MERCADOLIBRE INC
Form 10-Q
May 07, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2015

-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)

(+5411) 4640-8000

(Registrant's telephone number, including area code)

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

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

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

44,154,932 shares of the issuer's common stock, $0.001 par value, outstanding as of May 4, 2015.

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Interim Condensed Consolidated Financial Statements

as of March 31, 2015 and December 31, 2014

and for the three-month periods

ended March 31, 2015 and 2014

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MercadoLibre, Inc.

Interim Condensed Consolidated Balance Sheets

As of March 31, 2015 and December 31, 2014

(In thousands of U.S. dollars, except par value)

	March 31, 2015 (Unaudited)	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	$ 219,768	$ 223,144
Short-term investments	148,052	148,810
Accounts receivable, net	54,054	46,672
Credit cards receivables, net	133,644	85,162
Prepaid expenses	6,433	3,458
Deferred tax assets	11,222	11,520
Other assets	15,002	13,984
Total current assets	588,175	532,750
Non-current assets:		
Long-term investments	190,152	205,265
Property and equipment, net	75,945	91,545
Goodwill	65,577	68,829
Intangible assets, net	22,801	23,171
Deferred tax assets	13,817	21,554
Other assets	20,316	23,734
Total non-current assets	388,608	434,098
Total assets	$ 976,783	$ 966,848
Liabilities and Equity		
Current liabilities:		
Accounts payable and accrued expenses	$ 58,160	$ 58,006
Funds payable to customers	193,188	165,034
Salaries and social security payable	36,212	28,777
Taxes payable	23,733	26,013
Loans payable and other financial liabilities	1,565	1,642
Deferred tax liabilities	1,673	1,645
Other liabilities	4,081	4,176
Dividends payable	4,548	7,330
Total current liabilities	323,160	292,623

Non-current liabilities:		
Salaries and social security payable	12,193	11,326
Loans payable and other financial liabilities	286,180	282,184
Deferred tax liabilities	18,774	18,746
Other liabilities	5,358	6,181
Total non-current liabilities	322,505	318,437
Total liabilities	$ 645,665	$ 611,060
Commitments and contingencies (Note 7)		
Equity:		
Common stock, $0.001 par value, 110,000,000 shares authorized, 44,154,932 and 44,154,572 shares issued and outstanding at March 31, 2015 and December 31, 2014, respectively	$ 44	$ 44
Additional paid-in capital	137,692	137,645
Retained earnings	350,346	353,173
Accumulated other comprehensive loss	(156,964)	(135,074)
Total Equity	331,118	355,788
Total Liabilities and Equity	$ 976,783	$ 966,848

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

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MercadoLibre, Inc.

Interim Condensed Consolidated Statements of Income

For the three-month periods ended March 31, 2015 and 2014

(In thousands of U.S. dollars, except for share data)

	Three Months Ended March 31,	
	2015	2014
	(Unaudited)	
Net revenues	$ 148,103	$ 115,382
Cost of net revenues	(44,708)	(31,540)
Gross profit	103,395	83,842
Operating expenses:		
Product and technology development	(17,245)	(12,257)
Sales and marketing	(26,202)	(22,352)
General and administrative	(18,134)	(15,232)
Impairment of Long-Lived Assets	(16,226)	—
Total operating expenses	(77,807)	(49,841)
Income from operations	25,588	34,001
Other income (expenses):		
Interest income and other financial gains	4,308	3,036
Interest expense and other financial losses	(4,950)	(1,027)
Foreign currency (losses) gains	(8,570)	3,093
Net income before income / asset tax expense	16,376	39,103
Income / asset tax expense	(14,655)	(8,775)
Net income	$ 1,721	$ 30,328
Less: Net Income attributable to Redeemable Noncontrolling Interest	—	64
Net income attributable to MercadoLibre, Inc. shareholders	$ 1,721	$ 30,264

	Three Months Ended March 31,	
	2015	2014
	(Unaudited)	
Basic EPS		
Basic net income attributable to MercadoLibre, Inc. Shareholders per common share	$ 0.04	$ 0.69

Weighted average of outstanding common shares	44,154,796	44,153,818
Diluted EPS		
Diluted net income attributable to MercadoLibre, Inc.		
Shareholders per common share	$ 0.04	$ 0.69
Weighted average of outstanding common shares	44,154,796	44,153,818
Cash Dividends declared	0.103	0.166

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

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MercadoLibre, Inc.

Interim Condensed Consolidated Statements of Comprehensive Income

For the three-month periods ended March 31, 2015 and 2014

(In thousands of U.S. dollars)

	Three Months Ended March 31,	
	2015	2014
	(Unaudited)	
Net income	$ 1,721	$ 30,328
Other comprehensive (loss) income, net of income tax:		
Currency translation adjustment	(22,530)	(16,611)
Unrealized net gains on available for sale investments	261	38
Less: reclassification adjustment for gains (losses) on available for sale investments included in net income	379	(25)
Net change in accumulated other comprehensive loss, net of income tax	(21,890)	(16,598)
Total comprehensive (loss) income	$ (20,169)	$ 13,730
Less: Comprehensive income attributable to Redeemable Noncontrolling Interest	—	72
Comprehensive (loss) income attributable to MercadoLibre, Inc. Shareholders	$ (20,169)	$ 13,658

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

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MercadoLibre, Inc.

