MERCADOLIBRE INC
Form 10-K
February 28, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2011

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission file number 001-33647

MercadoLibre, Inc.

(Exact name of registrant as specified in its charter)

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

Arias 3751, 7th Floor

Buenos Aires, C1430CRG, Argentina,

(Address of principal executive offices)

011-54-11-4640-8000

(Registrant s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Class	Name of Exchange upon Which Registered
Common Stock, $0.001 par value per share	Nasdaq Global Market

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes ¨ No x

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulations S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment of this Form 10-K. ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of large accelerated filer , accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer	x		Accelerated Filer ¨
Non-Accelerated Filer	¨	(Do not check if 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 Act). Yes ¨ No x

The aggregate market value of the registrant s Common Stock, $0.001 par value per share, at June 30, 2011, held by those persons deemed by the registrant to be non-affiliates (based upon the closing sale price of the Common Stock on the Nasdaq Global Market on June 30, 2011) was approximately $2,370,948,321. Shares of the registrant s Common Stock held by each executive officer and director and by each entity or person that, to the registrant s knowledge, owned 10% or more of the registrant s outstanding common stock as of June 30, 2011 have been excluded from this number in that these persons may be deemed affiliates of the registrant. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of February 17, 2012, there were 44,142,020 shares of the registrant s Common Stock, $0.001 par value per share, outstanding.

<u>Documents Incorporated By Reference</u>

Portions of the Company s Definitive Proxy Statement relating to its 2011 Annual Meeting of Stockholders, to be filed with the Securities and Exchange Commission by no later than April 30, 2012, are incorporated by reference in Part III, Items 10-14 of this Annual Report on Form 10-K as indicated herein.

MERCADOLIBRE, INC.

FORM 10-K

FOR FISCAL YEAR ENDED DECEMBER 31, 2011

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Any statements contained in this report that are not statements of historical fact, including statements about our beliefs and expectations, are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 and should be evaluated as such. The words anticipate, believe, expect, intend, plan, estimate, target, project, should, ma similar words and expressions are intended to identify forward-looking statements. These forward-looking statements are contained throughout this report, for example in Risk Factors, Management s Discussion and Analysis of Financial Condition and Results of Operations and Business. Forward-looking statements generally relate to information concerning our possible or assumed future results of operations, business strategies, financing plans, competitive position, industry environment, potential growth opportunities, the effects of future regulation and the effects of competition. Such forward-looking statements reflect, among other things, our current expectations, plans, projections and strategies, anticipated financial results, future events and financial trends affecting our business, all of which are subject to known and unknown risks, uncertainties and important factors (in addition to those discussed elsewhere in this report) that may cause our actual results to differ materially from those expressed or implied by these forward-looking statements. These risks and uncertainties include, among other things:

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

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

government regulation;

litigation and legal liability;

systems interruptions or failures;

our ability to attract and retain qualified personnel;

consumer trends;

security breaches and illegal uses of our services;

competition;

reliance on third-party service providers;

enforcement of intellectual property rights;

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

seasonal fluctuations; and

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

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

These statements are based on currently available information and our current assumptions, expectations and projections about future events. While we believe that our assumptions, expectations and projections are reasonable in view of the currently available information, you are cautioned not to place undue reliance on our forward-looking statements. These statements are not guarantees of future performance. They are subject to future events, risks and uncertainties many of which are beyond our control as well as potentially inaccurate assumptions that could cause actual results to differ materially from our expectations and projections. Some of the material risks and uncertainties that could cause actual results to differ materially from our expectations and projections are described in Item 1A Risk Factors in Part I of this report. You should read that information in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations in Item 7 of Part II of this report and our audited consolidated financial statements and related notes in Item 8 of Part II of this report, as well as the factors discussed in the other reports we file from time to time with the Securities and Exchange Commission. We note such information for investors as permitted by the Private Securities Litigation Reform Act of 1995. There also may be other factors that we cannot anticipate or that are not described in this report, generally because we do not perceive them to be material that could cause results to differ materially from our expectations.

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

PART I

ITEM 1. BUSINESS

MercadoLibre, Inc. (together with its subsidiaries us , we , our or the company) hosts the largest online commerce platform in Latin Americ focused on enabling e-commerce and its related services, and is located at *www.mercadolibre.com*. Our services are designed to provide our users with mechanisms for buying, selling, paying, collecting, generating leads and comparing listings via e-commerce transactions in an effective and efficient manner. We are market leaders in e-commerce in each of Argentina, Brazil, Chile, Colombia, Costa Rica, Ecuador, Mexico, Peru, Uruguay and Venezuela, based on unique visitors and page views during 2011. Additionally, we also operate online commerce platforms in the Dominican Republic, Panama and Portugal.

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

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

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

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

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

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

History of MercadoLibre

In March of 1999, Marcos Galperín, our co-founder and Chief Executive Officer, wrote our business plan while working towards his master s degree in business administration from Stanford Business School. Shortly thereafter, he began to assemble a team of professionals to implement it. We were incorporated in Delaware in October of 1999.

We commenced operations in Argentina in August of 1999, and began operations in other countries subsequently. The following table shows the timeline of different launches and events in each country:

	September 30,	**September 30,**	**September 30,**

Country	MercadoLibre Launch date	Office opening	MercadoPago Launch date
Argentina	August 1999	July 1999	November 2003
Brazil	October 1999	September 1999	January 2004
Mexico	November 1999	October 1999	January 2004

Country	September 30,	September 30, MercadoLibre Launch date	September 30, Office opening	September 30, MercadoPago Launch date
Uruguay		December 1999	September 2004	N/A
Colombia		February 2000	January 2000	December 2007
Venezuela		March 2000	March 2000	April 2005
Chile		March 2000	April 2000 (*)	September 2007
Ecuador		December 2000	N/A	N/A
Peru		December 2004	N/A	N/A
Costa Rica		November 2006	N/A	N/A
Dominican Republic		December 2006	N/A	N/A
Panama		December 2006	N/A	N/A
Portugal		January 2010	N/A	N/A

(*) The office was closed in 2009.

Our business is organized using the same technological platform in each country where we operate. However, each country has its own specific local website which has no interaction with other country sites. For example, searches carried out on our Brazilian site show only results of listings uploaded on that particular site and do not show listings from other countries.

