MERCADOLIBRE INC
Form 10-Q
May 09, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2012

-OR-

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

For the transition period from to

Commission file number 001-33647

MercadoLibre, Inc.

(Exact name of Registrant as specified in its Charter)

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

Arias 3751, 7th Floor

Buenos Aires, C1430CRG, Argentina

(Address of registrant s principal executive offices)

011-54-11-4640-8000

(Registrant s telephone number, including area code)

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x 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 x 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 x	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 x

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.

44,147,120 shares of the issuer s common stock, $0.001 par value, outstanding as of May 2, 2012.

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MERCADOLIBRE, INC.

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PART I. FINANCIAL INFORMATION

Item 1. Unaudited Condensed Consolidated Financial Statements

MercadoLibre, Inc.

Condensed Consolidated Financial Statements

as of March 31, 2012 and December 31, 2011

and for the three-month periods

ended March 31, 2012 and 2011

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MercadoLibre, Inc.

Condensed Consolidated Balance Sheets

As of March 31, 2012 and December 31, 2011

	March 31, 2012 (Unaudited)	December 31, 2011 (Audited)
Assets		
Current assets:		
Cash and cash equivalents	$ 75,874,938	$ 67,381,677
Short-term investments	82,722,150	74,928,620
Accounts receivable, net	16,338,071	16,815,087
Credits Cards Receivables	23,964,431	23,855,689
Prepaid expenses	1,955,533	1,269,594
Deferred tax assets	9,949,385	9,131,638
Other assets	6,394,655	6,863,250
Total current assets	217,199,163	200,245,555
Non-current assets:		
Long-term investments	43,084,473	43,933,316
Property and equipment, net	33,117,055	30,877,719
Goodwill, net	63,935,487	62,093,948
Intangible assets, net	6,626,787	6,494,857
Deferred tax assets	6,537,804	6,491,646
Other assets	6,068,687	5,794,395
Total non-current assets	159,370,293	155,685,881
Total assets	$ 376,569,456	$ 355,931,436
Liabilities and Equity		
Current liabilities:		
Accounts payable and accrued expenses	$ 21,727,978	$ 20,251,313
Funds payable to customers	70,486,512	69,216,185
Payroll and social security payable	13,145,102	13,525,293
Taxes payable	9,888,797	11,633,178
Loans payable and other financial liabilities	142,687	146,194
Dividends payable	4,812,036	3,531,362
Total current liabilities	120,203,112	118,303,525
Non-current liabilities:		
Payroll and social security payable	3,950,099	3,844,172
Loans payable and other financial liabilities	101,249	136,227
Deferred tax liabilities	8,481,593	8,670,606
Other liabilities	2,153,587	1,797,890
Total non-current liabilities	14,686,528	14,448,895
Total liabilities	$ 134,889,640	$ 132,752,420

Commitments and contingencies (Note 8)

Redeemable noncontrolling interest	$ 4,000,000	$ 4,000,000
Equity:		
Common stock, $0.001 par value, 110,000,000 shares authorized, 44,147,120 and 44,142,020 shares issued and outstanding at March 31, 2012 and December 31, 2011, respectively	$ 44,147	$ 44,142
Additional paid-in capital	120,463,063	120,452,032
Retained earnings	150,867,488	135,726,188
Accumulated other comprehensive loss	(33,694,882)	(37,043,346)
Total Equity	237,679,816	219,179,016
Total liabilities, redeemable noncontrolling interest and equity	$ 376,569,456	$ 355,931,436

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

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MercadoLibre, Inc.

Condensed Consolidated Statements of Income

For the three-month periods ended March 31, 2012 and 2011

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
	(Unaudited)	
Net revenues	$ 83,736,006	$ 61,459,668
Cost of net revenues	(21,096,297)	(14,331,703)
Gross profit	62,639,709	47,127,965
Operating expenses:		
Product and technology development	(7,586,074)	(5,156,890)
Sales and marketing	(17,427,679)	(13,228,942)
General and administrative	(12,695,212)	(9,450,977)
Total operating expenses	(37,708,965)	(27,836,809)
Income from operations	24,930,744	19,291,156
Other income (expenses):		
Interest income and other financial gains	3,088,560	1,873,768
Interest expense and other financial charges	(77,317)	(628,950)
Foreign currency loss	(1,032,978)	(500,655)
Other income / (loss), net	(4,252)	20,344
Net income before income / asset tax expense	26,904,757	20,055,663
Income / asset tax expense	(7,267,719)	(5,998,029)
Net income	$ 19,637,038	$ 14,057,634
Less: Net Income attributable to Noncontrolling Interest	2,428	
Net income attributable to MercadoLibre, Inc.	$ 19,634,610	$ 14,057,634

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
	(Unaudited)	
Basic EPS		
Basic net income attributable to MercadoLibre, Inc. per common share	$ 0.45	$ 0.32
Weighted average shares	44,142,076	44,131,383
Diluted EPS		
Diluted net income attributable to MercadoLibre, Inc. per common share	$ 0.45	$ 0.32
Weighted average shares	44,147,796	44,147,667

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

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MercadoLibre, Inc.

Condensed Consolidated Statements of Comprehensive Income

For the three-month periods ended March 31, 2012 and 2011

	Three Months Ended March 31, 2012	2011
	(Unaudited)	
Net income	$ 19,637,038	$ 14,057,634
Other comprehensive income, net of income tax:		
Currency traslation adjustment	3,579,147	888,874
Unrealized net gains (loss) on investments	693,974	(18,200)
Realized net gain on investments	(924,657)	(45,527)
Net change in accumulated other comprehensive income, net of income tax	3,348,464	825,147
Comprehensive income	$ 22,985,502	$ 14,882,781
Less: Comprehensive Income attributable to Noncontrolling Interest	302,248	
Comprehensive income attributable to MercadoLibre, Inc.	$ 22,683,254	$ 14,882,781

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

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MercadoLibre, Inc.

