house customer support operations increased by \$1.8 million, or 35.6%, primarily driven by an increase in compensation and recruitment costs, and increased investments in customer service operations to improve our users' experience. The increased compensation costs and recruitment operational are incurred in order to improve our service and our initiatives to combat fraud, illegal items and fee evasion. In addition, sales taxes and other operational taxes increased by \$0.9 million, or 16.2%, as compared to the same period in 2012, mainly as a consequence of increases in net revenues. For the three-month period ended March 31, 2013, our hosting cost increased by \$0.6 million as compared to the same period in 2012. Finally, our fraud prevention cost increased by \$0.7 million as compared to the same period in 2012.

**Product and technology development**

|  | Three Month Period Ended          |      | Change from 2012 |      |
|--|-----------------------------------|------|------------------|------|
|  | March 31,                         |      | to 2013 (*)      |      |
|  | 2013                              | 2012 | in Dollars       | in % |
|  | (in millions, except percentages) |      |                  |      |

## Edgar Filing: MERCADOLIBRE INC - Form 10-Q

|                                     |        |        |        |       |
|-------------------------------------|--------|--------|--------|-------|
| Product and technology development  | \$ 9.4 | \$ 7.6 | \$ 1.8 | 23.7% |
| As a percentage of net revenues (*) | 9.1%   | 9.1%   |        |       |

(\*) Percentages have been calculated using whole-dollar amounts rather than rounded amounts that appear in the table. For the three-month period ended March 31, 2013, the growth in product and technology development expenses as compared to the same period in 2012, was primarily attributable to an increase of \$1.0 million, or 24.9%, in compensation costs. This increase in compensation expenses were primarily related to increases in compensation costs and to the addition of engineers, as we continue to invest in top quality talent to develop enhancements and new features across our platforms. We believe product development is one of our key competitive advantages and intend to continue to invest in adding engineers to meet the increasingly sophisticated product expectations of our customer base.

**Table of Contents**

Product and technology development expenses also grew during the three-month period ended March 31, 2013 as compared to the same period in 2012 as a consequence of an increase of \$0.5 million, or 41.0%, in depreciation and amortization expenses and an increase of \$ 0.2 million, or 19.6%, in other product development expenses.

**Sales and marketing**

|                                     | Three Month Period Ended<br>March 31, |         | Change from 2012<br>to 2013 (*) |       |
|-------------------------------------|---------------------------------------|---------|---------------------------------|-------|
|                                     | 2013                                  | 2012    | in Dollars                      | in %  |
| Sales and marketing                 | \$ 22.3                               | \$ 17.4 | \$ 4.9                          | 28.2% |
| As a percentage of net revenues (*) | 21.7%                                 | 20.8%   |                                 |       |

(\*) Percentages have been calculated using whole-dollar amounts rather than rounded amounts that appear in the table. For the three-month period ended March 31, 2013, the \$4.9 million increase in sales and marketing expenses as compared to the same period in 2012 was primarily attributable to: i) an increase of \$1.8 million in total chargebacks expenses mainly attributable to our Brazilian operation; ii) an increase of \$1.5 million in salaries as compared to the same period in 2012, driven by higher salaries to retain talent; iii) on-line marketing increased by \$1.0 million, or 25.5%, as compared to the same period of 2012. In addition, off-line marketing also increased by \$1.0 million, from \$0.1 million during the three months ended March 31, 2012 to \$1.1 million in the same period of 2013 mainly as a consequence of the production of new campaigns in Latin American television; iv) the increase in sales and marketing expenses was partially offset by a decrease of \$0.9 million in bad debt. Bad debt represented 4.0% and 6.0% of net revenues for the three months ended March 31, 2013 and 2012, respectively.

**General and administrative**

|                                     | Three Month Period Ended<br>March 31, |         | Change from 2012<br>to 2013 (*) |      |
|-------------------------------------|---------------------------------------|---------|---------------------------------|------|
|                                     | 2013                                  | 2012    | in Dollars                      | in % |
| General and administrative          | \$ 13.8                               | \$ 12.7 | \$ 1.1                          | 8.6% |
| As a percentage of net revenues (*) | 13.4%                                 | 15.2%   |                                 |      |

(\*) Percentages have been calculated using whole-dollar amounts rather than rounded amounts that appear in the table. For the three-month period ended March 31, 2013, general and administrative expenses increased by \$1.1 million as compared to the same period of 2012, primarily attributable to a \$1.4 million increase in salaries, which includes compensation costs related to our LTRP, and an increase of \$0.7 million in legal expenses. These increases were partially offset by a decrease in other general and administrative expenses of \$0.6 million and by a decrease of \$0.3 million in office expenses.

