MERCADOLIBRE INC
Form 10-Q
August 13, 2008
Table of Contents

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 June 30, 2008

-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)**

Tronador 4890, 8th Floor

Buenos Aires, C1430DNN, Argentina

(Address of registrant s principal executive offices)

011-54-11-5352-8000

(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 is a large accelerated filer, an accelerated filer, a non-accelerated filer, or smaller reporting company. See definition of large accelerated filer , accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act:

Large accelerated filer ¨		Accelerated filer	¨
Non-accelerated filer x (Do not check if a small 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.

44,293,621 shares of the issuer s common stock, $0.001 par value, outstanding as of August 08, 2008.

Table of Contents

MERCADOLIBRE, INC.

INDEX TO FORM 10-Q

Table of Contents

MercadoLibre, Inc.

Condensed Consolidated Balance Sheet

As of June 30, 2008 and December 31, 2007

PART I. FINANCIAL INFORMATION

Item 1 Unaudited Condensed Consolidated Financial Statements

	June 30, 2008 (Unaudited)	December 31, 2007 (Audited)
Assets		
Current assets:		
Cash and cash equivalents	$ 17,674,256	$ 15,677,407
Short-term investments	31,743,124	52,300,007
Accounts receivable	3,507,800	3,211,252
Funds receivable from customers	36,094,640	29,162,763
Prepaid expenses	841,083	283,477
Deferred tax assets	3,775,170	3,445,101
Other assets	1,557,460	894,163
Total current assets	95,193,533	104,974,170
Non-current assets:		
Long-term investments	2,244,276	1,323,789
Property and equipment, net	5,676,382	4,143,204
Goodwill and intangible assets, net	43,893,181	23,428,646
Deferred tax assets	33,406	269,596
Other assets	375,434	353,395
Total non-current assets	52,222,679	29,518,630
Total assets	$ 147,416,212	$ 134,492,800
Liabilities and Shareholders Equity		
Current liabilities:		
Accounts payable and accrued expenses	$ 12,903,962	$ 9,278,138
Funds payable to customers	19,333,050	16,418,177
Social security payable	4,241,352	3,778,236
Taxes payable	4,025,173	2,493,749
Loans payable	2,667,192	9,713,227
Provisions	93,623	69,979
Total current liabilities	43,264,352	41,751,506
Non-current liabilities:		
Loans payable	5,959	
Deferred tax liabilities	1,967,766	
Other liabilities	1,204,958	1,068,155

Total non-current liabilities	3,178,683	1,068,155
Total liabilities	46,443,035	42,819,661
Commitments and contingencies (Note 9)		
Shareholders equity:		
Common stock, $0.001 par value, 110,000,000 shares authorized, 44,292,273 and 44,226,563 shares issued and outstanding at June 30, 2008 and December 31, 2007, respectively	44,292	44,227
Additional paid-in capital	122,001,703	121,890,138
Accumulated deficit	(29,349,145)	(34,363,917)
Accumulated other comprehensive income	8,276,327	4,102,691
Total shareholders equity	100,973,177	91,673,139
Total liabilities and shareholders equity	$ 147,416,212	$ 134,492,800

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

3

Table of Contents

MercadoLibre, Inc.