Condensed Consolidated Statements of Changes in Shareholders Equity

For the three-month periods ended March 31, 2012 and 2011 (unaudited)

	Common stock		Additional paid-in	Retained Earnings / (Acumulated	Accumulated other comprehensive	Total
	Shares	Amount	capital	Deficit)	loss	Equity
Balance as of December 31, 2010	44,131,376	$ 44,131	$ 120,391,622	$ 73,681,556	$ (22,399,039)	$ 171,718,270
Stock options exercised	590	1	884			885
Stock-based compensation LTRP			33,710			33,710
Dividend distribution				(3,530,510)		(3,530,510)
Net income				14,057,634		14,057,634
Currency translation adjustment					888,874	888,874
Unrealized net loss on investments					(18,200)	(18,200)
Realized net gain on investments					(45,527)	(45,527)
Balance as of March 31, 2011	44,131,966	$ 44,132	$ 120,426,216	$ 84,208,680	$ (21,573,892)	$ 183,105,136
Stock options exercised	5,360	5	10,285			10,290
Stock-based compensation LTRP			15,536			15,536
Dividend distribution				(10,594,058)		(10,594,058)
LTRP shares issued	4,694	5	(5)			
Change in Redeemable amount of noncontrolling interest				(610,853)		(610,853)
Net income				62,722,419		62,722,419
Currency translation adjustment					(16,412,311)	(16,412,311)
Unrealized net gains on investments					942,857	942,857
Realized net gains on investments						
Balance as of December 31, 2011	44,142,020	$ 44,142	$ 120,452,032	$ 135,726,188	$ (37,043,346)	$ 219,179,016

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

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MercadoLibre, Inc.

Condensed Consolidated Statements of Changes in Shareholders Equity

For the three-month periods ended March 31, 2012 and 2011 (unaudited)

	Common stock		Additional paid-in capital	Retained Earnings	Accumulated other comprehensive loss	Total Equity
	Shares	Amount				
Balance as of December 31, 2011	44,142,020	$ 44,142	$ 120,452,032	$ 135,726,188	$ (37,043,346)	$ 219,179,016
Stock-based compensation LTRP			11,036			11,036
Dividend distribution				(4,812,036)		(4,812,036)
LTRP shares issued	5,100	5	(5)			
Change in redeemable amount of noncontrolling interest				316,298		316,298
Net income				19,637,038		19,637,038
Currency translation adjustment					3,579,147	3,579,147
Unrealized net gains on investments					693,974	693,974
Realized net gain on investments					(924,657)	(924,657)
Balance as of March 31, 2012	44,147,120	$ 44,147	$ 120,463,063	$ 150,867,488	$ (33,694,882)	$ 237,679,816

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

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MercadoLibre, Inc.

Condensed Consolidated Statements of Cash Flows

For the three-month periods ended March 31, 2012 and 2011 (unaudited)

	Three Months Ended March 31, 2012	2011
	(Unaudited)	
Cash flows from operations:		
Net income	$ 19,637,038	$ 14,057,634
Adjustments to reconcile net income to net cash provided by operating activities:		
Net Income attributable to Noncontrolling Interest	2,428	
Depreciation and amortization	1,966,624	1,541,143
Accrued interest	(816,543)	(575,613)
LTRP accrued compensation	1,849,633	1,170,710
Deferred income taxes	(190,810)	316,866
Changes in assets and liabilities:		
Accounts receivable	1,803,522	(378,620)
Credit Card Receivables	(116,468)	479,325
Prepaid expenses	(673,723)	71,641
Other assets	493,886	(70,095)
Accounts payable and accrued expenses	(6,375,961)	(4,754,255)
Funds payable to customers	(159,063)	3,072,102
Provisions	1,407,480	18,026
Other liabilities	158,139	220,113
Net cash provided by operating activities	18,986,182	15,168,977
Cash flows from investing activities:		
Purchase of investments	(86,658,793)	(99,069,739)
Proceeds from sale and maturity of investments	83,583,664	80,823,544
Purchases of intangible assets	(31,508)	(73,405)
Purchases of property and equipment	(3,696,281)	(2,886,154)
Net cash used in investing activities	(6,802,918)	(21,205,754)
Cash flows from financing activities:		
Dividends paid	(3,531,362)	
Stock options exercised		885
Net cash provided in financing activities	(3,531,362)	885
Effect of exchange rate changes on cash and cash equivalents	(158,641)	173,684
Net increase in cash and cash equivalents	8,493,261	(5,862,208)
Cash and cash equivalents, beginning of the period	67,381,677	56,830,466
Cash and cash equivalents, end of the period	$ 75,874,938	$ 50,968,258

	Three Months Ended March 31, 2012	2011
	(Unaudited)	

Supplemental cash flow information:				
Cash paid for interest	$	20,646	$	13,889
Cash paid for income and asset taxes	$	10,015,712	$	7,898,283

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

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MercadoLibre, Inc.

Notes to Condensed Consolidated Financial Statements (unaudited)

1. Nature of Business

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

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

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

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

As of March 31, 2012, the Company, through its wholly-owned subsidiaries, operated online commerce platforms directed towards Argentina, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Mexico, Panama, Peru, Portugal, Uruguay and Venezuela, and online payments solutions directed towards Argentina, Brazil, Mexico, Venezuela, Chile and Colombia. In addition, the Company operates a real estate classified platform that covers some areas of Florida, U.S.A.