Interim Condensed Consolidated Statements of Cash Flow

For the three-month periods ended March 31, 2015 and 2014

(In thousands of U.S. dollars)

	Three Months Ended March 31,	
	2015	2014
	(Unaudited)	
Cash flows from operations:		
Net income attributable to MercadoLibre, Inc. Shareholders	$ 1,721	$ 30,264
Adjustments to reconcile net income to net cash provided by operating activities:		
Net income attributable to Redeemable Noncontrolling Interest	—	64
Devaluation Loss (Gain), net	10,862	(2,658)
Impairment of Long-Lived Assets	16,226	—
Depreciation and amortization	5,081	3,519
Accrued interest	(2,780)	(2,019)
Convertible bonds accrued interest and amortization of debt discount	3,984	—
Long Term Retention Program accrued compensation	3,327	766
Deferred income taxes	6,118	(4,675)
Changes in assets and liabilities:		
Accounts receivable	(27,923)	(9,410)
Credit Card Receivables	(54,763)	(9,871)
Prepaid expenses	(3,451)	(962)
Other assets	(2,306)	925
Accounts payable and accrued expenses	30,395	11,755
Funds payable to customers	48,683	7,366
Other liabilities	181	318
Interest received from investments	2,824	2,246
Net cash provided by operating activities	38,179	27,628
Cash flows from investing activities:		
Purchase of investments	(420,070)	(386,755)
Proceeds from sale and maturity of investments	431,636	379,720
Purchases of intangible assets	(942)	(144)

Purchases of property and equipment	(7,315)	(6,966)
Net cash provided by (used in) investing activities	3,309	(14,145)
Cash flows from financing activities:		
Payments on loans payable and other financial liabilities	(139)	(582)
Dividends paid	(7,330)	(6,314)
Net cash used in financing activities	(7,469)	(6,896)
Effect of exchange rate changes on cash and cash equivalents	(37,395)	(15,732)
Net decrease in cash and cash equivalents	(3,376)	(9,145)
Cash and cash equivalents, beginning of the period	223,144	140,285
Cash and cash equivalents, end of the period	$ 219,768	$ 131,140

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

MercadoLibre, Inc.

Notes to Interim Condensed Consolidated Financial Statements (unaudited)

1. Nature of Business

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

As of March 31, 2015, the Company, through its wholly-owned subsidiaries, operated online commerce platforms directed towards Argentina, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Mexico, Panama, Peru, Portugal, Uruguay and Venezuela, and online payments solutions directed towards Argentina, Brazil, Mexico, Venezuela, Chile and Colombia. In addition, the Company operates a real estate classified platform that covers some areas of State of Florida, U.S.A.

MercadoPago is currently available to users in each of Argentina, Brazil, Chile, Colombia, Mexico and Venezuela.

MercadoEnvios is currently available to users in Argentina, Brazil and Mexico.

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 U.S. dollars, except for amounts otherwise indicated. Intercompany transactions and balances have been eliminated for consolidation purposes.

Substantially all net revenues, cost of net revenues and operating expenses, are generated in the Company’s foreign operations, amounting to approximately 99.7% and 99.4% of the consolidated amounts during the three-month periods ended March 31, 2015 and 2014. Long-lived assets, Intangible assets and Goodwill located in the foreign operations totaled $152,736 thousands and $170,147 thousands as of March 31, 2015 and December 31, 2014, respectively.

These interim condensed consolidated financial statements reflect the Company's consolidated financial position as of March 31, 2015 and December 31, 2014. These financial statements also show the Company's consolidated statements of income, of comprehensive income and statement of cash flows for the three-month periods ended March 31, 2015 and 2014. These interim condensed consolidated financial statements include all normal recurring adjustments that management believes are necessary to fairly state the Company's financial position, operating results and cash flows.

Because all of the disclosures required by U.S. GAAP for annual consolidated financial statements are not included herein, these unaudited interim condensed financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto for the year ended December 31, 2014, contained in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission ("SEC"). The condensed consolidated statements of income, of comprehensive income and of cash flows for the periods presented herein are not necessarily indicative of results expected for any future period.

Foreign currency translation

Venezuelan currency status

All of the Company's foreign operations have determined the local currency to be their functional currency, except for Venezuela since January 1, 2010, as described below. Accordingly, these foreign subsidiaries translate assets and liabilities from their local currencies into U.S. dollars by using the period-end exchange rates while income and expense accounts are translated at the average rates in effect during the period, unless exchange rates fluctuate significantly during the period, in which case the exchange rates at the date of the transaction are used. The resulting translation adjustment is recorded as a component of other comprehensive (loss) income. Gains and losses resulting from transactions denominated in non-functional currencies are recognized in earnings.