We received two rounds of financing in addition to our initial seed funding. The first round, carried out in November of 1999, raised $7.6 million from investors that included J.P. Morgan Partners BHCA L.P., Flatiron Fund entities and Hicks, Muse, Tate & Furst. The second round of financing occurred in May of 2000 and raised $46.7 million from, among others, Goldman Sachs entities (GS Capital Partners III, L.P., GS Capital Partners III Offshore, L.P. and Goldman Sachs & Co. Verwaltungs GmbH), Capital Riesgo Internet SCR S.A. (CRI Banco Santander Central Hispano), GE Capital Equity Investments, Inc., J.P. Morgan Partners BHCA L.P. and Hicks, Muse, Tate & Furst.

In September 2001, we entered into a strategic alliance with eBay, which became one of our stockholders and started working with us to better serve the Latin American online commerce community. As part of this strategic alliance, we acquired eBay s Brazilian subsidiary at the time, iBazar, and eBay agreed not to compete with us in the region during the term of the agreement. This agreement also provided us with access to certain know-how and experience, which accelerated aspects of our development. The agreement governing our strategic alliance with eBay expired on September 24, 2006. Even though eBay is one of our stockholders, since the termination of this agreement, there are no contractual restrictions preventing eBay from becoming one of our competitors. See Risk Factors Risks related to our business We operate in a highly competitive and evolving market, and therefore face potential reductions in the use of our service.

In November 2002, we acquired certain key strategic assets of *Lokau.com* , a competing Brazilian online commerce platform and we incorporated all registered users of *Lokau.com* into our platform.

In November 2005, we acquired certain operations of a regional competitor in online commerce, DeRemate.com Inc., including all of its operations and the majority of the shares of capital stock of its subsidiaries in Brazil, Colombia, Ecuador, Mexico, Peru, Uruguay and Venezuela for an aggregate purchase price of $12.1 million, net of cash and cash equivalents acquired. This acquisition increased our user base by approximately 1.3 million confirmed registered users and solidified our market leadership position in Brazil, Mexico, Venezuela, Colombia, Peru, and Uruguay. We did not acquire DeRemate s Argentine and Chilean subsidiaries, which continued to operate under the control of certain previous stockholders of DeRemate.

In August 2007, we completed our initial public offering pursuant to which 3,000,000 shares of common stock were sold by us, resulting in net proceeds to us of approximately $49.6 million and 15,488,762 shares were sold by certain selling stockholders.

In January 2008, we acquired 100% of the issued and outstanding shares of capital stock of Classified Media Group, Inc., or CMG, and its subsidiaries. CMG and its subsidiaries operate an online classified advertisements platform primarily dedicated to the sale of automobiles at www.tucarro.com in Venezuela, Colombia and Puerto Rico and real estate at www.tuinmueble.com in Venezuela, Colombia, Panama, the United States, Costa Rica and the Canary Islands. On the acquisition date, we paid $19 million subject to certain escrows and working capital adjustment clauses.

In September 2008, we acquired the remaining operations of DeRemate.com in Chile, Argentina, Mexico and Colombia for an aggregate purchase price of $37.6 million and we also purchased certain URLs, domains, trademarks, databases and intellectual property rights for $2.4 million, subject to certain set off rights and working capital adjustment clauses.

In September 2011, we acquired 60% of outstanding membership interest of Autopark LLC, a limited liability company organized under the laws of Delaware with 100% ownership of AP Clasificados, an online classified advertisements platform in Mexico primarily dedicated to the sale of automobiles at www.autoplaza.com.mx and real estate at www.homeshop.com.mx. The aggregate purchase price paid in cash was $5.5 million and includes URLs, domain names, trademarks, databases non-compete agreements and intellectual property rights that are used or useful in connection with the online platforms of the acquired business.

Our strategy

We seek to serve people in Latin America by offering a collection of e-commerce services that can improve the quality of life of those who use it, while creating significant value for our stockholders. We serve our buyers by giving them access to a broader and more affordable variety of products and services than those available on other online and offline venues. We serve our sellers by allowing them to reach a larger and more geographically diverse user base at a lower overall cost and investment than offline venues. At the same time, we provide payment settlement services to facilitate such transactions, and advertising solutions to promote them. More broadly, we strive to turn inefficient markets into more efficient ones and in that process generate value for our stockholders. To achieve these objectives, we pursue the following strategies:

Continue to grow our business and maintain market leadership. We have focused and intend to continue to focus on growing our business by strengthening our position as the preferred online marketplace in each of the countries in which we operate. We also intend to grow our business and maintain our leadership by taking advantage of the expanding potential client base that has resulted from the growth of Internet penetration rates in Latin America. We intend to achieve these goals through organic growth, by entering into new countries and category segments, by launching new transactional business endeavors, and through potential strategic acquisitions of key businesses and assets.

Increase monetization of our transactions. We have focused and will continue to focus on improving the revenue generation capacity of our business by implementing initiatives designed to maximize the revenues we receive from transactions on our platform. Some of these initiatives include increasing our fee structure, selling advertising on our platform, offering other e-commerce services and expanding our paid-for fee-based features.

Take advantage of the natural synergies that exist between our services. We strive to leverage our different businesses to promote greater cross-usage among the businesses, thereby creating a virtuous ecosystem of e-commerce offerings. We intend to promote the adoption of our MercadoPago payments solution on our marketplace as well as on our MercadoShops solution, to offer our MercadoClics advertising solutions to users of our marketplace, payments and shops solutions, and to encourage users of any of our services to experiment with the other solutions we offer.

Expand into additional transactional service offerings. Our strategic focus is to enable on-line transactions of multiple types of goods and services throughout Latin America. Consequently, we strive, and will continue to strive, to launch on-line transactional offerings in new product and service categories where we consider business opportunities exist. These new transactional offerings include, but are not limited to, efforts involving: (a) the offer of additional product categories in our marketplace business, (b) the expansion of our presence in vehicle, real estate and services classifieds, (c) the penetration of our on platform payments services and the expansion of our off platform payments services, (d) the increase of our MercadoClics and on-line advertisement services and (e) the offer of on-line software as e-commerce service solutions. We believe that a significant portion of our future growth will be derived from these new or expanded product and service launches.

Enhance brand awareness. We believe that enhancing awareness of the *MercadoLibre* brand is important to achieve our business objectives. We intend to continue to promote and increase recognition of our brand through a variety of marketing and promotional campaigns. These may include marketing agreements with companies that have a significant online presence and advertising through traditional media, such as cable television. We may also use leading web sites and other media such as affiliate programs, banner advertisements and keyword searches. In addition, we believe that by enhancing our e-commerce community experience, we promote greater brand awareness through word of mouth.