2. Summary of Significant Accounting Policies

Basis of presentation

The accompanying unaudited interim condensed consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) and include the accounts of the Company and its wholly-owned subsidiaries. These interim condensed consolidated financial statements are stated in US dollars. All intercompany transactions and balances have been eliminated.

MercadoLibre, Inc.

Notes to Condensed Consolidated Financial Statements (unaudited)

2. Summary of Significant Accounting Policies (Continued)

Basis of presentation (Continued)

Substantially all revenues and operating costs are generated in the Company s foreign operations, amounting to approximately 99.5% and 99.7% of the consolidated totals during the three-month periods ended March 31, 2012 and 2011, respectively. Long-lived assets located in the foreign operations totaled $96,491,563 and $93,489,980 as of March 31, 2012 and December 31, 2011, respectively. Cash and cash equivalents as well as short and long-term investments, totaling $201,681,561 and $186,243,613 at March 31, 2012 and December 31, 2011, respectively, are mainly located in the United States of America and in the Company s main locations.

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

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

Revenue recognition

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

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

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

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MercadoLibre, Inc.

Notes to Condensed Consolidated Financial Statements (unaudited)

2. Summary of Significant Accounting Policies (Continued)

Revenue recognition (Continued)

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

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

- Listing and optional feature services, which fees relate to the right of a seller to have the item offered listed in a preferential way, as well as classified advertising services, are recorded as revenue ratably during the listing period. Those fees are charged at the time the listing is uploaded onto the Company s platform and is not subject to successful sale of the items listed.

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

Foreign Currency Translation

All of the Company s foreign operations have determined the local currency to be their functional currency, except for Venezuela since the year ended December 31, 2010, as described below. Accordingly, these foreign subsidiaries translate assets and liabilities from their local currencies to U.S. dollars using period/year-end exchange rates while income and expense accounts are translated at the average rates in effect during the period. The resulting translation adjustment is recorded as part of accumulated other comprehensive income (loss). Gains and losses resulting from transactions denominated in non-functional currencies are recognized in earnings. Net foreign currency transaction results are included in the consolidated statements of income under the caption Foreign currency loss and amounted to $1,032,978 and $500,655 for the three-month periods ended March 31, 2012 and 2011, respectively.

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

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MercadoLibre, Inc.

Notes to Condensed Consolidated Financial Statements (unaudited)

2. Summary of Significant Accounting Policies (Continued)

Foreign Currency Translation (Continued)

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

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

According to US GAAP, the Company has transitioned its Venezuelan operations to highly inflationary status as of January 1, 2010 considering as if the US dollar was the functional currency. See Highly inflationary status in Venezuela below.

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

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

As of March 31, 2012, the exchange rate used to re-measure transactions was 5.30 Bolivares Fuertes per U.S. dollar.

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

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MercadoLibre, Inc.

Notes to Condensed Consolidated Financial Statements (unaudited)

2. Summary of Significant Accounting Policies (Continued)

Foreign Currency Translation (Continued)

	March 31, 2012	March 31, 2011
Venezuelan operations		
Net Revenues	$ 11,241,572	$ 6,770,453
	March 31, 2012	**December 31, 2011**
Assets	33,729,830	31,074,871
Liabilities	(9,941,851)	(10,414,881)
Net Assets	$ 23,787,979	$ 20,659,990

As of March 31, 2012, net assets (before intercompany eliminations) of the Venezuelan subsidiaries amount to approximately 10.0% of our consolidated net assets, and cash and investments of the Venezuelan subsidiaries held in local currency in Venezuela amount to approximately 8.6% of our consolidated cash and investments.

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

Highly inflationary status in Venezuela

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

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

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

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MercadoLibre, Inc.

Notes to Condensed Consolidated Financial Statements (unaudited)

2. Summary of Significant Accounting Policies (Continued)

Taxes on revenues

The Company s subsidiaries in Brazil, Argentina, Venezuela and Colombia are subject to certain taxes on revenues which are classified as cost of revenues. Taxes on revenues totaled $5,452,197 and $4,461,547 for the three-month periods ended March 31, 2012 and 2011, respectively.

Income and Asset Taxes

The Company is subject to U.S. and foreign income taxes. The Company accounts for income taxes following the liability method of accounting which requires the recognition of deferred tax liabilities and assets for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred tax assets are also recognized for tax loss carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets or liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is recorded when, based on the available evidence, it is more likely than not that all or a portion of the Company s deferred tax assets will not be realized. The Company s income tax expense consists of taxes currently payable, if any, plus the change during the period in the Company s deferred tax assets and liabilities.

From fiscal year 2008, the Company s Argentine subsidiary is a beneficiary of a software development law. Part of the benefits obtained from being a beneficiary of the aforementioned law is a relief of 60% of total income tax determined in each year, until fiscal year 2014. Aggregate tax benefit totaled $1,971,478 and $1,206,609 for the three-month periods ended March 31, 2012 and 2011, respectively. Aggregate per share effect of the Argentine tax holiday amounts to $ 0.04 and $0.03 for the three-month periods ended March 31, 2012 and 2011, respectively. If the Company had not been granted the Argentine tax holiday, the Company would have pursued an alternative tax planning strategy and, therefore, the impact of not having this particular benefit would not necessarily be the abovementioned dollar and per share effect.

On August 17, 2011, the Argentine government issued a new software development Law which is still waiting for the regulatory decree. If the Company 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 years, to 2019 and would obtain some other fiscal benefits.

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MercadoLibre, Inc.

Notes to Condensed Consolidated Financial Statements (unaudited)

2. Summary of Significant Accounting Policies (Continued)

Income and Asset Taxes (Continued)

As of March 31, 2012 and December 31, 2011, MercadoLibre, Inc has included in the non-current deferred tax assets line the foreign tax credits related to the dividend distributions received from its subsidiaries for a total amount of $2,519,254 and $2,965,668, respectively. Those foreign tax credits will be used to offset the future domestic income tax payable.