According to U.S. GAAP, the Company has transitioned its Venezuelan operations to highly inflationary status as from January 1, 2010, which requires that transactions and balances are re-measured as if the U.S. dollar were the functional currency for such operation.

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Notes to Interim Condensed Consolidated Financial Statements (unaudited)

During December 2013, the Venezuelan regulation that created the SICAD 1 exchange system was amended to expand its use, and to require publication of the average exchange rate implied by transactions settled in SICAD 1 auctions. Additionally, on January 23, 2014, the exchange regulation was amended to include foreign currency sales for certain transactions, such as but not limited to: contracts for leasing and services, use and exploitation of patents, trademarks, foreign investments and payments of royalties, contracts for technology import and technical assistance. Due to the change in rules that provided for the creation of the SICAD 1 system, the official exchange rate remains only available to obtain foreign currency to pay for a limited list of goods considered to be of high priority by the Government, which does not include those relating to the Company’s business. As a consequence, SICAD 1 became, from that moment, the primary system to which the Company would have to request U.S. dollars to settle its transactions. As a result, from January 24 to May 15, 2014, the exchange rate used to re-measure the Company’s net monetary asset position in Bolivares Fuertes (“BsF”) and BsF transactions of its Venezuelan operations was the SICAD 1 exchange rate.

In late February 2014, the Venezuelan government issued a decree to open a new exchange control mechanism (“SICAD 2”) that was intended to allow the purchase of foreign exchange currencies, through authorized foreign exchange operators offered by individuals and companies such as Petróleos de Venezuela, S.A. (PDVSA, the oil state-owned corporation of Venezuela), the Central Bank of Venezuela (“BCV”) and other public entities authorized by the Ministry of Finance. The Venezuelan government published operating rules for that exchange mechanism in Exchange Agreement N° 27, and SICAD 2 began operating on March 24, 2014. Since implementation of the SICAD 1 system, the Company was unsuccessful in gaining access to U.S. dollars through SICAD 1. As a result of this ongoing lack of access to the SICAD 1 auction system, on May 16, 2014, the Company decided to start requesting U.S. dollars through the SICAD 2 mechanism. The SICAD 2 system was an open mechanism that was intended to permit any company to request dollars for any purpose. Consequently, the Company was eligible for and was granted, U.S. dollars through the SICAD 2 mechanism.

As a consequence of the determination to obtain U.S. dollars through SICAD 2 and the lack of access to SICAD 1, since May 16, 2014 the Company concluded that the SICAD 2 exchange rate should be used to re-measure their bolivar-denominated monetary assets and liabilities in BsF and to re-measure the results of its Venezuelan operations, effective as of May 16, 2014. As a consequence, the Company recorded a foreign exchange loss of $16.5 million during the second quarter of 2014.

In light of those economic conditions in Venezuela, the determination to access SICAD 2 and re-measure the BsF denominated monetary assets and liabilities of its Venezuelan subsidiaries, and the lower U.S. dollar-equivalent cash flows then expected from the Venezuelan business, the Company reviewed in May 2014, the long-lived assets, goodwill and intangible assets with indefinite useful life for impairment. For that purpose, the Company considered the current expected use of these assets, which in the case of two office spaces in Venezuela that had been expected to be used to support the growth of the main operating activities in that country, are currently for rent, and eventually consider opportunities for disposal if real estate market conditions are favorable in the future. Because the Company concluded that the carrying value of these two real estate properties would not be fully recoverable, it recorded an impairment of long-lived assets of $49.5 million in the second quarter of 2014. The carrying amount was adjusted to its estimated fair value of that date, by using the market approach, and considering prices for similar assets.

Later, on February 10, 2015, the Venezuelan government issued a decree that unified the two previous foreign exchange systems “SICAD 1 and SICAD 2” into a new single system denominated SICAD, with an initial public foreign exchange rate of 12 BsF per U.S. dollar. The SICAD auction process remains available only to obtain foreign currency to pay for a limited list of goods considered to be of high priority by the Venezuelan government, which does not include those relating to the Company’s business. In the same decree the Venezuelan government created the “Sistema Marginal de Divisas” (“SIMADI”), a new foreign exchange system that is separate from SICAD, which publishes a foreign exchange rate from the BCV on a daily basis.

In light of the disappearance of SICAD 2, and the Company’s inability to gain access to U.S. dollars through the new single system under SICAD, it started requesting and has been granted U.S. dollars through SIMADI. As a result, the Company now expects to settle its transactions through SIMADI and has concluded that the SIMADI exchange rate should be used to re-measure its bolivar-denominated monetary assets and liabilities and to re-measure the revenues and expenses of the Venezuelan subsidiaries effective as of March 31, 2015. In connection with this re-measurement, the Company recorded a foreign exchange loss of $20.4 million during the first quarter of 2015. As of March 31, 2015, the SIMADI exchange rate was 192.95 BsF per U.S. dollar.