**Other (expenses) income, net**

|                              | Three Month Period Ended<br>March 31, |        | Change from 2012<br>to 2013 (*) |         |
|------------------------------|---------------------------------------|--------|---------------------------------|---------|
|                              | 2013                                  | 2012   | in Dollars                      | in %    |
| Other (expenses) income, net | \$ (3.2)                              | \$ 2.0 | \$ (5.2)                        | -263.1% |

## Edgar Filing: MERCADOLIBRE INC - Form 10-Q

|                                 |      |      |
|---------------------------------|------|------|
| As a percentage of net revenues | 3.1% | 2.4% |
|---------------------------------|------|------|

(\*) Percentages have been calculated using whole-dollar amounts rather than rounded amounts that appear in the table. For the three-month period ended March 31, 2013 as compared to the same period in 2012, the \$5.2 million decrease in other (expense) income, net was primarily attributable to a consolidated loss in foreign exchange of \$6.2 million as compared to a \$1.0 million loss in the same period in 2012. This increase in foreign exchange loss was mainly attributable to the \$6.4 million foreign exchange loss relating to the devaluation in Venezuela, which occurred on February 8, 2013, which devalued the exchange rate from 5.3 Bolivares Fuertes per U.S. dollar to 6.3 Bolivares Fuertes per U.S. dollar. Particularly, this loss relates to the monetary assets and liabilities held by our Venezuela subsidiaries in Bolivares Fuertes.

**Table of Contents****Income and asset tax**

|                                     | Three-Month Period                |        | Change from 2012 |      |
|-------------------------------------|-----------------------------------|--------|------------------|------|
|                                     | 2013                              | 2012   | in Dollars       | in % |
|                                     | Ended<br>March 31,                |        | to 2013 (*)      |      |
|                                     | (in millions, except percentages) |        |                  |      |
| Income and asset tax                | \$ 7.8                            | \$ 7.3 | \$ 0.5           | 7.7% |
| As a percentage of net revenues (*) | 7.6%                              | 8.7%   |                  |      |

(\*) Percentages have been calculated using whole-dollar amounts rather than rounded amounts that appear in the table. During the three-month period ended March 31, 2013 as compared to the same period in 2012, income and asset tax increased by \$0.5 million, mainly as a consequence of an increase in permanent differences period over period.

For the three-month period ended March 31, 2013, our income and asset tax expense margin was lower as compared to the same period in the previous year from 8.7% to 7.6%, because our income and asset tax expense margin was positively impacted by a decrease in income tax charge in Brazil as a consequence of permanent tax differences period over period. Our income and asset tax expense margin was also positively impacted by the effect of a higher pre-tax income in our Argentine subsidiary, which has a lower effective tax rate as a consequence of the software development law.

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

The following table summarizes the changes in our blended and effective tax rate for the three-month periods ended March 31, 2013 and 2012:

|                    | Three-Month Period Ended |       |
|--------------------|--------------------------|-------|
|                    | 2013                     | 2012  |
| Blended tax rate   | 30.9%                    | 27.0% |
| Effective tax rate | 29.6%                    | 29.6% |

(\*) Percentages have been calculated using whole-dollar amounts rather than rounded amounts that appear in the table. Our blended tax rate increased 3.9% from the three-month period ended March 31, 2013 to the same period in 2012 mainly as a result of the foreign exchange loss of \$6.4 million related to the devaluation of the Bolivares Fuertes against the U.S. dollar in Venezuela in February 2013, which was considered as non-deductible for tax purposes.

Our effective tax rate has not changed during the three-month period ended March 31, 2013 as compared to the same period in 2012.

**Table of Contents**

The following table sets forth our effective income tax rate related to our main locations for the three-month periods ended March 31, 2013 and 2012:

|                               | Three-Month Period Ended<br>March 31, |       |
|-------------------------------|---------------------------------------|-------|
|                               | 2013                                  | 2012  |
| Effective tax rate by country |                                       |       |
| Argentina                     | 17.6%                                 | 15.8% |
| Brazil                        | 34.7%                                 | 37.7% |
| Mexico                        | 31.6%                                 | 39.3% |
| Venezuela                     | 143.7%                                | 33.5% |

The Company's Argentine subsidiary is a beneficiary of a software development law granting it a relief of 60% of total income tax determined in each year. Mainly for that reason, our Argentine operation's effective income tax rate for the three-month periods ended March 31, 2013 and 2012 are currently lower than the local statutory rate of 35%. If we had not been granted the Argentine tax holiday, our Argentine effective income tax rate would have been higher but, in that case, we would have pursued an alternative tax planning strategy. In addition, the Argentine government issued a new software development law which is still waiting for the regulatory decree. If the Argentine subsidiary qualifies under the new software development law, it is possible that the current Argentine income tax relief we benefit from could be reduced slightly. However, under the new law, it is also possible that the tax holiday would be extended for an additional five years, while also providing us with certain other fiscal benefits.

The increase in our Argentine operation's effective income tax rate for the three-month period ended March 31, 2013 as compared to the same period in 2012 as a consequence of changes in both temporary and permanent tax differences including the relief in the income tax expense derived from the application of the software development law.

For the three-month period ended March 31, 2013, our Brazilian effective income tax rate was slightly higher than the local statutory rate of 34% mainly as a consequence of changes in temporary tax differences.

For the three-month period ended March 31, 2013, our Mexican effective income tax rate was higher than the local statutory rate of 30% mainly as a result of changes in temporary tax differences. For the three-month period ended March 31, 2012, our Mexican effective income tax rate was higher than the local statutory rate of 30% mainly as a result of changes in temporary and permanent tax differences.