Use of estimates

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

Comprehensive Income

Comprehensive income is comprised of two components, net income and other comprehensive income (loss), net of income tax, and defined as all other changes in equity of the Company that result from transactions other than with shareholders. Other comprehensive income (loss) includes the cumulative translation adjustment relating to the translation of the financial statements of the Company s foreign subsidiaries (except Venezuela since January 1, 2010, see Foreign Currency Translation) and unrealized gains on investments classified as available-for-sale securities. Total comprehensive income, attributable to MercadoLibre Inc, for the three-month periods ended March 31, 2012 and 2011 amounted to $22,683,254 and $14,882,781, respectively.

Redeemable Noncontrolling Interest

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

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MercadoLibre, Inc.

Notes to Condensed Consolidated Financial Statements (unaudited)

2. Summary of Significant Accounting Policies (Continued)

Redeemable Noncontrolling Interest (Continued)

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

Redeemable noncontrolling interest is not considered to be permanent equity and is reported in the mezzanine section between liabilities and equity in the consolidated balance sheet for a total amount of $4,000,000 at March 31, 2012. The noncontrolling interest was measured at its estimated redemption value according to the abovementioned agreed conditions. Changes between the estimated redemption value and its carrying amount as of the period-end were recorded in retained earnings.

3. Net income per share

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

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

The following table shows how net income available to common shareholders is allocated using the two-class method, for the three-month periods ended March 31, 2012 and 2011:

	Three Months Ended March 31,			
	2012		**2011**	
	Basic	Diluted	Basic	Diluted
Net income	$ 19,637,038	$ 19,637,038	$ 14,057,634	$ 14,057,634
Net income attributable to Noncontrolling interests	(2,428)	(2,428)		
Change in redeemable amount of noncontrolling interest	316,298	316,298		
Net income attributable to MercadoLibre, Inc.corresponding to common stock	$ 19,950,908	$ 19,950,908	$ 14,057,634	$ 14,057,634

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MercadoLibre, Inc.

Notes to Condensed Consolidated Financial Statements (unaudited)

3. Net income per share (Continued)

Net income per share of common stock is as follows for the three-month periods ended March 31, 2012 and 2011:

	Three Months Ended March 31,			
	2012		2011	
	Basic	Diluted	Basic	Diluted
Net income attributable to MercadoLibre, Inc. per common share	$ 0.45	$ 0.45	$ 0.32	$ 0.32
Numerator:				
Net income attributable to MercadoLibre, Inc.	$ 19,950,908	$ 19,950,908	$ 14,057,634	$ 14,057,634
Denominator:				
Weighted average of common stock outstanding for Basic earnings per share	44,142,076	44,142,076	44,131,383	44,131,383
Adjustment for stock options		5,720		11,474
Adjustment for shares granted under LTRP				4,810
Adjusted weighted average of common stock outstanding for Diluted earnings per share	44,142,076	44,147,796	44,131,383	44,147,667

The calculation of diluted net income per share excludes all anti-dilutive shares. During the three-month periods ended March 31, 2012 and 2011, there were no anti-dilutive shares.

4. Business Combinations, Goodwill and Intangible Assets

Business Combinations

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

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

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

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MercadoLibre, Inc.

Notes to Condensed Consolidated Financial Statements (unaudited)

4. Business Combinations, Goodwill and Intangible Assets

Business Combinations (Continued)

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

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

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

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

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

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

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

MercadoLibre, Inc.

Notes to Condensed Consolidated Financial Statements (unaudited)

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

Business Combinations (Continued)

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

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

Goodwill is not expected to be deductible for tax purposes.

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

Goodwill and Intangible Assets

The composition of goodwill and intangible assets is as follows:

	March 31, 2012	December 31, 2011
Goodwill	$ 63,935,487	$ 62,093,948
Intangible assets with indefinite lives		
- Trademarks	5,363,349	5,068,147
Amortizable intangible assets		
- Licenses and others	2,808,875	2,798,112
- Non-compete agreement	1,304,151	1,270,807
- Customer list	1,795,001	1,742,087
Total intangible assets	$ 11,271,376	$ 10,879,153
Accumulated amortization	(4,644,589)	(4,384,296)
Total intangible assets, net	$ 6,626,787	$ 6,494,857

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MercadoLibre, Inc.

Notes to Condensed Consolidated Financial Statements (unaudited)

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

Goodwill

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

	Period ended March 31, 2012							
	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	343,739	(369,670)	428,566	945,932		475,320	17,652	1,841,539
Balance, end of the period	$ 12,007,182	$ 21,214,104	$ 7,006,025	$ 11,567,771	$ 4,846,030	$ 5,842,846	$ 1,451,529	$ 63,935,487

	Year ended December 31, 2011							
	Brazil	Argentina	Chile	Mexico	Venezuela	Colombia	Other Countries	Total
Balance, beginning of year	$ 13,130,649	$ 23,364,326	$ 7,296,888	$ 5,025,623	$ 4,846,030	$ 5,448,068	$ 1,384,730	$ 60,496,314
- Purchase of Autoplaza.com				6,663,045				6,663,045
- Effect of exchange rates changes	(1,467,206)	(1,780,552)	(719,429)	(1,066,829)		(80,542)	49,147	(5,065,411)
Balance, end of the year	$ 11,663,443	$ 21,583,774	$ 6,577,459	$ 10,621,839	$ 4,846,030	$ 5,367,526	$ 1,433,877	$ 62,093,948

Amortizable intangible assets

Amortizable intangible assets are comprised of customer lists and user base, trademarks and trade names, non-compete agreements, acquired software licenses and other acquired intangible assets including developed technologies. Aggregate amortization expense for intangible assets totaled $268,163 and $236,121 for the three-month periods ended March 31, 2012 and 2011, respectively.