Condensed Consolidated Statements of Income

For the three- and six-month periods ended June 30, 2008 and 2007

	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007	Three Months Ended June 30, 2008	Three Months Ended June 30, 2007
	(Unaudited)		(Unaudited)	
Net revenues	$ 63,312,238	$ 35,432,625	$ 34,471,508	$ 18,973,288
Cost of net revenues	(12,921,182)	(7,487,262)	(6,901,503)	(3,999,922)
Gross profit	50,391,056	27,945,363	27,570,005	14,973,366
Operating expenses:				
Product and technology development	(3,473,893)	(2,002,716)	(1,730,780)	(1,029,096)
Sales and marketing	(19,480,049)	(12,646,525)	(10,265,389)	(6,330,128)
General and administrative	(10,827,171)	(5,486,314)	(5,879,569)	(2,811,198)
Compensation Cost related to acquisitions (Note 4)	(1,919,870)		(1,546,397)	
Total operating expenses	(35,700,983)	(20,135,555)	(19,422,135)	(10,170,422)
Income from operations	14,690,073	7,809,808	8,147,870	4,802,944
Other income (expenses):				
Interest income	1,019,929	519,239	270,576	421,522
Interest expense and other financial charges	(2,321,147)	(987,644)	(958,348)	(451,783)
Foreign currency loss	(3,041,354)	(1,004,172)	(2,052,638)	(599,398)
Other expenses, net	2,285	(2,046,058)	2,285	(1,761,421)
Net income before income / asset tax expense	10,349,786	4,291,173	5,409,745	2,411,864
Income / asset tax expense	(5,335,014)	(2,706,100)	(2,462,650)	(1,820,978)
Net income	$ 5,014,772	$ 1,585,073	$ 2,947,095	$ 590,886
Accretion of preferred stock		(247,439)		(123,720)
Net income available to common shareholders	$ 5,014,772	$ 1,337,634	$ 2,947,095	$ 467,166

	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007	Three Months Ended June 30, 2008	Three Months Ended June 30, 2007
Basic EPS				
Basic net income per share	$ 0.11	$ 0.03	$ 0.07	$ 0.01
Weighted average shares	44,238,146	13,475,873	44,238,166	13,575,158
Diluted EPS				

Diluted net income per common share	$ 0.11	$ 0.03	$ 0.07	$ 0.01
Weighted average shares	44,367,846	13,986,707	44,369,317	13,987,128

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

4

Table of Contents

MercadoLibre, Inc.

Condensed Consolidated Statements of Changes in Shareholders Equity (Deficit)

For the six-month periods ended June 30, 2008 and 2007 (unaudited)

	Comprehensive income	Common stock Shares	Common stock Amount	Additional paid-in capital	Preferred stock warrants	Accumulated deficit	Accumulated other comprehensive income	Total
Balance as of December 31, 2006		13,166,982	$ 131,670	$ 2,694,404	$	$ (44,054,817)	$ 500,536	$ (40,728,207)
Shares issued in 2000 and 2001 (1)		204,000	2,040			(2,040)		
Stock options exercised		451,770	4,518	18,370				22,888
Stock-based compensation				13,548				13,548
Accretion of mandatorily redeemable convertible preferred stock				(247,439)				(247,439)
Net income	1,585,073					1,585,073		1,585,073
Currency translation adjustment	2,108,936						2,108,936	2,108,936
Unrealized net gains on investments	13,938						13,938	13,938
Realized net gain on investments	(225,275)						(225,275)	(225,275)
Comprehensive income	3,482,672							
Balance as of June 30, 2007		13,822,752	$ 138,228	$ 2,478,883	$	$ (42,471,784)	$ 2,398,135	$ (37,456,538)
Stock options exercised		31,700	317	15,372				15,689
Stock-based compensation stock options				1,929				1,929
Stock-based compensation restricted shares				15,966				15,966
Accretion of mandatorily redeemable convertible preferred stock				(61,860)				(61,860)
Change in par value of common stock			(124,690)	124,690				
Issuance of common stock		3,000,000	3,000	49,570,239				49,573,239

Conversion of mandatorily redeemable convertible preferred stock into common stock		27,187,838	27,188	64,358,656				64,385,844
Reclassification of warrants					4,636,456			4,636,456
Exercise of warrants		184,273	184	5,386,263	(4,636,456)			749,991
Net income	8,107,867					8,107,867		8,107,867
Currency translation adjustment	1,646,665						1,646,665	1,646,665
Unrealized net gains on investments	139,938						139,938	139,938
Realized net gain on investments	(82,047)						(82,047)	(82,047)
Comprehensive income	9,812,423							
Balance as of December 31, 2007		44,226,563	$ 44,227	$ 121,890,138	$	$ (34,363,917)	$ 4,102,691	$ 91,673,139

(1) These shares were issued in 2000 and 2001, but were not recorded until 2007. The amounts are immaterial to revise prior years financial statements.