For the three-month period ended March 31, 2013, our Venezuelan effective income tax rate was significantly higher than the local statutory rate of 34%, mainly due to the impact of the devaluation of the Bolivares Fuertes in February 2013, which is considered as a permanent difference for U.S. GAAP reporting purposes and net of other temporary differences.

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

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

**Liquidity and Capital Resources**

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

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



## Edgar Filing: MERCADOLIBRE INC - Form 10-Q

At March 31, 2013, our main source of liquidity, amounting to \$197.7 million of cash and cash equivalents and short-term investments and \$95.0 million of long-term investments has been provided by cash generated from operations. We consider our long-term investments as part of our liquidity because long-term investments are comprised by available-for-sale securities classified as long-term as a consequence of their contractual maturities.

**Table of Contents**

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

As of March 31, 2013, cash and investments of foreign subsidiaries amounted to \$242.1 million or 82.7% of our consolidated cash and investments and approximately 60.2% of consolidated cash and investments are held outside the U.S., mostly in Brazil, Argentina and Venezuela. Our strategy is to reinvest our undistributed earnings of our foreign operations in those operations and to distribute dividends when they can be offset with available tax credits. We do not expect a material impact in any repatriation of undistributed earnings of foreign subsidiaries on our operations since the taxable domestic gains generated by any dividend distributions will be mostly offset with foreign tax credits that arise from income tax paid in our foreign operations, which we are allowed to compute for domestic income tax purposes.

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

The following table presents our cash flows from operating activities, investing activities and financing activities for the three-month periods ended March 31, 2013 and 2012:

| (In millions)   | Three-Month Period Ended<br>March 31, |         |
|---|---------------------------------------|---------|
|   | 2013                                  | 2012    |
| Net cash provided by (used in):                       |                                       |         |
| Operating activities                                  | \$ 30.1                               | \$ 19.0 |
| Investing activities                                  | 3.8                                   | (6.8)   |
| Financing activities                                  | (4.8)                                 | (3.5)   |
| Effect of exchange rates on cash and cash equivalents | (8.4)                                 | (0.2)   |
| Net increase in cash and cash equivalents             | \$ 20.7                               | \$ 8.5  |

***Net cash provided by operating activities***

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

|                       | Three Month Period Ended<br>March 31, |         | Change from 2012<br>to 2013 (*) |       |
|-----------------------|---------------------------------------|---------|---------------------------------|-------|
|                       | 2013                                  | 2012    | in Dollars                      | in %  |
| Net Cash provided by: |                                       |         |                                 |       |
| Operating activities  | \$ 30.1                               | \$ 19.0 | \$ 11.1                         | 58.5% |

(in millions, except percentages)

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

The \$11.1 million increase in net cash provided by operating activities during the three-month period ended March 31, 2013 as compared to the same period in 2012 was mainly attributable to a \$6.4 million non-cash foreign exchange loss relating to the devaluation in Venezuela. Additionally, accrued interest increased by \$1.8 million and depreciation and amortization increased by \$0.7 million, in that same period. These non-cash effects were partially offset by a \$2.2 million decrease in net income. Finally, the increase in net cash provided by operating activities was attributable to an increase in MercadoPago working capital by \$3.4 million and other changes in working capital amounting to \$1.1 million.

**Table of Contents****Net cash provided by (used in) investing activities**

|                                 | Three Month Period Ended          |          | Change from 2012 |        |
|---------------------------------|-----------------------------------|----------|------------------|--------|
|                                 | March 31,                         |          | to 2013 (*)      |        |
|                                 | 2013                              | 2012     | in Dollars       | in %   |
|                                 | (in millions, except percentages) |          |                  |        |
| Net Cash provided by (used in): |                                   |          |                  |        |
| Investing activities            | \$ 3.8                            | \$ (6.8) | \$ 10.6          | 156.0% |

(\*) Percentages have been calculated using whole-dollar amounts rather than rounded amounts that appear in the table. Net cash provided by investing activities in the three-month period ended March 31, 2013 resulted mainly from proceeds from the sale and maturity of investments of \$146.4 million partially offset by purchases of investments for \$136.5 million, as part of our financial strategy. Additionally, we used \$2.9 million of cash during the three-month period ended March 31, 2013 to make capital expenditures mainly related to technological equipment and software licenses and \$3.2 million to fund the acquisition of a software development company located in the Province of Cordoba, Argentina.

**Net cash used in financing activities**

|                      | Three Month Period Ended          |          | Change from 2012 |       |
|----------------------|-----------------------------------|----------|------------------|-------|
|                      | March 31,                         |          | to 2013 (*)      |       |
|                      | 2013                              | 2012     | in Dollars       | in %  |
|                      | (in millions, except percentages) |          |                  |       |
| Net Cash used in:    |                                   |          |                  |       |
| Financing activities | \$ (4.8)                          | \$ (3.5) | \$ (1.3)         | 36.2% |

(\*) Percentages have been calculated using whole-dollar amounts rather than rounded amounts that appear in the table. For the three-month period ended March 31, 2013, our primary use of cash was to fund the \$4.8 million quarterly cash dividends paid on January 15, 2013.