Expected future intangible asset amortization completed as of March 31, 2012 is as follows:

For year ended 12/31/2012	$ 461,383
For year ended 12/31/2013	455,163
For year ended 12/31/2014	184,970
For year ended 12/31/2015	99,948
Thereafter	61,974
	$ 1,263,438

5. Segments

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

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

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MercadoLibre, Inc.

Notes to Condensed Consolidated Financial Statements (unaudited)

5. Segments (Continued)

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.

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

	Three Months Ended March 31, 2012					
	Brazil	Argentina	Mexico	Venezuela	Other Countries	Total
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

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MercadoLibre, Inc.

Notes to Condensed Consolidated Financial Statements (unaudited)

5. Segments (Continued)

	Three Months Ended March 31, 2011					
	Brazil	**Argentina**	**Mexico**	**Venezuela**	**Other Countries**	**Total**
Net revenues	$ 34,723,195	$ 10,579,932	$ 5,234,333	$ 6,770,453	$ 4,151,755	$ 61,459,668
Direct costs	(20,075,608)	(4,427,098)	(2,716,359)	(3,069,739)	(2,100,316)	(32,389,120)
Direct contribution	14,647,587	6,152,834	2,517,974	3,700,714	2,051,439	29,070,548
Operating expenses and indirect costs of net revenues						(9,779,392)
Income from operations						19,291,156
Other income (expenses):						
Interest income and other financial gains						1,873,768
Interest expense and other financial results						(628,950)
Foreign currency loss						(500,655)
Other income, net						20,344
Net income before income / asset tax expense						$ 20,055,663

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

	March 31, 2012	**December 31, 2011**
US long-lived tangible assets	$ 7,158,884	$ 5,976,544
Other countries long-lived tangible assets		
Argentina	14,435,776	14,316,612
Brazil	2,364,730	2,528,378
Mexico	430,039	409,707
Venezuela (*)	7,870,266	7,192,073
Other countries	857,360	454,405
	$ 25,958,171	$ 24,901,175
Total long-lived tangible assets	$ 33,117,055	$ 30,877,719

(*) On June 2, 2011, the Company s Venezuelan subsidiary acquired an office property of 992 square meters in a building located in Caracas, Venezuela. The purchase price of $6,626,433 million was paid in cash.

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MercadoLibre, Inc.

Notes to Condensed Consolidated Financial Statements (unaudited)

5. Segments (Continued)

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

	March 31, 2012	December 31, 2011
US intangible assets	$ 28,882	$
Other countries goodwill and intangible assets		
Argentina	21,835,253	22,407,558
Brazil	12,035,958	11,686,315
Mexico	14,908,278	13,709,353
Venezuela	6,595,222	6,599,584
Other countries	15,158,681	14,185,995
	$ 70,533,392	$ 68,588,805
Total goodwill and intangible assets	$ 70,562,274	$ 68,588,805

6. Fair Value Measurement of Assets and Liabilities

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

Description	Balances as of March 31, 2012	Quoted Prices in active markets for identical Assets (Level 1)	Balances as of December 31, 2011	Quoted Prices in active markets for identical Assets (Level 1)
Assets				
Cash and Cash Equivalents:				
Money Market Funds	$ 24,953,117	$ 24,953,117	$ 20,836,617	$ 20,836,617
Investments:				
Asset backed securities	18,261,045	18,261,045	18,309,316	18,309,316
Sovereign Debt Securities	10,170,152	10,170,152	10,708,563	10,708,563
Corporate Debt Securities	20,335,233	20,335,233	17,824,331	17,824,331
Total financial Assets	$ 73,719,547	$ 73,719,547	$ 67,678,827	$ 67,678,827

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MercadoLibre, Inc.

Notes to Condensed Consolidated Financial Statements (unaudited)

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

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

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

In addition, as of March 31, 2012 and December 31, 2011, the Company had $77,040,200 and $72,019,726 of short-term investments, which consisted of time deposits maintained as held to maturity investments. Those investments are accounted for at amortized cost which, as of March 31, 2012 and December 31, 2011, approximates their fair values.

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

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

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

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MercadoLibre, Inc.

Notes to Condensed Consolidated Financial Statements (unaudited)

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

	March 31, 2012			
	Gross Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses (1)	Estimated Fair Value
Short-term investments				
Sovereign Debt Securities	$ 1,776,034	$ 16,721	$ (12,902)	$ 1,779,853
Corporate Debt Securities	3,921,896	42,568	(62,360)	3,902,104
Total Short-term investments	**$ 5,697,930**	**$ 59,289**	**$ (75,262)**	**$ 5,681,957**
Long-term investments				
Sovereign Debt Securities	$ 8,016,383	$ 418,169	$ (44,253)	$ 8,390,299
Corporate Debt Securities	16,296,878	246,235	(109,984)	16,433,129
Asset Backed Securities (2)	17,702,718	769,170	(210,843)	18,261,045
Total Long-term investments	**$ 42,015,979**	**$ 1,433,574**	**$ (365,080)**	**$ 43,084,473**
Total	**$ 47,713,909**	**$ 1,492,863**	**$ (440,342)**	**$ 48,766,430**

	December 31, 2011			
	Gross Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses (1)	Estimated Fair Value
Short-term investments				
Sovereign Debt Securities	$ 1,554,448	$ 322	$	$ 1,554,770
Corporate Debt Securities	1,375,006		(20,882)	1,354,124
Total Short-term investments	**$ 2,929,454**	**$ 322**	**$ (20,882)**	**$ 2,908,894**
Long-term investments				
Sovereign Debt Securities	$ 8,483,883	$ 669,910	$	$ 9,153,793
Corporate Debt Securities	16,386,974	187,946	(104,713)	16,470,207
Asset Backed Securities (2)	17,647,012	715,749	(53,445)	18,309,316
Total Long-term investments	**$ 42,517,869**	**$ 1,573,605**	**$ (158,158)**	**$ 43,933,316**
Total	**$ 45,447,323**	**$ 1,573,927**	**$ (179,040)**	**$ 46,842,210**

(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, 2012 and December 31, 2011.