Considering this change in facts and circumstances and the lower U.S. dollar-equivalent cash flows now expected from the Venezuelan business, the Company has reviewed its long-lived assets, goodwill and intangible assets with indefinite useful life for impairment and concluded that the carrying value of certain real estate investments in Venezuela as of March 31, 2015 will not be fully recoverable. As a result, the Company has recorded an impairment of long-lived assets of $ 16.2 million on March 31, 2015. The carrying amount has been adjusted to its estimated fair value of approximately $9.2 million as of that date, by using the market approach, and considering prices for similar assets.

Until 2010 the Company was able to obtain U.S. dollars for any purpose, including dividends distribution, using alternative mechanisms other than through the Commission for the Administration of Foreign Exchange Control (CADIVI). Those U.S.

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Notes to Interim Condensed Consolidated Financial Statements (unaudited)

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. The Venezuelan subsidiaries have not requested authorization since 2012 to acquire U.S. dollars to make dividend distributions. The Company has not distributed dividends from the Venezuelan subsidiaries since 2011.

The following table sets forth the assets, liabilities and net assets of the Company's Venezuelan subsidiaries, before intercompany eliminations, as of March 31, 2015 and December 31, 2014 and net revenues for the three-month periods ended March 31, 2015 and 2014:

	Three-month periods ended March 31,	
	2015	2014
Venezuelan operations	(In thousands)	
Net Revenues	$ 13,955	$ 19,357

	March 31, 2015	December 31, 2014
Assets	41,587	75,153
Liabilities	(38,565)	(43,359)
Net Assets	$ 3,022	$ 31,794

As of March 31, 2015, net assets (before intercompany eliminations) of the Venezuelan subsidiaries amounted to approximately 0.9% of consolidated net assets, and cash and investments of the Venezuelan subsidiaries held in local currency in Venezuela amounted to approximately 1.3% of our consolidated cash and investments.

The Company's ability to obtain U.S. dollars in Venezuela is negatively affected by the exchange regulations in Venezuela that are described above and elsewhere in these financial statements. In addition, its business and ability to obtain U.S. dollars in Venezuela would be negatively affected by additional material devaluations or the imposition of significant additional and more stringent controls on foreign currency exchange by the Venezuelan government.

Despite the current difficult macroeconomic environment in Venezuela, the Company continues to actively manage, through its Venezuelan subsidiaries, its investment in Venezuela. Regardless the current operating, political and economic conditions and certain other factors in Venezuela, management currently plans to continue supporting its business in Venezuela in the long run.

Argentine currency status

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

Further, restrictions also currently apply to the acquisition of any foreign currency for holding as cash within Argentina. Although the controls and restrictions on the acquisition of foreign currencies in Argentina place certain limitations on our current ability to convert cash generated by our Argentine subsidiaries into foreign currencies, based on the current state of Argentine currency rules and regulations, we do not expect that the current controls and restrictions, will have a material adverse effect on our business plans in Argentina or on our overall business, financial condition or results of operations.

Additionally, during January 2014 the Argentinean peso exchange rate against the U.S. dollar increased in approximately 23%, from 6.52 Argentinean Pesos per U.S. dollar as of December 31, 2013 to approximately 8.0 Argentinean Pesos per U.S. dollar. Due to the abovementioned devaluation, during the first quarter of 2014, the reported net assets in Argentina decreased in $14,625 thousands with the related impact in Other Comprehensive Income and the Company recognized a foreign exchange gain of $4,597 thousands. As of March 31, 2015, the Argentinean Peso exchange rate was $8.82 per U.S. dollar.

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Notes to Interim Condensed Consolidated Financial Statements (unaudited)

Income Tax Holiday in Argentina

According to Argentine law, from fiscal year 2008, the Company's Argentine subsidiary was a beneficiary of a software development law. Part of the benefits obtained from being a beneficiary of the aforementioned law was a relief of 60% of total income tax determined in each year, thus resulting in an effective tax rate in Argentina lower than the income tax law statutory rate. The law expired on September 17, 2014. As a consequence, the average tax rate for 2014 was approximately 22% as we expected no income tax holiday for last quarter of fiscal year 2014.

Aggregate tax benefit totaled $2,102 thousands and aggregate per share effect of the Argentine tax holiday amounted to $0.05 for the three-month period ended March 31, 2014. In addition, during fiscal year 2013 and on December 15, 2014 the Company acquired a software development company, located in the Province of Cordoba and the City of Buenos Aires, Argentina, which were also beneficiaries of the aforementioned income tax holiday, however the total benefit obtained is immaterial.

On August 17, 2011, the Argentine government issued a new software development law and on September 9, 2013 the regulatory decree was issued, which established the new requirement to become beneficiary of the new software development law. The new decree establishes compliance requirements with annual incremental ratios related to exports of services and research and development expenses that must be achieved to remain within the tax holiday. The Argentine operation will have to achieve certain required ratios annually under the new software development law.