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

5

Table of Contents

MercadoLibre, Inc.

Condensed Consolidated Statements of Changes in Shareholder s Equity (Deficit)

For the six-month periods ended June 30, 2008 and 2007 (unaudited)

	Comprehensive income	Common stock Shares	Common stock Amount	Additional paid-in capital	Preferred stock warrants	Accumulated deficit	Accumulated other comprehensive income	Total
Balance as of December 31, 2007		44,226,563	$ 44,227	$ 121,890,138	$	$ (34,363,917)	$ 4,102,691	$ 91,673,139
Stock options exercised		65,710	65	62,789				62,854
Stock-based compensation stock options				2,447				2,447
Stock-based compensation restricted shares				46,329				46,329
Net income	5,014,772					5,014,772		5,014,772
Currency translation adjustment	4,231,526						4,231,526	4,231,526
Unrealized net gains on investments								
Realized net gain on investments	(57,890)						(57,890)	(57,890)
Comprehensive income	9,188,408							
Balance as of June 30, 2008		44,292,273	$ 44,292	$ 122,001,703	$	$ (29,349,145)	$ 8,276,327	$ 100,973,177

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

6

Table of Contents

MercadoLibre, Inc.

Condensed Consolidated Statements of Cash Flows

For the six-month periods ended June 30, 2008 and 2007

	Six Months Ended June 30, 2008	2007
	(Unaudited)	
Cash flows from operations:		
Net income	$ 5,014,772	$ 1,585,073
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,520,702	1,101,050
Interest expense		316,750
Realized gains on investments	(813,757)	(306,854)
Unrealized gains on investments	(56,649)	(83,118)
Stock-based compensation expense - stock options	2,447	13,548
Stock-based compensation expense - restricted shares	46,329	
Change in fair value of warrants		2,087,960
Deferred income taxes	193,619	705,619
Changes in assets and liabilities, excluding the effect of CMG acquisition:		
Accounts receivable	324,660	97,797
Funds receivable from customers	(3,463,772)	87,624
Prepaid expenses	(546,196)	(875,371)
Other assets	295,528	(255,788)
Accounts payable and accrued expenses	3,241,464	784,903
Funds payable to customers	1,175,341	95,341
Provisions	(390,673)	(305,552)
Other liabilities	23,779	481,273
Net cash provided by operating activities	6,567,594	5,530,255
Cash flows from investing activities:		
Purchase of investments	(39,085,208)	(7,378,220)
Proceeds from sale and maturity of investments	60,732,449	5,622,548
Payment for purchase of CMG, net of cash acquired	(16,824,065)	
Purchase of intangible assets	(59,098)	(20,179)
Purchases of property and equipment	(2,675,365)	(1,942,189)
Net cash provided by (used in) investing activities	2,088,713	(3,718,040)
Cash flows from financing activities:		
Increase in short term debt		1,370
Decrease in short term debt	(7,630,307)	
Loans received	5,958	
Stock options exercised	62,854	22,888
Net cash (used in) provided by (used in) financing activities	(7,561,495)	24,258

Effect of exchange rate changes on cash and cash equivalents	902,037	115,430
Net decrease in cash and cash equivalents	1,996,849	1,951,903
Cash and cash equivalents, beginning of the period	15,677,407	7,143,027
Cash and cash equivalents, end of the period	$ 17,674,256	$ 9,094,930

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

Table of Contents

MercadoLibre, Inc.

Condensed Consolidated Statements of Cash Flows

For the six-month periods ended June 30, 2008 and 2007

	Six Months Ended June 30,	
	2008	2007
	(Unaudited)	
Supplemental cash flow information:		
Cash paid for interest	$ 187,774	$ 160,105
Cash paid for income taxes	$ 4,145,532	$ 1,864,120
Non-cash financing activities:		
Accretion of preferred stock	$	$ 247,439
Acquisition of Classified Media Group:		
Cash and cash equivalents	$ 554,739	$
Accounts receivable	56,613	
Other current assets	904,791	
Non current assets	365,190	
Total assets acquired	1,881,333	
Accounts payable and accrued expenses	69,516	
Taxes payable	459,462	
Social security payable	243,141	
Non current liabilities	14,000	
Provisions	408,336	
Total liabilities assumed	1,194,455	
Net assets acquired	686,878	
Goodwill	13,037,504	
Trademarks	5,622,188	
Deferred Income Tax on Trademarks	(1,967,766)	
Total purchase price	17,378,804	
Cash and cash equivalents acquired	(554,739)	
Payment for purchase of Classified Media, net of cash acquired	$ 16,824,065	$