(2) Asset backed securities have investment grade credit ratings. These investments are collateralized by real estated and they are guaranteed by the U.S. Federal Gonvernment.

As of March 31, 2012, the estimated fair values of short-term and long-term investments classified by its contractual maturities are as follows:

One year or less	$ 5,681,957
One year to two years	2,184,022
Two years to three years	14,481,405
Three years to four years	10,572,742
Four years to five years	5,521,910
More than five years	10,324,394
Total	$ 48,766,430

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MercadoLibre, Inc.

Notes to Condensed Consolidated Financial Statements (unaudited)

7. Compensation Plan for Outside Directors

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

The total accrued compensation cost for the three-month periods ended March 31, 2012 and 2011 in cash and equity awards amounts $151,025 and $129,135, respectively which were included in operating expenses in the accompanying condensed consolidated statement of income.

8. Commitments and Contingencies

Litigation and Other Legal Matters

The Company is subject to certain contingent liabilities with respect to existing or potential claims, lawsuits and other proceedings. The Company accrues liabilities when it considers probable that future costs will be incurred and such costs can be reasonably estimated. The proceeding-related reserve is based on developments to date and historical information related to actions filed against the Company. As of March 31, 2012, the Company had established reserves for proceeding-related contingencies of $2,115,635 to cover legal actions against the Company. In addition, as of March 31, 2012 the Company and its subsidiaries are subject to certain legal actions considered by the Company s management and its legal counsels to be reasonably possible for an aggregate amount up to $2,713,854.

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

As of March 31, 2012, 444 legal actions were pending in the Brazilian ordinary courts, 8 of which were related to alleged intellectual property infringement. In addition, as of March 31, 2012, there were 2,077 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.

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MercadoLibre, Inc.

Notes to Condensed Consolidated Financial Statements (unaudited)

8. Commitments and Contingencies (Continued)

Litigation and Other Legal Matters (Continued)

On March 17, 2006, Vintage Denim Ltda., or Vintage, sued the Company s Brazilian subsidiaries MercadoLivre.com Atividades de Internet Ltda. and eBazar.com.br Ltda. in the 29th Civil Court of the County of São Paulo, State of São Paulo, Brazil. Vintage requested a preliminary injunction alleging that these subsidiaries were infringing Diesel trademarks and their right of exclusive distribution as a result of sellers listing allegedly counterfeit and original imported Diesel branded clothing through the Brazilian page of the Company s website, based on Brazilian Industrial Property Law (Law 9,279/96). Vintage sought an order enjoining the sale of Diesel-branded clothing on the Company s platform. A preliminary injunction was granted on April 11, 2006 to prohibit the offer of Diesel-branded products, and a fine for non-compliance was imposed in the approximate amount of $5,300 per defendant per day of non-compliance. The Company appealed that fine and obtained its suspension in 2006. Because the appeal of the preliminary injunction failed, in March of 2007, Vintage presented petitions alleging the Company s non-compliance with the preliminary injunction granted to Vintage and requested a fine of approximately $3.3 million against the Company s subsidiaries, which represents approximately $5,300 per defendant per day of alleged non-compliance since April 2006. In July 2007, the judge ordered the payment of the fine mandated in the preliminary injunction, without specifying the amount. In September 2007, the judge decided that (i) the Brazilian subsidiaries were not responsible for alleged infringement of intellectual property rights by its users; and that (ii) the plaintiffs did not prove the alleged infringement of its intellectual property rights. However, the decision maintained the injunction until such ruling is non-appealable. The plaintiff appealed the judge s ruling regarding the subsidiary s non-responsibility and the Company appealed the decision that maintained the preliminary injunction. On July 26, 2011 the State Court of Appeals of the State of São Paulo confirmed the judge s ruling regarding our subsidiary s non-responsibility. The decision on the appeal regarding the decision that maintained the preliminary injunction is still pending. In the opinion of the Company s legal counsel, as of March 31, 2012, the amount of $219,527 was not reserved since it was considered reasonably possible but not probable.

State of São Paulo Fraud Claim

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

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MercadoLibre, Inc.

Notes to Condensed Consolidated Financial Statements (unaudited)

8. Commitments and Contingencies (Continued)

Litigation and Other Legal Matters (Continued)

City of São Paulo Tax Claim

In 2007 São Paulo tax authorities have asserted taxes and fines against our Brazilian subsidiary relating to the period from 2005 to 2007 in an approximate amount of $5.9 million according to the exchange rate at that moment. In 2007 the Company presented administrative defenses against the authorities claim and the tax authorities ruled against the Brazilian subsidiary. In 2009 the Company presented an appeal to the Conselho Municipal de Tributos or São Paulo Municipal Council of Taxes which reduced the fine. On February 11, 2011, the Company appealed this decision to the Câmaras Reunidas do Egrégio Conselho Municipal de Tributos or Superior Chamber of the São Paulo Municipal Council of Taxes which maintained the reduction of the Infraction. As of the date of these condensed consolidated financial statements, the total amount of the claim is approximately $ 5.8 million including surcharges and interest. With this decision the administrative stage is finished. On August 15, 2011, the Company made a deposit in court of approximately R$ 9.5 million or $ 5.2 million, according to the exchange rate at December 31, 2011, and filed a lawsuit in 8th Public Treasury Court of the County of São Paulo, State of São Paulo, Brazil order to contest the taxes and fines asserted by the Tax Authorities. The Company´s management and its legal counsel believe that the risk of loss is remote, and as a result, has not reserved any provisions for this claim.