For the three-month period ended March 31, 2012, our primary use of cash was to fund the \$3.5 million quarterly cash dividends paid on January 17, 2012.

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

**Debt**

As of March 31, 2013, we recorded \$6.3 million of dividends payable to our stockholders. In addition, as of March 31, 2013, our outstanding debt of \$0.2 million is related to Argentine car lease contracts.

**Cash Dividends**

On January 15, 2013, we paid the fourth quarterly cash dividend for \$4.8 million (or \$0.109 per share) on our outstanding shares of common stock held of record as of the close of business on December 31, 2012. On February 22, 2013, our board of directors approved a quarterly cash dividend of \$6.3 million (or \$0.143 per share) on our outstanding shares of common stock. The dividend was paid on April 15, 2013 to stockholders of record as of the close of business on March 29, 2013.

On April 30, 2013, the board of directors declared a quarterly cash dividend of \$6.3 million (or \$0.143 per share) on our outstanding shares of common stock. The dividend will be paid on July 15, 2013 to stockholders of record as of the close of business on June 28, 2013.

## Edgar Filing: MERCADOLIBRE INC - Form 10-Q

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

---

## **Table of Contents**

### ***Capital expenditures***

Our capital expenditures for the three-month period ended March 31, 2013 and 2012 amounted to \$6.7 million and \$3.7 million, respectively. During the three months ended March 31, 2013 we acquired the 100% ownership interest in a software development company located in the Province of Cordoba, Argentina at an aggregate purchase price of \$3.4 million.

On April 2013, the Company agreed to acquire three floors or 3,865 square meters in a new office building located in Buenos Aires for a total amount of \$18.0 million plus VAT. The price will be paid in Argentine pesos. The Company paid \$0.4 million plus VAT in advance and will pay \$3.2 million plus VAT at the date of signing of the purchase agreement. The remaining \$14.4 million plus VAT will be paid in seven monthly installments beginning in June 2013.

The Company is permanently increasing the level of investment on hardware and software licenses necessary to improve and update the technology of our platform and cost of computer software developed internally. We anticipate continued investments in capital expenditures related to information technology in the future as we strive to maintain our position in the Latin American e-commerce market.

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

### **Off-balance sheet arrangements**

At March 31, 2013, we had no off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on our consolidated financial condition, results of operations, liquidity, capital expenditures or capital resources.

### **Recent accounting pronouncements**

In March 2013, the Financial Accounting Standards Board ( FASB ) issued Parent s Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity a consensus of the FASB Emerging Issues Task Force clarifying the accounting for the release of cumulative translation adjustment into net income when a parent either sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business within a foreign entity. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2013. We do not anticipate that this adoption will have a significant impact on our financial position, results of operations or cash flows.

### **Non-GAAP Financial Measures**

To supplement our condensed consolidated financial statements presented in accordance with generally accepted accounting principles (GAAP), we use free cash flows, adjusted net income before income / asset tax, adjusted income / asset tax, adjusted net income, adjusted blended tax rate and adjusted earnings per share as non-GAAP measures.

These non-GAAP measures should not be considered in isolation or as a substitute for measures of performance prepared in accordance with GAAP and may be different from non-GAAP measures used by other companies. In addition, these non-GAAP measures are not based on any comprehensive set of accounting rules or principles. Non-GAAP measures have limitations in that they do not reflect all of the amounts associated with our results of operations as determined in accordance with GAAP. These non-GAAP financial measures should only be used to evaluate our results of operations in conjunction with the most comparable GAAP financial measures.

Reconciliation of these non-GAAP financial measures to the most comparable GAAP financial measure can be found in the tables included in this quarterly report.

Non-GAAP financial measures are provided to enhance investors overall understanding of our current financial performance. Specifically, we believe that free cash flow provides useful information to both management and investors by excluding payments for the acquisition of property, equipment, of intangible assets and of businesses net of cash acquired, that may not be indicative of our core operating results. In addition, we report free cash flows to investors because we believe that the inclusion of this measure provides consistency in our financial reporting.

Free cash flow represents cash from operating activities less payment for the acquisition of property, equipment and intangible assets and acquired businesses net of cash acquired. We consider free cash flow to be a liquidity measure that provides useful information to management

## Edgar Filing: MERCADOLIBRE INC - Form 10-Q

and investors about the amount of cash generated by our operations after the purchases of property, and equipment, of intangible assets and of acquired businesses net of cash acquired. A limitation of the utility of free cash flow as a measure of financial performance is that it does not represent the total increase or decrease in our cash balance for the period.

### Reconciliation of Operating Cash Flows to Free Cash Flows

|   | <b>Three Months Ended March 31,</b> |             |
|---|-------------------------------------|-------------|
|   | <b>2013</b>                         | <b>2012</b> |
| Net Cash provided by Operating Activities             | \$ 30.1                             | \$ 19.0     |
| Payment for acquired businesses, net of cash acquired | (3.2)                               |             |
| Purchase of intangible assets                         |                                     | (0.0)       |
| Purchases of property and equipment                   | (2.9)                               | (3.7)       |
| <br>Free cash flows                                   | <br>\$ 24.0                         | <br>\$ 15.3 |

The table above may not total due to rounding.