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

Table of Contents

MercadoLibre, Inc.

Notes to Condensed Consolidated Financial Statements (unaudited)

1. Nature of Business

MercadoLibre Inc. (the Company) is a marketplace manager. The Company s mission is to build an online marketplace that enables practically anyone to trade almost anything in Latin America, helping to make inefficient markets more efficient.

We operate in several reporting segments. The MercadoLibre marketplace segments include Brazil, Argentina, Mexico and Other countries (Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Panama, Peru, Uruguay and Venezuela). The MercadoPago segment includes our regional payments platform consisting of our MercadoPago business includes our regional payments platform available in Brazil, Argentina, Mexico and Other countries (Chile, Colombia, and Venezuela).

Traditional offline marketplaces can be inefficient because they (i) are fragmented and regional, (ii) offer a limited variety and breadth of goods, (iii) have high transaction costs, and (iv) provide buyers with less information upon which they can make decisions. The Company makes these inefficient marketplaces more efficient because i) its community of users can easily and inexpensively communicate and complete transactions, ii) its marketplace includes a very wide variety and selection of goods, and iii) it brings buyers and sellers together for much lower fees than traditional intermediaries. The Company attracts buyers by offering selection, value, convenience and entertainment, and sellers by offering access to broad markets, efficient marketing and distribution costs, ability to maximize prices and opportunity to increase sales.

The Company pioneered online commerce in the region by developing a Web-based community in which buyers and sellers are brought together to browse, buy and sell items such as computers, electronics, collectibles, automobiles and a host of practical and miscellaneous items. The Company s trading platform is a fully automated, topically arranged, intuitive, and easy-to-use online service that is available 24 hours-a-day, seven-days-a-week. The Company s platform supports a fixed price format in which sellers and buyers trade items at a fixed price established by sellers, and an auction format in which sellers list items for sale and buyers bid on items of interest.

Providing more efficient and effective payment methods from buyers to sellers is essential to creating a faster, easier and safer online commerce experience. Traditional payment methods such as bank deposits and cash on delivery present various obstacles to the online commerce experience, including lengthy processing time, inconvenience and high costs. The Company addressed this opportunity through the introduction in 2004 of MercadoPago, an integrated online payments solution. MercadoPago was designed to facilitate transactions on the MercadoLibre Marketplace by providing an escrow mechanism that enables users to securely, easily and promptly send and receive payments online, and has experienced consistent growth since its launch.

In 2004, the Company introduced an online classified advertisements service platform for motor vehicles, vessels and aircrafts. Buyers usually require a physical inspection of these items or specific types of interaction before completing a transaction, and therefore a classified advertisements service is better suited for these types of items than the traditional online purchase method. For these items, buyers can search by make, model, year and price, and sellers can list their phone numbers and receive prospective buyers e-mail addresses, in order to allow for instant and direct communication between sellers and potential buyers.

During 2005, the classified advertisements service platform was expanded to include real estate. Much in the same way as with motor vehicles, vessels and aircrafts, purchases of real estate, require physical inspection of the property and is therefore a business more suited to a classifieds model. For real estate listings, in addition to posting their contact information, individual owners or real estate agents can also upload pictures and videos of the property for sale and include maps of the property s location and layout.

During 2006, the Company launched several initiatives to improve its platform, and expand its reach. Particularly relevant were the launch of a new platform for eShops, 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 a services category. In terms of geographic expansion, the Company launched sites in Costa Rica, the Dominican Republic, and Panama.