Brazilian Federal Tax Claims

On September 2, 2011, the Brazilian Federal tax authority has asserted taxes and fines against our Brazilian subsidiary relating to the Income Tax for the 2006 period in an approximate amount of R$ 5.2 million or $2.9 million, according to the exchange rate at March 31, 2012. On September 30, 2011 the Company presented administrative defenses against the tax authorities claim. 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 São Paulo Customer Service Level Claim

On September 1, 2010, a state prosecutor of the State of São Paulo, Brazil presented a claim against the Company s Brazilian subsidiary. The state prosecutor alleges that the Brazilian subsidiary should improve its customer service level and provide (among other things) a telephone number for customer support. On November 17, 2010, the Judge of the first instance court granted an injunction against the Brazilian subsidiary imposing the obligation to provide customer service over telephone means within 60 days with a penalty of approximately $65,000 per day of non-compliance. On April 8, 2011, the Company was summoned of the lawsuit and the injunction. On April 14, 2011, the Company presented recourse to the lower court; even though,

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MercadoLibre, Inc.

Notes to Condensed Consolidated Financial Statements (unaudited)

8. Commitments and Contingencies (Continued)

Litigation and Other Legal Matters (Continued)

State of São Paulo Customer Service Level Claim (Continued)

the injunction was not lifted, an extension of 30 days was granted, and the non-compliance fine would not start running until July 11, 2011. On April 20, 2011 the Company presented an appeal and requested to suspend the effects of the injunction issued by the lower court until the appeal is decided by State Court of Appeals which was granted on May 4, 2011. On November 29, 2011, the state prosecutor signed an agreement with the Brazilian subsidiary and presented a motion for dismissal of the case. On January 16, 2012, Instituto Barão de Mauá de Defesa de Vítimas e Consumidores contra Entes Poluidores e Maus Fornecedores or The Instituto Barão de Mauá, a consumer protection entity which had joined the case as a co-plaintiff, presented a petition manifesting its partial disagreement with the commitments assumed by the Company. On March 22, 2012, the Lower Court Judge ruled in favor of the agreement and dismissed the claim against the Company. The Instituto Barão de Mauá can still appeal the decision. In the opinion of the Company s management and its legal counsel the risk associated with this claim is considered remote.

State of Rio de Janeiro Customer Service Level Claim

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

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

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.

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MercadoLibre, Inc.

Notes to Condensed Consolidated Financial Statements (unaudited)

8. Commitments and Contingencies (Continued)

Litigation and Other Legal Matters (Continued)

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

9. Long Term Retention Plan

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

Year 1 (2008): 17%

Year 2 (2009): 22%

Year 3 (2010): 27%

Year 4 (2011): 34%

The shares granted for the 2008 LTRP were valued at the grant-date fair market value of $36.8 per share. As of March 31, 2012, the Company fully paid the 2008 LTRP.

For the three-month period ended March 31, 2012, the related accrued compensation expense was $20,595 corresponding $11,036 to the share portion of the award credited to Additional Paid-in Capital and $9,559 to the cash portion included in the Balance Sheet as Social security payable.

For the three-month period ended March 31, 2011, the related accrued compensation expense was $69,818 corresponding $33,710 to the share portion of the award credited to Additional Paid-in Capital and $36,108 to the cash portion included in the Balance Sheet as Social security payable.

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

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MercadoLibre, Inc.

Notes to Condensed Consolidated Financial Statements (unaudited)

9. Long Term Retention Plan (Continued)

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

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

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

The 2008, 2009, 2010 and 2011 LTRP have performance and/or eligibility conditions to be achieved at each year end and also require the employee to stay in the Company at the payment date.

The following tables summarize the LTRP accrued compensation expense for the three-month periods ended March 31, 2012 and 2011:

	Three Months Ended March 31,	
	2012	**2011**
LTRP 2009	$ 677,819	$ 519,086
LTRP 2010	584,157	507,977
LTRP 2011	567,062	

10. Cash dividend distribution

On January 17, 2012, the Company paid the last quarterly cash dividend distribution of $3.5 million or $0.08 per share.

On February 17, 2012, the Board of Directors approved a quarterly cash dividend of $4.8 million on our outstanding shares of common stock. The dividend was paid on April 16, 2012 to stockholders of record as of the close of business on March 30, 2012.

* * * *

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

Cautionary Statement Regarding Forward-Looking Statements

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

- our expectations regarding the continued growth of online commerce and Internet usage in Latin America;
- our ability to expand our operations and adapt to rapidly changing technologies;
- government regulation;
- litigation and legal liability;
- systems interruptions or failures;
- our ability to attract and retain qualified personnel;
- consumer trends;
- security breaches and illegal uses of our services;
- competition;
- reliance on third-party service providers;
- enforcement of intellectual property rights;
- our ability to attract new customers, retain existing customers and increase revenues;

seasonal fluctuations; and

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

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

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

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

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

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

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

- a brief overview of our company;
- a discussion of our principal trends and results of operations for the three-month periods ended March 31, 2012 and 2011;
- a review of our financial presentation and accounting policies, including our critical accounting policies;
- a discussion of the principal factors that influence our results of operations, financial condition and liquidity;
- a discussion of our liquidity and capital resources, a discussion of our capital expenditures and a description of our contractual obligations; and
- a discussion of the market risks that we face.