Moreover, we believe that adjusted net income before income / asset tax, adjusted income / asset tax, adjusted net income, adjusted blended tax rate and adjusted earnings per share provide useful information to both management and investors by excluding the foreign exchange loss attributable to the devaluation in Venezuela, because it may not be indicative of our results of operations. In addition, we report adjusted net income before income / asset tax, adjusted income / asset tax, adjusted net income, adjusted blended tax rate and adjusted earnings per share to investors because we believe that the inclusion of these measures provides consistency in the Company's financial reporting and because these financial measures provide useful information to management and investors about what our adjusted net income before income / asset tax, adjusted income / asset tax, adjusted net income, adjusted blended tax rate and adjusted earnings per share, would have been, had the foreign exchange loss in Venezuela not occurred. A limitation of the utility of adjusted net income before income / asset tax, adjusted income / asset tax, adjusted net income, adjusted blended tax rate and adjusted earnings per share, as measures of financial performance, is that these measures do not represent the total foreign exchange effect in our Income Statement for the period.

**Table of Contents**

|  | <b>Three<br/>Months<br/>Ended<br/>March<br/>31, 2013(**)</b> |
|--|--|
| Net income before income / asset tax expense                 | \$ 25.4  |
| Devaluation loss in Venezuela                                | 6.4  |
| <b>Adjusted Net income before income / asset tax expense</b> | <b>\$ 31.7</b>   |
| Income and asset tax   | (7.8)  |
| Income tax effect on devaluation loss in Venezuela           | (0.5) <sup>(1)</sup>   |
| <b>Adjusted Income and asset tax</b>                         | <b>\$ (8.4)</b>  |
| <b>Net Income</b>  | <b>\$ 17.5</b>   |
| Devaluation loss in Venezuela                                | 6.4  |
| Income tax effect on devaluation loss in Venezuela           | (0.5) <sup>(1)</sup>   |
| <b>Adjusted Net Income</b>                                   | <b>\$ 23.4</b>   |
| <b>Adjusted Blended Tax Rate</b>                             | <b>26.4%</b>   |
| Weighted average of outstanding common shares                | 44,151,323   |
| <b>Adjusted Earnings per share</b>                           | <b>\$ 0.53</b>   |

(\*\*) Stated in millions of U.S. dollars.

<sup>(1)</sup> Income tax charge related to the Venezuela devaluation under local tax norms.

The table above may not total due to rounding.

**Item 3 Qualitative and Quantitative Disclosure About Market Risk**

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

**Foreign currencies**

At March 31, 2013, we hold cash and cash equivalents in local currencies in our subsidiaries, and have receivables denominated in local currencies in all of our operations. Our subsidiaries generate revenues and incur most of their expenses in local currency. As a result, our subsidiaries use their local currency as their functional currency, except for our Venezuelan subsidiaries which use the U.S. dollar as if it is the functional currency due to a highly inflationary environment. As of March 31, 2013, the total cash and cash equivalents denominated in foreign currencies totaled \$97.8 million, short-term investments denominated in foreign currencies totaled \$72.5 million and accounts receivable and credit cards receivables in foreign currencies totaled \$60.9 million. As of March 31, 2013, we had long-term investments denominated in foreign currencies amounted to \$3.1 million. To manage exchange rate risk, our treasury policy is to transfer most cash and cash equivalents in excess of working capital requirements into U.S. dollar-denominated accounts in the United States. As of March 31, 2013, our U.S. dollar-denominated cash and cash equivalents and short-term investments totaled \$27.4 million and our dollar-denominated long-term investments totaled \$91.8 million. For the three-month period ended March 31, 2013, we had a consolidated loss on foreign currency of \$6.2 million, mainly related to the monetary assets held in our Venezuelan subsidiaries. (See Management's Discussion and Analysis of Financial Condition and Results of Operations - Results of operations for the three-month periods ended March 31, 2013 compared to three-month period ended March 31, 2012 Other (expenses) income, net for more information).

## Edgar Filing: MERCADOLIBRE INC - Form 10-Q

In accordance with U.S. GAAP, we have transitioned our Venezuelan operations to highly inflationary status as of January 1, 2010 and have been using the U.S. dollar as the functional currency for these operations since then. In accordance with U.S. GAAP, translation adjustments for prior periods were not removed from equity and the translated amounts for nonmonetary assets at December 31, 2010 become the accounting basis for those assets. Monetary assets and liabilities in Bolivares Fuertes were re-measured to the U.S. dollar at the official closing exchange rate as of March 31, 2013 and at the SITME exchange rate published by the BCV as of December 31, 2012 and the results of the operations in Bolivares Fuertes were re-measured into U.S. dollars at the average monthly official exchange rate.

|                              | <b>For the three months ended March 31,</b> |                           |
|------------------------------|---|---------------------------|
|                              | <b>2013</b>                                 | <b>2012</b>               |
| <b>Venezuelan operations</b> |   |                           |
| Net Revenues                 | \$ 15,130,551                               | \$ 11,241,572             |
|                              |   |                           |
|                              | <b>As of March 31,</b>                      | <b>As of December 31,</b> |
|                              | <b>2013</b>                                 | <b>2012</b>               |
| Assets                       | 60,364,056                                  | 62,938,728                |
| Liabilities                  | (20,966,195)                                | (22,652,965)              |
|                              |   |                           |
| Net Assets                   | \$ 39,397,861                               | \$ 40,285,763             |

As of March 31, 2013, net assets of our Venezuelan subsidiaries amount to approximately 13.1% of our consolidated net assets, and cash and investments of our Venezuelan subsidiaries held in local currency in Venezuela amount to only approximately 14.6% of our consolidated cash and investments.