Focus on user loyalty and web site enhancement. We will continue to focus on increasing purchase frequency and transaction volumes from our existing users. We intend to do so by maintaining an appealing and convenient platform for e-commerce, improving the functionality of our web site to deliver a more efficient user experience and providing our users with the help of a dedicated customer support department. We employ a number of programs aimed to foster customer loyalty and repeated purchases, such as our MercadoLider loyalty program for high-volume sellers, our targeted and segmented direct marketing program, and our MercadoPago special promotions.

Increase operational efficiency. We believe our business model provides us with an opportunity to generate healthy profit margins. We plan to maximize this potential by achieving economics of scale, maintaining controls on overhead costs and reducing variable costs whenever possible.

Continue to develop innovative and creative solutions. We intend to continually enhance our e-commerce platform in order to better serve both individuals and businesses that want to buy or sell goods and services online. We intend to continue investing to develop new tools and technologies that facilitate e-commerce on our platform and improve our users online experience on MercadoLibre, while addressing the distinctive cultural, geographical and other challenges of online commerce in Latin America.

Serve our dynamic and active user community. We seek to operate MercadoLibre as an open and trusted web-based marketplace where users can access a broad market of products. We believe in treating our users with respect by applying a consistent set of policies that reinforce good online and offline behavior within our user community. We also seek to offer superior customer care in order to maintain the loyalty and satisfaction of our active user base.

The MercadoLibre marketplace

The MercadoLibre marketplace is an Internet-based commerce platform where buyers and sellers can meet, exchange information and complete e-commerce transactions for a wide range of goods and services. Our platform is a fully-automated, topically-arranged and user-friendly online commerce service which permits both businesses and individuals to list items and conduct their sales and purchases online in either a fixed-price or auction-based format. The MercadoLibre Marketplace also allows sellers to list motor vehicles, vessels, aircraft, real estate and services on our online classified section. Any Internet user can browse through the various products and services that are listed on our web site and register with MercadoLibre to list, bid for and purchase items and services. Additionally, sellers and advertisers can purchase, display and link advertising on our web pages to promote their brands, businesses and products. The MercadoLibre Marketplace offers buyers a large selection of new and used items that are often more expensive or otherwise hard to find through traditional offline sellers, such as brick-and-mortar retail establishments, offline classified advertisements, community bulletin boards, auction houses and flea markets. We believe that the MercadoLibre Marketplace allows sellers to reach a large number of potential buyers more cost-effectively than through traditional offline commerce channels or other online venues.

During 2011, visitors to our web site were able to browse an average of over 10.9 million listings on any given day, organized by country, in over 2,000 different product categories. We believe that we have achieved a critical mass of active buyers, sellers and product listings in most of the countries where we operate and that our business can be readily scaled to handle increases in our user base and transaction volume. At December 31, 2011, we had over 65.8 million confirmed registered MercadoLibre users up from 52.9 million at December 31, 2010. During fiscal year 2011, we had 5.0 million unique sellers, 14.1 million unique buyers and 52.8 million successful items sold.

The MercadoPago online payments solution

To complement the MercadoLibre Marketplace, we developed MercadoPago, an integrated online payments solution. MercadoPago is designed to facilitate transactions both on and off the MercadoLibre Marketplace by providing a mechanism that allows our users to securely, easily and promptly send and receive payments online. MercadoPago enables any individual or business registered with MercadoPago to securely and easily send and receive payments online for MercadoLibre Marketplace items. MercadoPago is currently available to MercadoLibre users in each of Brazil, Mexico, Venezuela, Argentina, Chile and Colombia.

MercadoPago is also available for purchases of goods and services outside the MercadoLibre Marketplace, as an open on-line payment service in Argentina, Brasil, Mexico, Venezuela, Chile and Colombia. The off platform service, also referred to as MercadoPago 3.0, is designed to meet the growing demand for Internet-based payments systems in Latin America. In addition to improving the ease of use and efficiency of payments for purchases made in our marketplace, MercadoPago 3.0 also allows payments for transactions that occur outside of our platforms. Users are able to transfer money to other users with MercadoPago accounts and to incorporate MercadoPago as a means for payments on their independent commerce websites. This version of MercadoPago simplifies the payment of transactions in the MercadoLibre Marketplace achieving higher transaction velocity for most users. Direct payments allow online sellers to use MercadoPago to facilitate checkout and payment processes on their web site and also enables users to simply transfer money to each other. The direct payments product allows users who are not registered with the MercadoLibre Marketplace to send and receive payments to each other as long as they register on MercadoPago. Furthermore, direct payment offers online sellers who accept MercadoPago as a means of payment to integrate MercadoPago to their shopping cart streamlining the shopping and payment processes. We believe that the ease of use, safety and efficiency of MercadoPago will allow us to generate additional transactions from Web merchants that sell items outside the MercadoLibre Marketplace. We believe that there is a significant business opportunity to increase use of MercadoPago as a payment mechanism within and outside of the MercadoLibre Marketplace.

During the year ended December 31, 2011, our on and off-platform users paid approximately 1,311.9 million using MercadoPago, which represented 27.2% of our gross merchandise volume for that year. During the year ended December 31, 2010, our on and off-platform users paid approximately $697.5 million using MercadoPago, which represented 20.5% of our gross merchandise volume for that year. During the year ended December 31, 2009, our users paid approximately $382.5 million for items by using MercadoPago, which represented 13.9% of our gross merchandise volume for that year.

We seek to increase adoption and penetration of MercadoPago among MercadoLibre Marketplace users. In the countries where MercadoPago was available, as of December 31, 2011, approximately 90.7% of the MercadoLibre Marketplace s listings accepted MercadoPago for payments and 28.8% of our total gross merchandise volume (excluding motor vehicles, vessels, aircraft and real estate) was completed through MercadoPago. Starting in Brazil in January 2010, in Argentina in March 2010 and in Mexico in April 2011, all paid listings in the MercadoLibre Marketplace (excluding free listings and classifieds) accepted MercadoPago.

MercadoClics advertising services

The MercadoClics program allows businesses and users to promote their products and services on the web. Through MercadoClics users and advertisers are able to place text and/or display advertisements on our web pages in order to promote their brands and offerings. MercadoClics offers advertisers a cost efficient and automated platform that enables adveritsers to acquire traffic through advertisements on our plattform. Advertisers purchase, on a cost per clicks basis, advertising space that appears around product search results for specific categories and other pages. These advertising placements are differentiated from product search results and direct traffic both to on and off platform to the advertisers destination of choice.