Table of Contents

MercadoLibre, Inc.

Notes to Condensed Consolidated Financial Statements (unaudited)

In August 2007, the Company successfully completed its registration process with the United States Securities and Exchange Commission, and completed its initial public offering pursuant to which the Company sold 3,000,000 shares of common stock and certain selling shareholders sold 15,488,762 shares of common stock, resulting in net proceeds for the Company of approximately $49,570,239 million.

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 will be able to transfer money to other users with MercadoPago accounts and to incorporate MercadoPago as a means of payments for their 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.

As of June 30, 2008, 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, Uruguay and Venezuela, and online payments solutions directed towards Argentina, Brazil, Mexico, Venezuela, Chile and Colombia.

2. Summary of Significant Accounting Policies
Basis of presentation

The accompanying condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany transactions and balances have been eliminated. Certain reclassifications have been made to prior years information to conform to current year presentation.

Substantially all revenues and operating costs are generated in the Company s foreign operations, amounting to approximately 97.5% and 98.8% of the consolidated totals during the six-month periods ended June 30, 2008 and 2007, respectively. Long-lived assets located in the foreign operations totaled $46,965,232 and $25,670,051 as of June 30, 2008 and December 31, 2007, respectively. Cash and cash equivalents as well as short-term investments, totaling $49,417,380 and $67,977,414 at June 30, 2008 and December 31, 2007, respectively, are mainly located in the United States.

These unaudited interim financial statements reflect the Company s consolidated financial position as of June 30, 2008 and December 31, 2007. These statements also show the Company s consolidated statement of income, its consolidated statement of shareholders equity (deficit) and its consolidated statement of cash flows for the six months ended June 30, 2008 and 2007. These statements include all normal recurring adjustments that management believes are necessary to fairly state the Company s financial position, operating results and cash flows. Because all of the disclosures required by generally accepted accounting principles in the United States of America for annual consolidated financial statements are not included herein, these interim financial statements should be read in conjunction with the audited financial statements and the notes thereto for the year ended December 31, 2007, filed with the Securities and Exchange Commission on March 31, 2008. The condensed consolidated statements of income, shareholders equity (deficit) and cash flows for the periods presented are not necessarily indicative of results expected for any future period.

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 $2,148,755 and $1,127,361 for the three-month periods ended June 30, 2008 and 2007, respectively. Taxes on revenues totaled $3,841,083 and $2,045,173 for the six-month periods ended June 30, 2008 and 2007, respectively.

Income and Asset Taxes

The Company is subject to a recently enacted Mexican business flat tax called Impuesto Empresarial a Tasa Unica (IETU). The Company pays the higher of IETU or income tax. Although the Mexican subsidiary had net operating loss carryforward (NOL s) as of June 30, 2008, it had to pay IETU for the three-month period ended June 30, 2008. Once NOL s are consumed, the Company expects it will only accrue and pay Income Tax. The effect of IETU has been included in the income / asset tax expense line for the three and six-month periods ended June 30, 2008 for approximately $176,827 and $573,039, respectively.

Table of Contents

MercadoLibre, Inc.

Notes to Condensed Consolidated Financial Statements (unaudited)

Our 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, for 10 years.

Use of estimates

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

Fair Value Measurements

Effective January 1, 2008, the Company adopted Statement of Financial Accounting Standards (FAS) No. 157, Fair Value Measurements (FAS 157). In February 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) No. FAS 157-2, Effective Date of FASB Statement No. 157, which provides a one year deferral of the effective date of FAS 157 for non-financial assets and non-financial liabilities, except those that are recognized or disclosed in the financial statements at fair value at least annually. Therefore, the Company has adopted the provisions of FAS 157 with respect to its financial assets and liabilities only. The adoption of FAS 157 did not have a material impact on the consolidated results of operations or financial condition. See note 6 for further details.