**Table of Contents**

On February 8, 2013, the Government of Venezuela, through the Foreign Exchange Agreement No. 14, has devalued as from February 9, 2013, the official exchange rate from 4.3 to 6.3 Bolivares Fuertes per U.S. dollars. The devaluation required re-measurement of the Company's Venezuelan subsidiaries' non-U.S. dollar denominated monetary assets and liabilities as from February 9, 2013.

On March 19, 2013, the BCV announced the creation of the *Sistema Complementario de Administración de Divisas* (Complementary System for the Administration of Foreign Currencies or SICAD) and it will act jointly with CADIVI. In order to operate with this new system, the companies should be registered at the Registro Automatizado (Automatized Register or RUSAD). The acquisition of foreign currencies under this new system will be organized under an auction process where the minimum exchange rate to be offered would be 6.30 Bolivares Fuertes. At the date of this report, we were unable to access to the auction process and there is no information available on the details or planned frequency of the SICAD mechanism. As a result of this devaluation, we incurred in a loss amounting to \$6.4 million.

Accordingly, as of March 31, 2013, the exchange rate used to re-measure our net monetary assets of our Venezuelan operations was 6.30 Bolivares Fuertes per U.S. dollar.

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

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

The following table sets forth the percentage of consolidated net revenues by segment for the three-month periods ended March 31, 2013 and 2012:

| (% of total consolidated net revenues) | Three-Month Period Ended |       |
|--|--------------------------|-------|
|  | March 31,                |       |
|  | 2013                     | 2012  |
| Brazil                                 | 46.5%                    | 50.4% |
| Argentina                              | 24.9                     | 21.6  |
| Venezuela                              | 14.7                     | 13.4  |
| Mexico                                 | 7.6                      | 7.9   |
| Other Countries                        | 6.2                      | 6.7   |

(\*) 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.

**Table of Contents**

The table below shows the impact on our net revenues, expenses, other expenses and income tax, net income and equity for a positive and a negative 10% fluctuation on all the foreign currencies to which we are exposed to as of March 31, 2013 and for the three months then ended:

**Foreign Currency Sensitivity Analysis**

| (In millions)  | -10%<br>(1) | Actual | +10%<br>(2) |
|--|-------------|--------|-------------|
| Net revenues   | 114.1       | 102.7  | 93.4        |
| Expenses   | (82.4)      | (74.2) | (67.4)      |
| Income from operations   | 31.7        | 28.6   | 26.0        |
| Other income (expenses) and income tax related to P&L items                    | (5.3)       | (4.8)  | (4.4)       |
| Foreign Currency impact related to the remeasurement of our Net Asset position | (6.9)       | (6.2)  | (5.7)       |
| Net income   | 19.5        | 17.5   | 15.9        |
| Less: Net Income attributable to Noncontrolling Interest                       | 0.05        | 0.04   | 0.04        |
| Net income attributable to MercadoLibre, Inc.                                  | 19.4        | 17.5   | 15.9        |
| Total Shareholders Equity  | 318.9       | 300.0  | 293.4       |

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

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

The table above does not total due to rounding.

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

In the past we have entered into transactions to hedge portions of our foreign currency translation exposure but during the three months ended March 31, 2013 we have not entered into any such agreement.

**Interest**

Our earnings and cash flows are also affected by changes in interest rates. These changes could have an impact on the interest rates that financial institutions charge us by the time we sell our MercadoPago receivables. At March 31, 2013, MercadoPago's funds receivable from customers totaled \$40.7 million. Interest rate fluctuations could also negatively affect certain of our fixed rate and floating rate investments comprised primarily of time deposits, money market funds, investment grade corporate debt securities, and sovereign debt securities. Investments in both fixed rate and floating rate interest earning products carry a degree of interest rate risk. Fixed rate securities may have their fair market value adversely impacted due to a rise in interest rates, while floating rate securities may produce less income than predicted if interest rates fall.

Under our current policies, we do not use interest rate derivative instruments to manage exposure to interest rate changes. As of March 31, 2013, the average duration of our available for sale securities, defined as the approximate percentage change in price for a 100-basis-point change in yield, is 3.54%. If interest rates were to instantaneously increase (decrease) by 100 basis points, the fair market value of our available for sale securities as of March 31, 2013 could decrease (increase) by approximately \$3.4 million.

## Edgar Filing: MERCADOLIBRE INC - Form 10-Q

As of March 31, 2013, our short-term investments amounted to \$75.5 million and our long-term investments amounted to \$94.9 million, can be readily converted at any time into cash or into securities with a shorter remaining time to maturity. We determine the appropriate classification of our investments at the time of purchase and re-evaluate such designations as of each balance sheet date.