MercadoShops online stores service

MercadoShops is a software-as-a-service, fully hosted online webstore solution. Through MercadoShops users can set-up, manage and promote their own on-line webstores. These webstores are hosted by MercadoLibre and offer integration with the other marketplace, payments and advertising services we offer. Users can choose from a basic, free webstore or pay monthly subscriptions for enhanced functionality and added services on their stores.

Marketing

Our marketing strategy is designed to grow our platform by promoting the MercadoLibre brand, attracting new users, and generating more frequent trading by our existing users. To this end, we employ various means of advertising, including placement in leading portals and networks across the region, our affiliates program, cable and over the air television, paid and natural positioning in leading search engines, email marketing, onsite marketing and presence in off-line events. Our investment in online and offline marketing activities was $22.0 million during 2009, $20.2 million during 2010 and $19.9 million during 2011.

Specifically, we rely mostly on online advertising to promote our brand and attract potential buyers and sellers to our web site. Our online activities focus on:

Entering into agreements with search platforms, portals, social networks and web sites that we believe can reach our target audience. These agreements allow us to purchase online advertising positions where we can market ourselves and show relevant promotions to potential and already registered users.

Actively managing our MercadoSocios program, an affiliates program that financially rewards site owners for directing to our platform buyers, sellers and new users who ultimately register with, and conduct transactions on MercadoLibre. The MercadoSocios program is available in Argentina, Brazil, Chile, Colombia, Mexico and Venezuela. With our MercadoSocios program any site or online tool owner can place a link to our web site with a pre-approved creative design that we provide or XML data feeds. If an Internet user clicks on the link, arrives at our web site, registers as a user and completes transactions on our platform, we compensate the site or tool owner. For each new registered user that completes a transaction on our platform, we pay the site or tool owner that directed the user to us a fee per active registered user and a percentage of the commissions that that selling user pays us for transactions carried out in the first 30 days after that user registered.

Investing in preferential placement on the most popular search engines in each country where we operate, such as Google and Yahoo Search. We purchase advertising space next to the results of certain keyword searches related to our activities.

Structuring our web site so that it appears among the top natural results for certain keyword searches.

Since 2005, we have been running an annual cable television commercial campaign on a regional basis to increase brand awareness and recognition. We believe that cable television subscribers in Latin America offer an attractive demographic group based on both socio-economic profiling and the high penetration of Internet usage among cable television subscribers. During 2010, our cable media campaign ran from August to December, and we also ran some spots in Brazil over the air television to expand coverage. During 2011, our cable media campaign ran from May to December, and we also had offline campaigns on radio, newspaper and magazines for our classifieds business.

In addition to online and television advertising, we seek to reinforce our brand and increase transaction levels within the existing MercadoLibre user base through activities such as permission-based e-mail marketing and special promotions on our web site. We utilize information regarding our users past bids, sales and purchases in order to better target the messages that we communicate through these activities. Additionally, we use street billboards, radio and magazine ads to promote our automobile classifieds business.

We also conduct a variety of initiatives that focus on attracting and training sellers. We organize events such as MercadoLibre Universities and seller meetings in all countries where we have an office. MercadoLibre Universities are full-day sessions of approximately 100 to 250 new users where we teach how to buy and sell on the MercadoLibre Marketplace. During seller meetings we teach sellers with high-potential or with MercadoLider status more advanced selling techniques and allow them to discuss issues of interest with our employees. Additionally, certain seller activities are streamed over the Internet to reach a larger audience than is possible in live meetings.

The positioning of the *MercadoLibre* brand among Internet users is one of our key marketing concerns, and our goal is to position MercadoLibre s name and concept as a trustworthy platform in the public s mind. We conduct surveys every year in our key markets to gauge the position of our brand in the minds of consumers. We consistently appear at the top of these surveys in areas such as consumer recall and preference for e-commerce and online commerce sites. We believe these ratings are the result of the quality of our product and our marketing efforts.

Product development

At December 31, 2011, we had 292 employees on our information technology and product development staff, an increase from 282 employees at December 31, 2010. We incurred product development expenses (including salaries) in the amount of $12.1 million for 2009, $15.9 million for 2010 and $23.3 million for 2011. We also incurred information technology capital expenditures, including software licenses, of $4.4 million for 2009, $5.0 million for 2010 and $8.4 million for 2011.

We continually work to improve both our MercadoLibre Marketplace and MercadoPago platforms so that they better serve our users needs and work more efficiently. A significant portion of our information technology resources are allocated to these purposes. We strive to maintain the right balance between offering new features and enhancing the existing functionality and architecture of our software and hardware.

The development of new and improved features usually begins by listening to suggestions from our community of buyers and sellers. We hold meetings periodically with both regular and highly active users to obtain feedback regarding our services and suggestions and ideas relating to possible additional features on the MercadoLibre Marketplace and MercadoPago. We also receive suggestions from our chat rooms and bulletin boards. Additionally, we monitor the market for new features, formats and elements that could be adapted to our platform to improve our users experience.

We place significant importance on the testing and implementation phase of newly developed features. After an internal team of testers ensures that new features and upgrades are working properly, we typically involve a select group of users in testing these features before we release them to the general public. Through this process we receive feedback and suggestions on how to enhance the final details of a feature. Additionally, we typically introduce new features country by country, in order to isolate and resolve any potential problems and subsequently release improved versions to countries, yet to be introduced to the new features.

The adequate management of the MercadoLibre and MercadoPago software architecture and hardware requirements is as important as introducing additional and better features for our users. Because our business grows relatively fast, we must ensure that our systems are capable of absorbing this incremental volume. Therefore, our engineers work to optimize our processes and equipment by designing more effective and efficient ways to run our platforms.

We develop most of our software technology in-house. Since our inception in 1999, we have had a development center in Buenos Aires where we concentrate the majority of our development efforts. In June of 2007, we also launched a second development center in the province of San Luis in Argentina. The center is a collaborative effort with the Technological University of La Punta. In this effort, the university offers us access to dedicated development facilities and a recruiting base for potential employees.

While we have developed most of our software technology in-house, we also outsource certain projects to outside developers. We believe that outsourcing the development of these projects allows us to have a greater operating capacity and strengthens our internal know-how by incorporating new expertise to our business. In addition, our team of developers frequently interacts with technology suppliers and attends technology-related events to familiarize itself with the latest inventions and developments in the field.

Since 2010, we ve been working on a deep technology overhaul that is allowing us to switch from a closed and monolithic system to an open and decoupled one. We are splitting MercadoLibre into many small cells . A cell is a functional unit with it s own team, hardware, data and source code. Cells interact with each other using APIs (Application Programming Interfaces). All the Front-Ends are also being rewritten on top of these APIs. At the end of the process, we intend to open our platform to third-party developers. This effort is consuming a large amount of resources, and we intend to keep investing in this area.