If we are successful in being admitted as beneficiaries under the new law, we estimate that the Argentine effective income tax rate would be materially lower than the statutory income tax rate. Also, the tax holiday under the new law would last until 2019.

The Industry Secretary resolution which rules, among other provisions, on the mechanism to file the information to obtain the benefits derived from the new software development law was issued in late February 2014. During May 2014, the Company presented all the required documentation in order to apply for the new software development law. At the date of issuance of these interim condensed consolidated financial statements, the Industry Secretary resolution which approves the Company's application is still pending, and for that reason no tax holiday was recorded for the three-month period ended March 31, 2015.

Accumulated other comprehensive income

The following table sets forth the Company's accumulated other comprehensive income as of March 31, 2015 and the year ended December 31, 2014:

	March 31,	December 31,

	2015		2014	
	(In thousands)			
Foreign currency translation	$	(157,225)	$	(134,695)
Unrealized gain (loss) on investments	396		(578)	
Estimated tax (loss) gain on unrealized gains on investments	(135)		199	
	$	(156,964)	$	(135,074)

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MercadoLibre, Inc.

Notes to Interim Condensed Consolidated Financial Statements (unaudited)

The following tables summarize the changes in accumulated balances of other comprehensive income for the three-month period ended March 31, 2015 and the year ended December 31, 2014:

	Unrealized Gains (Losses) on Investments		Foreign Currency Translation		Estimated tax (expense) benefit		Total
	(In thousands)						
Balances as of December 31, 2014	$	(578)	$	(134,695)	$	199	$ (135,074)
Other comprehensive loss before reclassification adjustments for gains on available for sale investments	396		(22,530)		(135)		(22,269)
Amount of gain (loss) reclassified from accumulated other comprehensive income to net income	578		—		(199)		379
Net current period other comprehensive loss	974		(22,530)		(334)		(21,890)
Balances as of March 31, 2015	$	396	$	(157,225)	$	(135)	$ (156,964)

Details about Accumulated Other Comprehensive Income Components for the three-month period ended March 31, 2015	Amount of Gain (Loss) Reclassified from Accumulated Other Comprehensive Income		Affected Line Item in the Statement of Income
	(In thousands)		
Unrealized losses on investments	$	(578)	Interest income and other financial gains
Estimated tax gain on unrealized losses on investments	199		Income / asset tax expense
Total reclassifications for the period	$	(379)	Total, net of income taxes

Impairment of long-lived assets

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable.

As explained in section "Foreign Currency Translation" of the present Note to these interim condensed consolidated financial statements, in first quarter of 2015, as a result of the disappearance of SICAD 2 in February 2015 and the Company's inability to gain access to U.S. dollars through the new single system under SICAD, it started requesting and has been granted U.S. dollars through SIMADI. As a result, the Company now expects to settle its transactions through SIMADI and has concluded that the SIMADI exchange rate should be used to re-measure its bolivar-denominated monetary assets and liabilities and to re-measure the revenues and expenses of the Venezuelan subsidiaries effective as of March 31, 2015.

Considering these changes in facts and circumstances and the lower U.S. dollar-equivalent cash flows expected from the Venezuelan business, and long-lived assets expected use, the Company compared the carrying amount of the long-lived assets with the expected undiscounted future net cash flows and concluded that certain office spaces held in Caracas, Venezuela, should be impaired. As a consequence, the Company estimated the fair value of the impaired long-lived assets and recorded impairment losses of $16.2 million on March 31, 2015, by using the market approach and considering prices for similar assets.

Convertible Senior Notes

On June 30, 2014, the Company issued $330 million of 2.25% convertible senior notes due 2019 (the "Notes"). The Notes are unsecured, unsubordinated obligations of the Company, which pay interest in cash semi-annually, on January 1 and July 1, at a rate of 2.25% per annum. The Notes will mature on July 1, 2019 unless earlier repurchased or converted in accordance with their terms prior to such date. The Notes may be converted, under specific conditions, based on an initial conversion rate of 7.9353 shares of common stock per $1,000 principal amount of Notes (equivalent to an initial conversion price of approximately $126.02 per share of common stock), subject to adjustment as described in the indenture governing the Notes.

MercadoLibre, Inc.

Notes to Interim Condensed Consolidated Financial Statements (unaudited)

Prior to January 1, 2019, the Notes will be convertible only upon the occurrence of certain events and during certain periods, and thereafter, at any time until the close of business on the second scheduled trading day immediately preceding the maturity date of the Notes. The conversion rate is subject to customary anti-dilution adjustments. Following certain corporate events described in the Indenture that occur prior to the maturity date, the conversion rate will be increased for a holder who elects to convert its Notes in connection with such corporate event in certain circumstances. The Indenture contains customary terms and covenants, including that upon certain events of default occurring and continuing, either the Trustee or the holders of at least 25% in principal amount of the outstanding Notes may declare 100% of the principal of, and accrued and unpaid interest on, all the Notes to be due and payable.