**Table of Contents****Equity Price Risk**

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

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

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

The 2009, 2010, 2011 and 2012 variable payment LTRP liability subjects us to equity price risk. At March 31, 2013, the total contractual obligation fair value of our 2009, 2010, 2011 and 2012 Variable Payment LTRP liability amounted to \$17.5 million. As of March 31, 2013, the accrued liability related to the 2009, 2010, 2011 and 2012 Variable Payment portion of the LTRP included in Social security payable in our condensed consolidated balance sheet amounted to \$8.5 million. The following table shows a sensitivity analysis of the risk associated with our total contractual obligation related to the 2009, 2010, 2011 and 2012 Variable Payment if our stock price were to experience increases or decreases by up to 40%.

| (In US dollars)                      | As of March 31, 2013                 |  |
|--------------------------------------|--------------------------------------|--|
|                                      | MercadoLibre, Inc<br>Equity<br>Price | 2009, 2010, 2011 and 2012<br>variable LTRP liability |
| Change in equity price in percentage |                                      |  |
| 40%                                  | 123.33                               | 18,571,260   |
| 30%                                  | 114.52                               | 17,244,742   |
| 20%                                  | 105.71                               | 15,918,223   |
| 10%                                  | 96.90                                | 14,591,705   |
| Static (*)                           | 88.09                                | 13,265,186   |
| -10%                                 | 79.28                                | 11,938,667   |
| -20%                                 | 70.47                                | 10,612,149   |
| -30%                                 | 61.67                                | 9,285,630  |
| -40%                                 | 52.86                                | 7,959,112  |

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

---

## **Table of Contents**

### **Item 4            Controls and Procedures**

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

#### **Evaluation of disclosure controls and procedures**

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

#### **Changes in Internal Controls Over Financial Reporting**

There were no changes in our internal control over financial reporting (as such term is defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act) during the three-month period ended March 31, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **PART II. OTHER INFORMATION**

### **Item 1            Legal Proceedings**

From time to time, we are involved in disputes that arise in the ordinary course of our business. The number and significance of these disputes is increasing as our business expands and our company grows. Any claims against us, whether meritorious or not, may be time consuming, result in costly litigation, require significant amounts of management time, result in the diversion of significant operational resources or require expensive implementations of changes to our business methods to respond to these claims. See Item 1A Risk Factors of our Annual Report on Form 10-K for the fiscal year ended December 31, 2012 as filed with the Securities and Exchange Commission on February 28, 2013, for additional discussion of the litigation and regulatory risks facing our company.

As of March 31, 2013, our total reserves for proceeding-related contingencies were approximately \$3.5 million to cover legal actions against us in which we have determined that a loss is probable. The proceeding-related reserve is based on developments to date and historical information related to actions filed against our company. We do not reserve for losses we determine to be possible or remote.

As of March 31, 2013, there were 557 lawsuits pending against our Brazilian subsidiary in the Brazilian ordinary courts. In addition, as of March 31, 2013, there were more than 3,563 lawsuits pending against our Brazilian subsidiary in the Brazilian consumer courts, where a lawyer is not required to file or pursue a claim. In most of these cases, the plaintiffs asserted that we were responsible for fraud committed against them, or responsible for damages suffered when purchasing an item on our website, when using MercadoPago, or when we invoiced them. We believe we have meritorious defenses to these claims and intend to continue defending them.

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

On August 25, 2010, Citizen Watch do Brasil S/A, or Citizen, sued MercadoLivre.com Atividades de Internet Ltda. and eBazar.com.br Ltda. (together referred to as Brazilian subsidiaries) at the 31th Central Civil Court State of São Paulo, Brazil. Citizen alleged that the Brazilian subsidiaries were infringing Citizen's trademarks as a result of users selling allegedly counterfeit Citizen watches through the Brazilian subsidiaries' website. Citizen sought an order enjoining the sale of Citizen-branded watches on the Brazilian subsidiaries' Marketplace with a \$6,000 daily non-compliance penalty. On September 23, 2010, the Brazilian subsidiaries were summoned of an injunction granted to prohibit the offer of Citizen products on its platform, but the penalty was established at \$6,000. On September 26, 2010, the Brazilian subsidiaries presented their defense and appealed the decision of the injunction relief on September 27, 2010. On October 22, 2010 the injunction granted to Citizen was suspended. On May 28, 2012, the Plaintiff filed an appeal related to the injunction relief to the State Court of Appeals and the Brazilian subsidiaries presented their defense on August 16, 2012. The Superior Court's ruling is still pending. In September 2012, Citizen filed a legal

## Edgar Filing: MERCADOLIBRE INC - Form 10-Q

action against the Brazilian subsidiaries with same arguments alleged in the injunction request and sought compensatory and statutory damages. Defenses were presented on March 20, 2013. As of March 31, 2013 the lower court's ruling was still pending. In the opinion of the Brazilian subsidiaries' management and its legal counsel the risk of loss is reasonably possible but not probable.