We anticipate that we will continue to devote significant resources to product development in the future as we add new features and functionality to our services. The market in which we compete is characterized by rapidly changing technology, evolving industry standards, frequent new service and product announcements, introductions and enhancements and changing customer demands. Accordingly, our future success will depend on our ability to adapt to rapidly changing technologies, to adapt our services to evolving industry standards and to continually improve the performance, features and reliability of our service in response to competitive service and product offerings and evolving demands of the marketplace. In addition, the widespread adoption of new Internet, networking or telecommunications technologies or other technological changes could require us to make substantial expenditures to modify or adapt our services or infrastructure. See Risk Factors Risks related to our business Our future success depends on our ability to expand and adapt our operations to meet rapidly changing industry and technology standards in a cost-effective and timely manner, and on the continued market acceptance of our products and services.

Seasonality

Like most retail businesses, we experience the effects of seasonality in all our operating territories throughout the calendar year. Although much of our seasonality is due to the Christmas holiday season, the geographic diversity of our operations helps mitigate the seasonality attributed to summer vacation time (*i.e.* southern and northern hemispheres) and national holidays.

Typically, the fourth quarter of the year is the strongest in every country where we operate due to the significant increase in transactions before the Christmas season (see Management Discussion and Analysis of Financial Conditions and Results of Operations Seasonality for more detail). The first quarter of the year is generally our slowest period. The months of January, February and March normally correspond to summer vacation time in Argentina, Brazil, Chile, Peru and Uruguay. Additionally, the Easter holiday falls in March or April, and Brazil celebrates Carnival for one week in February or March. This first quarter seasonality is partially mitigated by the countries located in the northern hemisphere, such as Colombia, Mexico and Venezuela, the slowest months for which are the summer months of July, August and September.

Competition

The market for trading over the Internet is rapidly evolving and highly competitive, and we expect competition to intensify even further in the future. Barriers-to-entry for large, established Internet companies are relatively low, and current and new competitors can launch new sites at relatively low cost using commercially available software. While we are currently the market leaders in a number of the markets in which we operate, we currently or potentially compete with a limited number of small marketplace operators, such as Mas Oportunidades in Argentina, and Rakuten in Brazil. We also compete with businesses that offer business-to-consumer online e-commerce services such as pure play Internet retailer Submarino (a website of B2W Inc), or others with a focus on specific vertical categories, such as Netshoes with sports & apparel.

There are also a growing number of bricks and mortar retailers who have launched on line offerings such as Americanas (a website of B2W Inc), Casas Bahia and Falabella, and shopping comparison sites located throughout Latin America such as Buscape and Bondfaro. In the classified advertising market, although no regional competitor exists, local players such as Webmotors, VivaStreet, Zap have important positions in certain markets.

In addition, we could face competition from a number of large online communities and services that have expertise in either developing online commerce, facilitating online interaction, or both. Some of these competitors, such as Google, Yahoo, Microsoft, and Facebook currently offer a variety of online services, and certain of these companies may introduce online commerce to their large user populations. Other large companies with strong brand recognition and experience in online commerce, such as large newspaper or media companies also compete in the online listing market in Latin America.

In September 2001, we entered into a strategic alliance with eBay, which became one of our stockholders and started working with us to better serve the Latin American online commerce community. As part of this strategic alliance, we acquired eBay s Brazilian subsidiary at the time, iBazar, and eBay agreed not to compete with us in the region during the term of the agreement. This agreement also provided us with access to certain know-how and experience, which accelerated aspects of our development. The agreement governing our strategic alliance with eBay expired on September 24, 2006. Even though eBay is one of our stockholders, since the termination of this agreement, there are no contractual restrictions preventing eBay from competing with us.

MercadoPago competes with existing online and offline payment methods, including, among others, banks and other providers of traditional payment methods, particularly credit cards, checks, money orders, and electronic bank deposits, international online payments services such as Paypal and Google Checkout, local online payment services such as DineroMail in Argentina, Chile, Colombia and Mexico, and Pagamento Digital and PagSeguro in Brazil, money remitters such as Western Union, the use of cash, which is often preferred in Latin America, and offline funding alternatives such as cash deposit and money transmission services. Some of these services may operate at lower commission rates than MercadoPago s current rates.

Intellectual property

We regard the protection of our copyrights, service marks, trademarks, domain names, trade dress and trade secrets as critical to our future success and rely on a combination of copyright, trademark, service mark and trade secret laws and contractual restrictions to establish and protect our proprietary rights in our products and services. We have entered into confidentiality and invention assignment agreements with our employees and certain contractors. We have also established non-disclosure agreements with our employees, strategic partners and some suppliers in order to limit access to and disclosure of our proprietary information.

We pursue the registration of our trademarks and service marks in each country where we operate, in the United States and in certain other Latin American countries. Generally, we register the name MercadoLibre, MercadoLivre, MercadoPago and MercadoSocios as well as our handshal logo, and other names and logos in each country where we operate. As part of our acquisition of DeRemate, we acquired the trademarks of

DeRemate throughout the countries where it operates, as well as certain other jurisdictions. As part of our acquisition of CMG, we acquired the trademarks of CMG throughout the countries where it operates.

Autopark LLC, an entity in which we own a 60% interest and have an option to acquire the remaining 40% ownership interest, has 100% ownership of AP Clasificados which owns trademarks of Autoplaza.com.mx and Homershop.com.mx in Mexico. We would expect to acquire these trademarks in the future should we acquire 100% of the ownership interests in Autopark.

We have licensed in the past, and expect that we may license in the future, certain of our proprietary rights, such as trademarks or copyrighted material, to third parties. While we attempt to ensure that our licensees maintain the quality of the *MercadoLibre* brand, our licensees may take actions that could materially adversely affect the value of our proprietary rights or reputation. We also rely on certain technologies that we license from third parties, such as Oracle Corp., SAP AG, Salesforce.com Inc., Microstrategy, Radware, Juniper Networks, Cisco Systems Inc, F5 Networks, and Netapp, the suppliers of key database technology, the operating system and specific hardware components for our services.

Third parties have from time to time claimed, and others may claim in the future, that we have infringed their intellectual property rights by allowing sellers to list certain items on MercadoLibre. See Legal proceedings below and Risk factors Risks related to our business We could potentially face legal and financial liability for the sale of items that infringe on the intellectual property rights of others and for information disseminated on the MercadoLibre Marketplace .