Recent Accounting Pronouncements

1. Business Combinations

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141 (revised 2007), Business Combinations (SFAS 141 R). This Statement replaces SFAS 141, Business Combinations . This Statement retains the fundamental requirements in Statement 141 that the acquisition method of accounting (which Statement 141 called the purchase method) be used for all business combinations. This Statement defines the acquirer as the entity that obtains control of one or more businesses in the business combination and establishes the acquisition date as the date that the acquirer achieves control. Statement 141 did not define the acquirer, although it included guidance on identifying the acquirer, as does this Statement. This Statement s scope is broader than that of Statement 141, which applied only to business combinations in which control was obtained by transferring consideration.

This Statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. An entity may not apply it before that date.

2. Noncontrolling Interests in Consolidated Financial Statements

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51 (SFAS 160). This Statement amends ARB Nº 51 to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. This Statement is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Earlier adoption is prohibited.

Table of Contents

MercadoLibre, Inc.

Notes to Condensed Consolidated Financial Statements (unaudited)

3. Fair Value of Stock Options

On December 27, 2007, the Securities and Exchange Commission issued staff accounting bulletin Nº 110 (SAB No. 110) expresses the views of the staff regarding the use of a simplified method, as discussed in SAB No. 107 (SAB 107), in developing an estimate of expected term of plain vanilla share options in accordance with Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment*. In particular, the staff indicated in SAB 107 that it will accept a company s election to use the simplified method, regardless of whether the company has sufficient information to make more refined estimates of expected term. At the time SAB 107 was issued, the staff believed that more detailed external information about employee exercise behavior (e.g., employee exercise patterns by industry and/or other categories of companies) would, over time, become readily available to companies. Therefore, the staff stated in SAB 107 that it would not expect a company to use the simplified method for share option grants after December 31, 2007. The staff understands that such detailed information about employee exercise behavior may not be widely available by December 31, 2007. Accordingly, the staff will continue to accept, under certain circumstances, the use of the simplified method beyond December 31, 2007.

4. Determination of the useful life of intangible assets

In April 2008, the FASB issued FASB Staff Position 142-3, Determination of the Useful Life of Intangible (FSP 142-3). Under FSP 142-3, for renewable intangible assets acquired in fiscal years beginning after 15 December 2008, an entity should consider its own historical experience in renewing or extending similar arrangements when developing its assumptions about renewals or extensions used to determine the useful life of an intangible asset; however, these assumptions should be adjusted for the entity specific factors in paragraph 11 of FAS 142. In the absence of that experience, an entity should consider the assumptions that market participants would use about renewals or extensions (consistent with the highest and best use of the asset by market participants), adjusted for the entity specific factors in paragraph 11 of FAS 142. The Company will evaluate the impact of FSP 142-3 on its financial statements.

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.

Net income available to common shareholders is computed by deducting from net income accretion of preferred stock.

The Company s mandatorily redeemable convertible preferred stock outstanding until August 15, 2007 was a participating security. Accordingly, net income for the three- and six-month periods ended June 30, 2007, was allocated between common stock and preferred stock under the two class method for purposes of computing basic earnings per share. Subsequent to conversion, on August 15, 2007 the common shares issued were included in the weighted average calculation of shares outstanding used for both basic and diluted earnings per share.

Diluted earnings per share for the Company s common stock assumes the exercise of outstanding stock options under the Company s stock based employee compensation plans.

For diluted earnings per common share, net income was also allocated between common stock and preferred stock under the two class method because assuming that mandatorily redeemable convertible preferred stock is fully converted into common stock would result in the same dilutive effect.

MercadoLibre, Inc.

Notes to Condensed Consolidated Financial Statements (unaudited)

The following table shows how net income is allocated using the two-class method for earnings per common share, for the three-month periods ended June 30, 2008 and 2007:

	Three Months Ended June 30,			
	2008		2007	
	Basic	Diluted	Basic	Diluted
Net income	$ 2,947,095	$ 2,947,095	$ 590,886	$ 590,886
Accretion of preferred stock			(123,720)	(123,720)
Net income available to common shareholders	$ 2,947,095	$ 2,947,095	$ 467,166	$ 467,166
Net income available to common shareholders attributable to preferred stock			(311,588)	(307,452)
Net income available to common shareholders attributable to common stock	$ 2,947,095	$ 2,947,095	$ 155,578	$ 159,714