**Table of Contents**

On August 19, 2011, a state prosecutor of the State of Rio de Janeiro, Brazil presented a claim against MercadoLivre.com Atividades de Internet Ltda. (MercadoLivre or Brazilian subsidiary). The state prosecutor alleges that MercadoLivre should improve its customer service level and provide (among other things) a telephone number for customer support and requested an injunction against our Brazilian subsidiary. On August 23, 2011, the Judge of the first instance court denied the aforementioned injunction. On December 7, 2011, MercadoLivre was summoned for the lawsuit. On March 1, 2012 MercadoLivre presented its defense. On August 29, 2012 conciliatory hearing was taken, but no agreement was reached. On October 22, 2012, the Lower Court Judges ruled in favor of MercadoLivre and dismissed the claim against MercadoLivre. The Public Prosecutor appealed the decision and MercadoLivre presented its defense on December 12, 2012. On April 9, 2013, the State Court of Appeals ruled in favor of the Company confirming the dismissal of the claim. As of the date of this report, the decision was not yet appealed by the state prosecutor to the Brazilian Superior Court of Justice. In the opinion of the Company's management and its legal counsel the risk of loss in case of a new appeal by the state prosecutor is remote.

In September 2012 São Paulo tax authorities asserted taxes and fines against our Brazilian subsidiary related to our Brazilian subsidiary's activities in São Paulo for the period from 2007 through 2010 in an approximate amount of R\$23 million or \$11.4 million according to the exchange rate as of December 31, 2012. On July 27, 2012 the Company presented administrative defenses against the authorities' claim. The São Paulo tax authorities ruling is still pending. In January 2005 the Brazilian subsidiary moved its operations to Santana de Parnaíba City, Brazil and began paying taxes to that jurisdiction and therefore we believe we have strong defenses to the claims of the São Paulo authorities with respect to these periods. The Company's management and its legal counsel believe that the risk of loss is remote, and as a result, has not reserved any provisions for these claims from 2005 through 2010. On February 2, 2013, São Paulo tax authorities ruled against the Brazilian subsidiary maintaining the asserted taxes and fines. On March 4, 2013, the Company presented an appeal to the Conselho Municipal de Tributos or São Paulo Municipal Council of Taxes. As of March 31, 2013, the ruling of the above-mentioned appeal was still pending. In the opinion of the Company's management and its legal counsel the risk of loss is remote, and as a result, has not reserved any provisions for this claim.

**Intellectual Property Claims**

In the past third parties have from time to time claimed, and others may claim in the future, that we have infringed their intellectual property rights. We have been notified of several potential third-party claims for intellectual property infringement through our website. These claims, whether meritorious or not, are time consuming, can be costly to resolve, could cause service upgrade delays, and could require expensive implementations of changes to our business methods to respond to these claims. See Item 1A Risk factors Risks related to our business We could potentially face legal and financial liability for the sale of items that infringe on the intellectual property rights of others and for information disseminated on the MercadoLivre Marketplace in our Annual Report on Form 10-K for the year ended December 31, 2012.

**Item 1A Risk Factors**

As of March 31, 2013, there have been no material changes in our risk factors from those disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2012.

**Item 4 Mine Safety Disclosures**

Not applicable.

**Item 6 Exhibits**

- 3.1 Registrant's Amended and Restated Certificate of Incorporation. (1)
- 3.2 Registrant's Amended and Restated Bylaws. (1)
- 31.1 Certification of Chief Executive Officer pursuant to Securities Exchange Act Rule 13a-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.\*
- 31.2 Certification of Chief Financial Officer pursuant to Securities Exchange Act Rule 13a-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.\*

## Edgar Filing: MERCADOLIBRE INC - Form 10-Q

- 32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.\*\*
- 32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.\*\*



**Table of Contents**

|         |   |
|---------|---|
| 101.INS | XBRL Instance Document***                                 |
| 101.SCH | XBRL Taxonomy Extension Schema Document***                |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document***  |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document***        |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document*** |
| 101.INS | XBRL Taxonomy Extension Definition Linkbase***            |

(1) Incorporated by reference to the Registration Statement on Form S-1 of MercadoLibre, Inc. filed on May 11, 2007

\* Filed herewith

\*\* Furnished herewith

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

**Table of Contents**

**Signatures**

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

**MERCADOLIBRE, INC.  
Registrant**

Date: May 7, 2013

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

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

**Table of Contents**

**MercadoLibre, Inc.**

**INDEX TO EXHIBITS**

|         |  |
|---------|--|
| 3.1     | Registrant's Amended and Restated Certificate of Incorporation. (1)  |
| 3.2     | Registrant's Amended and Restated Bylaws. (1)  |
| 31.1    | Certification of Chief Executive Officer pursuant to Securities Exchange Act Rule 13a-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.* |
| 31.2    | Certification of Chief Financial Officer pursuant to Securities Exchange Act Rule 13a-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.* |
| 32.1    | Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.**             |
| 32.2    | Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.**             |
| 101.INS | XBRL Instance Document***  |
| 101.SCH | XBRL Taxonomy Extension Schema Document***   |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document***   |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document***   |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document***  |
| 101.INS | XBRL Taxonomy Extension Definition Linkbase***   |

\* Filed herewith

\*\* Furnished herewith

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

(1) Incorporated by reference to the Registration Statement on Form S-1 of MercadoLibre, Inc. filed on May 11, 2007.