Employees

The following table shows the number of our employees at December 31, 2011.

Country	September 30, Number of Employees
Argentina	863
Brazil	501
Colombia	51
Chile	2
Mexico	72
Uruguay	4
USA	1
Venezuela	139
Total	1,633

We manage operations in the remaining countries remotely from our headquarters in Argentina.

Our employees in Brazil are represented by an Information Technology Companies Labor Union in the State of São Paulo *(Sindicato dos Trabalhadores nas Empresas e Cursos de Informática do Estado de São Paulo)* and some of our employees in Argentina are represented by the Commercial Labor Union (Sindicato de Empleados de Comercio). Unions or local regulations in other countries could also require that employees be represented. We consider our relations with our employees to be good and we implement a variety of human resources practices, programs and policies that are designed to hire, retain, develop and compensate our employees.

We are very proud of our employees and believe that our team is one of the most important assets of our business. We believe that our employees are among the most knowledgeable in the Latin American Internet industry, and they have developed a deep understanding of our business and e-commerce in general. We believe we have been successful at attracting and retaining outstanding individuals over the years. A significant portion of our personnel has been with the company for several years, and we strive to bring more talent by hiring individuals with an Internet-related background and experience. Similarly, our future success will depend on our ability to continue to attract and retain capable professionals. See Risk factors Risks related to our business We depend on key personnel, the loss of which could have a material adverse effect on us.

In order to support our Human Resources department, we use SAP s human resources payroll module across our business. We believe this allow us to centralize our employee database and important human resources functions, such as payroll processing, to improve our controls and reduce certain administrative costs.

Government regulation

We are subject to a variety of laws, decrees and regulations that affect companies conducting business on the Internet in some of the countries where we operate related to e-commerce, data collection, data protection, privacy, information requirements for Internet providers, taxation (including imposition of value added or sales taxes collection obligations) obligations to provide information to certain authorities about transactions occurring on our platforms or about our users, and other legislation which also applies to other companies conducting business in general. It is not clear how existing laws governing issues such as general commercial activities, property ownership, copyrights and other intellectual property issues, taxation (including the imposition to provide certain information about transactions that occurred in our platforms, or about our users), libel and defamation, obscenity, consumer protection, digital signatures and personal privacy apply to online businesses. Some of these laws were adopted before the Internet was available and, as a result, do not contemplate or address the unique issues of the Internet. Due to these areas of legal uncertainty, and the increasing popularity and use of the Internet and other online services, it is possible that new laws and regulations will be adopted with respect to the Internet or other online services. These regulations could cover issues such as online commerce, Internet service providers responsibility for third party content hosted in their servers, user privacy, freedom of expression, pricing, content and quality of products and services, taxation (including imposition of value added or sales taxes collection obligations, obligation to provide certain information about transactions occurred in our platforms, or about our users), advertising, intellectual property rights, consumer protection and information security.

We are also subject to regulations in certain provinces in Argentina that impose sales taxes collection obligations to the Company based on users sales through the platform. Other jurisdictions may issue new legislation in that regard. If users were to reduce or stop using our website or services as a result, our business could be harmed.

We believe that the agency-based structure that we currently use for MercadoPago allows us to operate this service without obtaining any governmental authorizations or licenses or being regulated as a financial institution in the countries where we offer MercadoPago. However, as we continue to develop MercadoPago, we may need to secure governmental authorizations or licenses or comply with regulations applicable to financial institutions in the countries where we offer this service.

There are laws and regulations that address foreign currency and exchange rates in every country in which we operate. In Venezuela, we need governmental authorization to pay invoices to a foreign supplier or send money abroad due to foreign exchange restrictions. See Risk factors Risks related to doing business in Latin America Local currencies used in the conduct of our business are subject to depreciation, volatility and exchange controls for more information.

On May 15, 2007, the Argentine Ministry of Economy approved MercadoLibre S.A. (this subsidiary changed its name in 2010 to MercadoLibre S.R.L.), our wholly owned Argentine subsidiary as a beneficiary of the Argentine Regime to promote the software industry. Benefits of receiving this status include a 70% discount on mandatory Argentine labor taxes, a 60% reduction of Argentine income tax and a fixed federal tax rate in Argentina at the rate effective in April of 2007 until September of 2014.

During 2011, a new Software Development Law, which establishes certain benefits to promote the software development industry in Argentina, was approved, but the regulations pursuant thereto have not yet come into effect. This new Software Development Law maintains some of the benefits mentioned in the paragraph above and extends its term until 2019. To qualify and obtain benefits set by the new law, Argentine companies will have to register with the government again and meet new requirements to be established by regulation.

Segment and Geographic Information

For an analysis of financial information about our segments, see Note 7, Segments to our Consolidated Financial Statement included elsewhere in this report.

Offices

We are a Delaware corporation incorporated on October 15, 1999. Our registered office is located at 15 East North Street, Dover, Delaware. Our principal executive offices are located at Arias 3751, 7th Floor, Buenos Aires, Argentina, C1430CRG.

Available Information

We maintain a web site, http://www.mercadolibre.com, which contains additional information concerning our company. We make available free of charge through our web site our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. Our Corporate Governance Guidelines, Code of Business Conduct and Ethics, and the charters of the Audit, the Compensation and the Nominating and Corporate Governance Committees are also available on our web site and are available in print to any stockholder upon request in writing to MercadoLibre, Inc., Attention: Investor Relations, Arias 3751, 7th floor, Buenos Aires, Argentina, C1430CRG. Information on or connected to our web site is neither part of nor incorporated into this report on Form 10-K or any other SEC filings we make from time to time.

ITEM 1A. RISK FACTORS

For purposes of this section, the term stockholders means the holders of shares of our common stock. Set forth below are the risks that we believe are material to our stockholders and prospective stockholders. You should carefully consider the following factors in evaluating our company, our properties and our business. The occurrence of any of the following risks might cause our stockholders to lose all or a part of their investment. The risks and uncertainties described below are not the only ones facing us. Other risks that we do not currently anticipate or that we currently deem immaterial also may affect our results of operations and financial condition. Some statements in this report including statements in the following risk factors section constitute forward-looking statements. Please refer to the section entitled Special Note Regarding Forward-Looking Statements at the beginning of this report.

Risks related to our business

The market for the sale of goods over the Internet in Latin America is developing, and our business depends on the continued growth of online commerce and the availability and suitability of the Internet in Latin America.