In accordance with ASC 470-20 Debt with Conversion and Other Options, the convertible debt instrument within the scope of the cash conversion subsection, was separated into debt and equity components at issuance and a fair value was assigned. The value assigned to the debt component was the estimated fair value, as of the issuance date, of a similar debt without the conversion feature. As of the issuance date, the Company determined the fair value of the liability component of the Notes based on market data that was available for senior, unsecured nonconvertible corporate bonds issued by comparable companies. The difference between the cash proceeds and this estimated fair value, represents the value assigned to the equity component and was recorded as a debt discount. The debt discount is amortized using the effective interest method from the origination date through its stated contractual maturity date.

The initial debt component of the Notes was valued at $283,015 thousands, based on the contractual cash flows discounted at an appropriate market rate for a non-convertible debt at the date of issuance, which was determined to be 5.55%. The carrying value of the permanent equity component reported in additional paid-in-capital was initially valued at $46,985 thousands. The effective interest rate after allocation of transaction costs to the liability component is 6.1% and is used to amortize the debt discount and transaction costs.

In connection with the issuance of the Notes, the Company paid approximately $19,668 thousands to enter into capped call transactions with respect to its common shares (the “Capped Call Transactions”), with certain financial institutions. The Capped Call Transactions are expected generally to reduce the potential dilution upon conversion of the Convertible Notes and / or offset any cash payments the Company may be required to make in excess of the principal amount of any converted notes in the event that the market price of the common shares is greater than the strike price of the Capped Call Transactions, initially set at $126.02 per common share, which corresponds to the initial conversion price of the Notes and is subject to anti-dilution adjustments substantially similar to those applicable to the conversion rate of the Notes, and have a cap price of approximately $155.78 per common share.

The $19,668 thousands cost of the capped call transactions, which net of deferred income tax effect amounts to $12,784 thousands, is included as a net reduction to additional paid-in capital in the stockholders’ equity section of our consolidated balance sheets.

For more detailed information in relation to the Notes and the Capped Call transactions, see Note 9 to these interim condensed consolidated financial statements.

Use of estimates

The preparation of interim condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates are used for, but not limited to accounting for allowance for doubtful accounts and chargeback provisions, depreciation, amortization, recoverability of goodwill and intangible assets with indefinite useful life, useful life of long-lived assets and intangible assets, impairment of short-term and long-term investments, impairment of long-lived assets, compensation costs relating to the Company’s long term retention plan, fair value of convertible debt note, recognition of income taxes and contingencies. Actual results could differ from those estimates.

Recently issued accounting pronouncements

On January 9, 2015, the FASB issued the ASU 2015-01. This new standard eliminates from general accepted accounting principles the concept of extraordinary items included in Subtopic 225-20. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted provided that the guidance is applied from the beginning of the year of adoption. The adoption of this standard is not expected to have a material impact on the Company’s financial statements.

On February 18, 2015 the FASB issued the ASU 2015-02. The update affects reporting entities that are required to evaluate whether they should consolidate certain legal entities and is effective for fiscal years and interim periods within those fiscal years, beginning after December 15, 2015. The amendments eliminate three of the six conditions for evaluating whether a fee paid to a

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decision maker or a service provider represents a variable interest. The adoption of this standard is not expected to have a material impact on the Company's financial statements.

On April 7, 2015 the FASB issued the ASU 2015-03. To simplify presentation of debt issuance costs, the amendments in this update would require that debt issuance costs be presented in the balance sheet as a direct deduction from the carrying amount of debt liability, consistent with debt discounts or premiums. The amendments in this update are effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. The adoption of this standard is not expected to have a material impact on the Company's financial statements.

On April 15, 2015 the FASB issued the ASU 2015-05. The amendments in this update will help entities evaluate the accounting for fees paid by a customer in a cloud computing arrangement by providing guidance as to whether an arrangement includes the sale or license of software. The amendments will be effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2015. The Company is assessing the effects that the adoption of this accounting pronouncement may have on the Company's financial statements.

On May, 2015 the FASB issued the ASU 2015-07. The amendments in this update remove, from the fair value hierarchy, investments for which the practical expedient is used to measure fair value at net asset value. Instead, an entity is required to include those investments as a reconciling line item so that the total fair value amount of investments in the disclosure is consistent with the amount on the balance sheet. For public companies, this amendment is effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. Early adoption is permitted. The amendment should be applied retrospectively to all periods presented. The Company is assessing the effects that the adoption of this accounting pronouncement may have on the Company's financial statements.

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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, and the corresponding adjustment attributable to changes in redeemable non-controlling interest, by the weighted average number of common shares outstanding during the period.

Diluted earnings per share for the Company's common stock assume the issuance of shares as a consequence of a convertible debt securities conversion event.