The following table shows how net income is allocated using the two-class method for earnings per common share, for the six-month periods ended June 30, 2008 and 2007:

	Six Months Ended June 30,			
	2008		2007	
	Basic	Diluted	Basic	Diluted
Net income	$ 5,014,772	$ 5,014,772	$ 1,585,073	$ 1,585,073
Accretion of preferred stock			(247,439)	(247,439)
Net income available to common shareholders	$ 5,014,772	$ 5,014,772	$ 1,337,634	$ 1,337,634
Net income available to common shareholders attributable to preferred stock			(894,345)	(880,332)
Net income available to common shareholders attributable to common stock	$ 5,014,772	$ 5,014,772	$ 443,289	$ 457,302

Table of Contents

MercadoLibre, Inc.

Notes to Condensed Consolidated Financial Statements (unaudited)

Net income per share of common stock is as follows for the three-month periods ended June 30, 2008 and 2007:

	Three Months Ended June 30,			
	2008		2007	
	Basic	Diluted	Basic	Diluted
Net income available to common shareholders per common share	$ 0.07	$ 0.07	$ 0.01	$ 0.01
Numerator:				
Net income available to common shareholders	$ 2,947,095	$ 2,947,095	$ 155,578	$ 159,714
Denominator:				
Weighted average of common stock outstanding for Basic earnings per share	44,238,166	44,238,166	13,575,158	13,575,158
Adjustment for restricted shares		806		
Adjustment for stock options		130,345		411,970
Adjusted weighted average of common stock outstanding for Diluted earnings per share	44,238,166	44,369,317	13,575,158	13,987,128

Net income per share of common stock is as follows for the six-month periods ended June 30, 2008 and 2007:

	Six Months Ended June 30,			
	2008		2007	
	Basic	Diluted	Basic	Diluted
Net income available to common shareholders per common share	$ 0.11	$ 0.11	$ 0.03	$ 0.03
Numerator:				
Net income available to common shareholders	$ 5,014,772	$ 5,014,772	$ 443,289	$ 457,302
Denominator:				
Weighted average of common stock outstanding for Basic earnings per share	44,238,146	44,238,146	13,475,873	13,475,873
Adjustment for Stock Options		129,308		510,834
Adjustment for Restricted Shares		392		
Adjusted weighted average of common stock outstanding for Diluted earnings per share	44,238,146	44,367,846	13,475,873	13,986,707

The calculation of diluted net income per share excludes all anti-dilutive shares. For the three- and six-month periods ended June 30, 2008 and 2007, the numbers of anti-dilutive shares are as follows:

	Six Months Ended June 30,		Three Months Ended June 30,	
	2008	2007	2008	2007
Anti-dilutive shares				
Warrants		184,272		184,272
Restricted shares	14,096		13,289	
	14,096	184,272	13,289	184,272

14

Table of Contents

MercadoLibre, Inc.

Notes to Condensed Consolidated Financial Statements (unaudited)

4. Business Combinations, Goodwill and Intangible Assets

Business Combinations

On January 22, 2008, the Company completed the acquisition of 100% of the issued and outstanding shares of capital stock of CMG Classified Media Group, Inc. (CMG) and its subsidiaries from 2050 Capital Group Inc., a Panama corporation, Abax Group Inc., a Panama corporation, Gabinete De Diseño Industrial Inc., a Panama corporation, Stamford One Group Ltd., a British Virgin Islands limited company, EO Financial Group Inc., a Panama corporation, Meck Investments Ltd., a British Virgin Islands limited company, CG Interventures Inc., a Panama corporation, and other individuals (the Sellers). CMG and its subsidiaries operate an online classified advertisements platform primarily dedicated to the sale of automobiles (at www.tucarro.com) in Colombia, Venezuela and Puerto Rico and real estate (at www.tuinmueble.com) in Venezuela, Colombia, Panama, the United States, Costa Rica and the Canary Islands. This acquisition allows the Company to expand its operations mainly in Venezuela and Colombia, solidify its market leadership position in those countries and continue growing of online classified advertisements platform in the locations were the acquired company operates.