The market for the sale of goods over the Internet is a new and emerging market in Latin America. Our future revenues depend substantially on Latin American consumers widespread acceptance and use of the Internet as a way to conduct commerce. Rapid growth in the use of and interest in the Internet (particularly as a way to conduct commerce) is a recent phenomenon, and we cannot assure you that this acceptance and use will continue to exist or develop. For us to grow our user base successfully, consumers who have historically used traditional means of commerce to purchase goods must accept and use new ways of conducting business and exchanging information. Furthermore, the price of personal computers and Internet access may limit our potential growth in countries with low levels of Internet penetration and/or high levels of poverty.

In addition, the Internet may not be commercially viable in Latin America in the long term for a number of reasons, including potentially inadequate development of the necessary network infrastructure or delayed development of enabling technologies, performance improvements and security measures. The infrastructure for the Internet may not be able to support continued growth in the number of Internet users, their frequency of use or their bandwidth requirements. In addition, the Internet could lose its viability due to delays in telecommunications technological developments, or due to increased government regulation. If telecommunications services change or are not sufficiently available to support the Internet, response times would be slower, which would adversely affect use of the Internet and our service in particular.

Our future success depends on our ability to expand and adapt our operations to meet rapidly changing industry and technology standards in a cost-effective and timely manner, and on the continued market acceptance of our products and services.

We plan to continue to expand our operations by developing and promoting new and complementary services. We may not succeed at expanding our operations in a cost-effective or timely manner, and our expansion efforts may not have the same or greater overall market acceptance as our current services. Furthermore, any new business or service that we launch that is not favorably received by consumers could damage our reputation and diminish the value of our brands. To expand our operations we will also need to spend significant amounts on development, operations and other resources, and we may place a strain on our management, financial and operational resources. Similarly, a lack of market acceptance of these services or our inability to generate satisfactory revenues from any expanded services to offset their cost could have a material adverse effect on our business, results of operations and financial condition.

Any delay or problem with upgrading our existing information technology infrastructure could cause a disruption in our business and adversely impact our financial results.

Our ability to operate our business from day-to-day largely depends on the efficient operation of our information technology infrastructure. We are frequently implementing hardware and software technology upgrades, which may include migrations to new technology systems, in an effort to improve our systems. Our information technology systems may experience errors, interruptions, delays or cessations of service. We are particularly susceptible to errors in connection with any systems upgrade or migration to a different hardware or software system. Errors or interruptions could impede or delay our ability to process transactions on our site, which could reduce our revenue from activity on our site and adversely affect our reputation with, or result in the loss of customers. These issues could cause business disruptions and be more expensive, time consuming, and resource intensive than anticipated. Defects or disruptions in our technology infrastructure could adversely impact our ability to process transactions, our financial results and our reputation.

Internet regulation in the countries where we operate is scarce, and several legal issues related to the Internet are uncertain. We are subject to a number of other laws and regulations, and governments may enact laws or regulations that could adversely affect our business.

Unlike the United States, most of the countries where we operate do not have specific laws governing the liability of Internet service providers, such as ourselves, for fraud, intellectual property infringement, other illegal activities committed by individual users or third-party infringing content hosted on a provider s servers. This legal uncertainty allows for different judges or courts to decide very similar claims in different ways and establish contradictory jurisprudence. For example, in June 2009, a judge of a first instance court in the State of São Paulo ruled that our Brazilian subsidiary should be held liable for fraud committed by sellers and losses incurred by buyers when purchasing items on the Brazilian version of the MercadoLibre website. We are appealing this ruling and, in December 2009, the effect of the ruling was suspended until the appeal is decided by State Court of Appeals. If the ruling is upheld, it could require us to restructure our business model in ways that would harm our business and or cause us to incur substantial costs.

In addition, certain judges may decide that Internet service providers are liable to an intellectual property owner for a user s sale of counterfeit items using our platform, while others may decide that the responsibility lies solely with the offending user. This legal uncertainty allows for rulings against us and could set adverse precedents, which individually or in the aggregate could have a material adverse effect on our business, results of operations and financial condition. In addition, legal uncertainty may negatively affect our clients perception and use of our services.

We are subject to a variety of laws, decrees and regulations that affect companies conducting business on the Internet in some of the countries where we operate related to e-commerce, information requirements for Internet providers, data collection, data protection, data protection, privacy, taxation (including imposition of value added or sales taxes collection obligations), obligations to provide certain information to certain authorities about transactions which occurred in our platforms or about our users and those regulations applicable to businesses in general and consumer protection. It is not clear how existing laws governing issues such as general commercial activities, property ownership, copyrights and other intellectual property issues, taxation (including imposition to provide certain information about transactions occurred in our platforms or about our users), libel and defamation, obscenity, and personal privacy apply to online businesses. Many of these laws were adopted before the Internet was available and, as a result, do not contemplate or address the unique issues of the Internet. Due to these areas of legal uncertainty, and the increasing popularity and use of the Internet and other online services, it is possible that new laws and regulations will be adopted with respect to the Internet or other online services. These laws and regulations could cover issues such as online commerce, Internet service providers responsibility for third party content hosted in their servers, user privacy, freedom of expression, pricing, content and quality of products and services, taxation (including imposition of value added or sales taxes collection obligations, obligation to provide certain information about transactions occurred in our platforms or about our users), advertising, intellectual property rights, consumer protection and information security. If these laws are enacted, they may have negative effects on our business, results of operation and financial condition.

As our activities and the types of goods listed on our web site expand, regulatory agencies or courts may argue or rule that we or our users must either obtain licenses or not be allowed to conduct business in their jurisdiction, either with respect to our services in general or only relating to certain items, such as auctions, real estate and motor vehicles. For example, numerous jurisdictions, including Brazil and Argentina, have regulations regarding auctions and auctioneers and the handling of property by secondhand dealers or pawnbrokers. Attempted enforcement these laws against us or our users and other regulatory and licensing claims could result in expensive litigation or could require us to change the way we or our users do business. Any changes in our or our users business methods could increase costs or reduce revenues or force us to prohibit listings of certain items for some locations. We could also be subject to fines or other penalties, and any of these outcomes could harm our business.

In addition, because our services are accessible worldwide and we facilitate sales of goods to users worldwide, other foreign jurisdictions may claim that we are required to comply with their laws. As we expand and localize our international activities, we have to comply with the laws of the countries in which we operate. Laws regulating Internet companies outside of the Latin American jurisdictions where we operate may be more restrictive to us than those in Latin America. In order to comply with these laws, we may have to change our business practices or restrict our services. We could be subject to penalties ranging from criminal prosecution to bans on our services for failure to comply with foreign laws.