The following table shows how net income is allocated using the "if converted" method for earnings per common share for the three-month periods ended March 31, 2015 and 2014:

	Three Months Ended March 31,			
	2015		2014	
	(In thousands)			
	Basic	Diluted	Basic	Diluted
Net income	$ 1,721	$ 1,721	$ 30,328	$ 30,328
Net income attributable to noncontrolling interests	—	—	(64)	(64)
Change in redeemable amount of noncontrolling interest	—	—	61	61
Net income attributable to MercadoLibre, Inc. Shareholders corresponding to common stock	$ 1,721	$ 1,721	$ 30,325	$ 30,325

Net income per share of common stock is as follows for the three-month periods ended March 31, 2015 and 2014:

	Three Months Ended March 31,			
	2015		2014	
	(In thousands, except per share data)			
	Basic	Diluted	Basic	Diluted
Net income attributable to MercadoLibre, Inc. Shareholders per common share	$ 0.04	$ 0.04	$ 0.69	$ 0.69
Numerator:				
Net income attributable to MercadoLibre, Inc. Shareholders	$ 1,721	$ 1,721	$ 30,325	$ 30,325
Denominator:				
Weighted average of common stock outstanding for Basic earnings per share	44,154,796	44,154,796	44,153,818	44,153,818
Adjustment for Convertible Notes	—	—	—	—
Adjusted weighted average of common stock outstanding for Diluted earnings per share	44,154,796	44,154,796	44,153,818	44,153,818

On June 30, 2014, the Company issued the 2.25% Convertible Senior Notes due 2019 (please refer to Note 9 of these interim condensed consolidated financial statements for discussion regarding these debt notes). The conversion of these debt notes are considered for diluted earnings per share utilizing the “if converted” method, the effect of that conversion is not assumed for purposes of computing diluted earnings per share if the effect is antidilutive. For the three-month period ended March 31, 2015, the effect of the Convertible Senior Notes due 2019 on diluted earnings per share was anti-dilutive and, as a consequence, it was not computed for diluted earnings per share.

The denominator for diluted net income per share for the three-month period ended March 31, 2015 does not include any effect from the capped call because it would be antidilutive. In the event of conversion of any or all of the Notes, the shares that would be delivered to the Company under the note hedges are designed to partially neutralize the dilutive effect of the shares that the Company would issue under the Notes.

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4. Business combinations, goodwill and intangible assets

Business combinations

Acquisition of online classifieds advertisement companies in Chile and Mexico

On April 8, 2014, through its subsidiaries Meli Inversiones SpA and Meli Participaciones, S.L., the Company acquired 100% of the issued and outstanding shares of capital stock of the companies VMK S.A., Inmobiliaria Web Chile S. de R.L. de C.V. and Inmuebles Online S.A., companies that operate online classified advertisements platforms dedicated to the sale of real estate in Chile through Portal Inmobiliario brand and in Mexico through Guia de Inmuebles brand, in order to increase its participation on e-commerce business in those countries.

The aggregate purchase price for the acquisition of the 100% of the acquired business was $37,990 thousands, measured at its fair value, amount that included: (i) the total cash payment of $32,148 thousands at closing day; (ii) an escrow of $1,000 thousand held in an escrow agent, according to the stock purchase agreement; (iii) the contingent additional cash considerations and escrows up to $4,621 thousands in case the companies achieve certain revenue performance targets during 2014 and 2015, measured at fair value; and, (iv) an additional price adjustment escrow of $221 thousands, which was paid in January 2015.

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

As of March 31, 2015 and December 31, 2014, the fair value of the contingent consideration recorded is $4,875 thousands and $4,833 thousands, respectively. Contingent additional cash considerations are to be paid after the achievement of the performance targets.

The following table summarizes the definite purchase price allocation (in thousands of U.S. dollars) for the acquisition:

	Chile	Mexico	Total
Cash and cash equivalents	$ 547	$ 474	$ 1,021
Other net tangible assets / (liabilities)	2,306	(2,727)	(421)
Trademarks	5,422	2,155	7,577
Customer Lists	10,104	322	10,426
Software	447	—	447
Non solicitation agreement	587	—	587
Deferred tax assets and liabilities	(2,644)	214	(2,430)

Goodwill	14,709	6,074	20,783
Purchase Price	$ 31,478	$ 6,512	$ 37,990

The purchase price was allocated based on the definite measurement of the fair value of assets acquired and liabilities assumed considering the information available as of the date of these unaudited interim condensed consolidated financial statements. The valuation of identifiable intangible assets acquired reflects management's estimates based on the use of established valuation methods. Such assets consist of trademarks, customer lists, software and non-solicitation agreements for a total amount of $19,036 thousands. Management of the Company estimates that trademarks have an indefinite lifetime and the intangible assets associated with customer list will be amortized over a ten year period. The non-solicitation agreement intangible asset will be amortized over a four year period and the software in three years.