Business Overview

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

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

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

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

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

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

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 added services on their stores.

Reporting Segments

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

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

Description of line items

Net revenues

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

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

- up front fees;
- final value fees; and
- online advertising fees.

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

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

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

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The following table sets forth the percentage of consolidated net revenues by segment for the three-month periods ended March 31, 2012 and 2011:

(% of total consolidated net revenues)	Three-Month Period Ended March 31, 2012	2011
Brazil	50.4%	56.5%
Argentina	21.6	17.2
Venezuela	13.4	11.0
Mexico	7.9	8.5
Other Countries	6.7	6.8

(*) 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, 2012 and 2011:

	Three Month Period Ended March 31,		Change from 2011 to 2012 (*)	
	2012	2011	in Dollars	in %
	(in millions, except percentages)			
Net Revenues:				
Brazil	$ 42.2	$ 34.7	$ 7.5	21.4%
Argentina	18.1	10.6	7.5	71.2
Venezuela	11.2	6.8	4.5	66.0
Mexico	6.6	5.2	1.3	25.8
Other Countries	5.6	4.2	1.5	35.6
Total Net Revenues	$ 83.7	$ 61.5	$ 22.3	36.2%

(*) 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, 2012 and 2011, no single customer accounted for more than 5.0% of our net revenues. Our MercadoLibre Marketplace is available in thirteen countries (Argentina, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Mexico, Panama, Peru, Portugal, Uruguay and Venezuela), and MercadoPago is available in six countries (Argentina, Brazil, Chile, Colombia, Mexico and Venezuela). The functional currency for each country s operations is the country s local currency, except for Venezuela where the functional currency is the U.S. dollar due to Venezuela s status as a highly inflationary economy. See Critical accounting policies and estimates Foreign Currency Translation included in this report. Therefore, our net revenues are generated in multiple foreign currencies and then translated into U.S. dollars at the average monthly exchange rate.

Our subsidiaries in Brazil, Argentina, Venezuela and Colombia are subject to certain taxes on revenues which are classified as a cost of net revenues. These taxes represented 6.5% and 7.3% of net revenues for the three-month periods ended March 31, 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, certain taxes on revenues, compensation for customer support personnel, ISP connectivity charges, depreciation and amortization and hosting and site operation fees.

Product and technology development expenses

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

Sales and marketing expenses

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

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

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

General and administrative expenses

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

Other income (expenses)

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

Income and asset tax

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

Critical accounting policies and estimates

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

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.

Foreign Currency Translation

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

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

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

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

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

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

- CADIVI has not only delayed approvals but also removed many items from priority lists (current priorities appear to be food and medicine), causing delays in the repatriation of dividends for many companies.

Consequently, in the fourth quarter of 2009, we translated our Venezuelan subsidiaries assets, liabilities, income and expense accounts using the parallel exchange rate.

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

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

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

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

As a consequence of this new system, we started using the SITME rate and started re-measuring foreign currency transactions using the SITME rate published by BCV. For the three-month periods ended March 31, 2012 and 2011, the exchange rate used to re-measure transactions was 5.30 Bolivares Fuertes per U.S. dollar.

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

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

	March 31, 2012	March 31, 2011
Venezuelan operations		
Net Revenues	$ 11,241,572	$ 6,770,453

	March 31, 2012	December 31, 2011
Assets	33,729,830	31,074,871
Liabilities	(9,941,851)	(10,414,881)
Net Assets	$ 23,787,979	$ 20,659,990

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Net assets of our Venezuelan subsidiaries amount to approximately 10.0% of our consolidated net assets, and cash and investments of our Venezuelan subsidiaries held in local currency in Venezuela amount to approximately 8.6% of our consolidated cash and investments.

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

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

Impairment of long-lived assets and goodwill

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

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

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

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

Allowances for doubtful accounts and chargebacks

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

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

Legal contingencies

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

From time to time, we are involved in disputes that arise in the ordinary course of business. We are currently involved in certain legal proceedings as described in Legal Proceedings in Item 1 of Part II of this report, Item 3 of Part I of our annual report on Form 10-K for our most recently completed fiscal year filed with the Securities and Exchange Commission, and in Note 8 to our unaudited interim condensed consolidated financial statements. 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.

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Income taxes

We are required to recognize a provision for income taxes based upon taxable income and temporary differences between the book and tax bases of our assets and liabilities for each of the tax jurisdictions in which we operate. This process requires a calculation of taxes payable under currently enacted tax laws in each jurisdiction and an analysis of temporary differences between the book and tax bases of our assets and liabilities, including various accruals, allowances, depreciation and amortization. The tax effect of these temporary differences and the estimated tax benefit from our tax net operating losses are reported as deferred tax assets and liabilities in our condensed consolidated balance sheet. We also assess the likelihood that our net deferred tax assets will be realized from future taxable income. To the extent we believe that it is more likely than not that some portion or all of deferred tax asset will not be realized, we establish a valuation allowance. At March 31, 2012, we had a valuation allowance on certain foreign net operating losses based on our assessment that it is more likely than not that the deferred tax asset will not be realized. To the extent we establish a valuation allowance or change the allowance in a period, we reflect the change with a corresponding increase or decrease in our Income/asset tax expense line in our condensed consolidated statement of income.

Results of operations for the three-month period ended March 31, 2012 compared to three-month period ended March 31, 2011.

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

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Statement of income data

(In millions)	Three Months Ended March 31, 2012 (*)	2011 (*)
	(Unaudited)	
Net revenues	$ 83.7	$ 61.5
Cost of net revenues	(21.1)	(14.3)
Gross profit	62.6	47.1
Operating expenses:		