On the acquisition date, the Company paid in cash $ 19,000,000.

The purchase price for the shares of CMG and its subsidiaries was $17,024,380, subject to an escrow to cover unexpected liabilities and working capital adjustments. In addition, acquisition costs amounting to $ 204,424 were considered in the purchase price allocation as part of the aggregate purchase price. As of May 7, 2008, the Company has paid $150,000 related to certain working capital adjustments. On the Closing Date, an aggregate of $1,975,620, was placed into an escrow account for a period of twelve (12) months after the Closing Date, in order to secure the obligations of the former CMG shareholders that remained as managers, pursuant to each of their respective employment agreements.

Under EITF 95-8 Accounting for Contingent Consideration Paid to the Shareholders of an Acquired Enterprise in a Purchase Business Combination the Company has recognized this contingent consideration paid to the former shareholders, as compensation for services. On May 12, 2008, the Company and these former shareholders agreed to an early release of the $1,975,620 escrow on or before June 30, 2008, in exchange for a discount to the Company.

On June 27, 2008, the Company released to the former CMG shareholders $ 1,919,870 in full satisfaction of the management escrow after deducting the aforementioned discount.

As of June 30, 2008, the accrued compensation expenses related to escrow release that were included in Compensation costs related to CMG acquisition operating expenses were $ 1,919,870.

The accrued compensation expenses for the three-month period ended June 30, 2008 totaled $1,546,397.

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

Purchase Price	$ 17,024,380
Post-closing working capital adjustments	150,000
Direct cost of the business combination	204,424
Total aggregate purchase price	$ 17,378,804

Compensation Cost	1,919,870
Total Cash paid	$ 19,298,674

15

Table of Contents

MercadoLibre, Inc.

Notes to Condensed Consolidated Financial Statements (unaudited)

From the acquisition date, the acquired company results of operations have been included in the Company s income statement.

The following table summarizes an allocation of the purchase price for the companies acquired in the transaction (in thousands):

Company Name	Country	Post Acquisition Ownership	Net Tangible Assets / (Liabilities)	Identifiable Intangible Assets	Deferred Tax Liabilities	Goodwill	Aggregate Purchase Price
CMG Classified Media Group Inc.	Panama	100%	$ 846.3	$	$	$	$ 846.3
Venecapital Group Inc.	Panama	100%	(26.8)				(26.8)
Grupo Veneclasificados C.A.	Venezuela	100%	(125.4)	4,934.2	(1,727.0)	11,442.0	14,523.8
Clasificados Internacionales S.A.	Panama	100%	(44.8)				(44.8)
ColClasificados S.A.	Colombia	100%	36.4	688.0	(240.8)	1,595.5	2,079.1
Clasificados Florida LLC	USA	100%	1.2				1.2
Total			$ 686.9	$ 5,622.2	$ (1,967.8)	$ 13,037.5	$ 17,378.8

Tangible net assets were valued at their respective carrying amounts adjusted to US GAAP since the management of the Company believes that these amounts approximated their current fair values at the acquisition date. The valuation of identifiable intangible assets acquired reflects management s estimates based on, among other factors, use of established valuation methods. Such assets consist of trademarks and trade names for a total amount of $5,622,188.

Management estimates that trademarks have an indefinite lifetime. For that reason, these intangible assets are not amortized but they are subject to an annual impairment test.

The goodwill of $ 13,037,504 is not expected to be deductible for tax purposes.

Goodwill and Intangible Assets

The composition of goodwill and intangible assets is as follows:

	June 30, 2008	December 31, 2007
Indefinite lived assets		
- Goodwill	$ 37,897,332	$ 23,000,467
- Trademarks	5,638,328	
Amortizable intangible assets		
- Licenses and others	1,419,609	1,352,945
- Non-compete agreement	813,494	731,101
- Customer list	649,444	597,257

Total intangible assets	$ 46,418,207	$ 25,681,770
Accumulated amortization	(2,525,026)	(2,253,124)