Acquisition of Software Development Company in Argentina

On December 15, 2014, the Company completed, through its subsidiaries Meli Participaciones S.L. and Marketplace Investment LLC, a limited liability company organized under the laws of Delaware, USA (together referred to as the "Buyers"), the acquisition of the 100% of equity interest of Business Vision S.A., a software development company located and organized under the laws of the Buenos Aires City, Argentina. The objective of the acquisition was to enhance the capabilities of the Company in terms of software development.

The aggregate purchase price for the acquisition of the 100% of the acquired business was $4,768 thousands. On such same date, the Buyer paid and agreed to pay the purchase price as follows: i) $3,804 thousands in cash, net of $111 thousands of negative working capital adjustments; ii) set an escrow amounting to $250 thousand for a 24-months period, aiming to cover unexpected adjustments to the initial aggregate purchase price; and iii) set an escrow amounting to $735 thousands, 50% for a 12-months period and 50% for a 24-months period since the closing date.

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The following table summarizes the preliminary purchase price allocation (in thousands of U.S. dollars) for the acquisition:

Cash and cash equivalents	$	81
Other net tangible assets		857
Total net tangible assets acquired		938
Customer Lists		563
Non solicitation agreement		428
Deferred tax assets and liabilities		(300)
Goodwill		3,139
Purchase Price	$	4,768

In the acquisition described above, arising goodwill has been allocated proportionally to each of the segments identified by the Company's management, considering the synergies expected from this acquisition and it is expected that the acquiree will contribute to the earnings generation process of such segments.

The Company recognized goodwill for this acquisition based on management expectation that the acquired businesses will increase the software capabilities of the Company and will improve the Company's business in Latin America.

Goodwill is not deductible for tax purposes, except for the proportion acquired by Meli Inversiones SpA (Chile) of the Portal Inmobiliario brand in Chile.

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

Goodwill and intangible assets

The composition of goodwill and intangible assets is as follows:

	March 31, 2015		December 31, 2014	
	(In thousands)			
Goodwill	$	65,577	$	68,829

Intangible assets with indefinite lives				
— Trademarks	9,986		10,276	
Amortizable intangible assets				
— Licenses and others	5,862		5,111	
— Non-compete / solicitation agreement	1,662		1,829	
— Customer list	10,826		11,294	
Total intangible assets	$	28,336	$	28,510
Accumulated amortization	(5,535)		(5,339)	
Total intangible assets, net	$	22,801	$	23,171

Goodwill

The changes in the carrying amount of goodwill for the three-month period ended March 31, 2015 and the year ended December 31, 2014 are as follows:

	Period ended March 31, 2015 (In thousands)											
	Brazil		Argentina		Chile		Mexico		Venezuela		Colombia	
Balance, beginning of the period	$	10,557	$	11,859	$	19,101	$	15,719	$	5,729	$	4,521
- Effect of exchange rates changes	(1,381)		(376)		(579)		(552)		—		(314)	
Balance, end of the period	$	9,176	$	11,483	$	18,522	$	15,167	$	5,729	$	4,207

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	Year ended December 31, 2014 (In thousands)					
	Brazil	Argentina	Chile	Mexico	Venezuela	Colombia
Balance, beginning of year	$ 10,366	$ 14,676	$ 6,520	$ 11,376	$ 5,252	$ 5,506
- Bussiness Acquisition	1,538	775	14,710	6,293	477	82
- Effect of exchange rates changes	(1,347)	(3,592)	(2,129)	(1,950)	—	(1,067)
Balance, end of the year	$ 10,557	$ 11,859	$ 19,101	$ 15,719	$ 5,729	$ 4,521

Intangible assets with definite useful life

Intangible assets with definite useful life are comprised of customer lists and user base, non-compete and solicitation agreements, acquired software licenses and other acquired intangible assets including developed technologies. Aggregate amortization expense for intangible assets totaled $510 thousands and $159 thousands for the three-month periods ended March 31, 2015 and 2014, respectively.

The following table summarizes the remaining amortization of intangible assets (in thousands of U.S. dollars) with definite useful life as of March 31, 2015:

For year ended 12/31/2015	$ 1,795
For year ended 12/31/2016	2,359
For year ended 12/31/2017	2,091
For year ended 12/31/2018	1,336
Thereafter	5,234
	$ 12,815

5. Segment reporting

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

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

Direct contribution consists of net revenues from external customers less direct costs and any impairment of long lived assets. 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, payroll, 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:

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	Three Months Ended March 31, 2015 (In thousands)					
	Brazil	Argentina	Mexico	Venezuela	Other Countries	Total
Net revenues	$ 68,498	$ 47,431	$ 9,437	$ 13,955	$ 8,782	$ 148,103
Direct costs	(39,681)	(24,785)	(5,969)	(4,204)	(5,172)	(79,811)
Impairment of Long-lived Assets	—	—	—	(16,226)	—	(16,226)
Direct contribution	28,817	22,646	3,468	(6,475)	3,610	52,066
Operating expenses and indirect costs of net revenues						(26,478)
Income from operations						25,588
Other income (expenses):						
Interest income and other financial gains						4,308
Interest expense and other financial losses						