We are subject to laws relating to the collection, use, storage and transfer of personally identifiable information about our users, especially financial information. Several jurisdictions have regulations in this area, and other jurisdictions are considering imposing additional restrictions or regulations. If we violate these laws, which in many cases apply not only to third-party transactions but also to transfers of information among ourselves, our subsidiaries, and other parties with which we have commercial relations, we could be subject to significant penalties and negative publicity, which would adversely affect us.

We are also subject to regulations in certain provinces in Argentina that impose sales taxes collection obligations to the Company based on users sales through the platform. Other jurisdictions may issue new legislation in that regard. If users were to reduce or stop using our website or services as a result, our business could be harmed.

We are subject to regulatory activity and antitrust litigation under competition laws.

We receive scrutiny from various government agencies under competition laws in the countries where we operate. Some jurisdictions also provide private rights of action for competitors or consumers to assert claims of anti-competitive conduct. Other companies and government agencies may allege that our actions violate antitrust or competition laws, or otherwise constitute unfair competition. Contractual agreements with buyers, sellers, or other companies could give rise to regulatory action or antitrust litigation. Also, our unilateral business practices could give rise to regulatory action or antitrust litigation. Some regulators may perceive our business to have so much market power that otherwise uncontroversial business practices could be deemed anticompetitive. Such claims and investigations, even if without foundation, typically are very expensive to defend, involve negative publicity and substantial diversion of management time and effort, and could result in significant judgments against us.

Our business is an Internet platform for commercial transactions in which all commercial activity depends on our users and is therefore largely outside of our control.

Our business is dependent on Internet users listing and purchasing their items and services on our Internet platform. Therefore, we depend on the commercial activity, including both sales and purchases that our users generate. We do not choose which items will be listed, nor do we make pricing or other decisions relating to the products and services bought and sold on our platform. Therefore, the principal drivers of our business are largely outside of our control, and we depend on the continued preference for our platform by millions of individual users.

We could face liability for the sale of regulated and prohibited items, unpaid items or undelivered purchases, and the sale of defective items.

Laws specifying the scope of liability of providers of online services for activities of their users through their service are currently unsettled in most of the Latin American countries where we operate. We have implemented what we believe to be clear policies that are incorporated in our terms of use that prohibit the sale of certain items on our platform and have implemented programs to monitor and exclude unlawful goods and services. Despite these efforts, we may be unable to prevent our users from exchanging unlawful goods or services or exchanging goods in an unlawful manner, and we may be subject to allegations of civil or criminal liability for the unlawful activities of these users.

More specifically, we are aware that certain goods, such as alcohol, tobacco, firearms, adult material and other goods that may be subject to regulation by local or national authorities of various jurisdictions have been traded on the MercadoLibre Marketplace. As a consequence of these transactions, competent authorities may impose fines to us. We have at times been subject to fines in Brazil for certain users sale of products that have not been approved by the government. We cannot provide any assurances that we will successfully avoid civil or criminal liability for unlawful activities that our users carry out through our service in the future. If we suffer potential liability for any unlawful activities of our users, we may need to implement additional measures to reduce our exposure to this liability, which may require, among other things, that we spend substantial resources and/or discontinue certain service offerings. Any costs that we incur as a result of this liability or asserted liability could have a material adverse effect on our business, results of operations and financial condition.

We believe that government and consumer protection agencies have received a substantial number of complaints about both the MercadoLibre Marketplace and MercadoPago. We believe that these complaints are small as a percentage of our total transactions, but they could become large in aggregate numbers over time. From time to time, we are involved in disputes or regulatory inquiries that arise in the ordinary course of business. The number and significance of these disputes and inquiries have increased as our business has expanded and our company has grown larger. We are likely to receive new inquiries from regulatory agencies in the future, which may lead to action against us. We have responded to all inquiries from regulatory agencies and described our services, operating procedures and requested information. If one or more of these agencies is not satisfied with our response to current or future inquiries, we could be subject to enforcement actions, fines or other penalties, or forced to change our operating practices in ways that could harm our business, or if during these inquiries any of our processes are found to violate laws on consumer protection, or to constitute unfair business practices, we could be subject to civil damages, enforcement actions, fines or penalties. Such actions or fines could require us to restructure our business processes in ways that would harm our business and cause us to incur substantial costs.

In addition, our success depends largely upon sellers accurately representing and reliably delivering the listed goods and buyers paying the agreed purchase price. We have received in the past, and anticipate that we will receive in the future, complaints from users who did not receive the purchase price or the goods agreed to be exchanged. While we can suspend the accounts of users who fail to fulfill their delivery obligations to other users, we do not have the ability to require users to make payments or deliver goods sold. We also receive complaints from buyers regarding the quality of the goods purchased or the partial or non-delivery of purchased items. We have tried to reduce our liability to buyers for unfulfilled transactions or other claims related to the quality of the purchased goods by offering a free Buyer Protection program to buyers who meet certain conditions. Although the number of claims that we have paid through this program is not currently significant, we may in the future receive additional requests from users requesting reimbursement or threatening legal action against us if we do not reimburse them, the result of which could materially adversely affect our business and financial condition. As discussed above, we are currently appealing a determination by a Brazilian court that our Brazilian subsidiary should be held liable for fraud committed by sellers and losses incurred by buyers when purchasing items on the Brazilian version of the MercadoLibre website. We keep expanding the coverage

of our Buyer s Protection Program. This coverage expansion may impact the number and amount of reimbursements we are required to make. This new version may impact the number and amount of reimbursements we are required to make. Our users have been and will continue to be targeted by parties using fraudulent spoof and phishing emails that appear to be legitimate emails sent by MercadoLibre or MercadoPago or by a user of one of our businesses, but direct recipients to fake websites operated by the sender of the email or misstates that certain payment was credited in MercadoPago and request that the recipient send the product sold or send a password or other confidential information. Despite our efforts to mitigate spoof and phishing emails, those activities could damage our reputation and diminish the value of our brands or discourage use of our websites and increase our costs.

We have received in the past, and anticipate that we will receive in the future, legal actions from users who received spoof emails and sent the product and did not receive the purchase price. Currently we have a case, in which our Brazilian subsidiary was sued by a user that sent the product to the buyer but did not receive any payment, since the email he received was a spoof and had not been sent by the Company. In 2007 the Lower Court Judge found our Brazilian subsidiary responsible for that spoof and ordered to pay the plaintiff the amount of approximately $1,500, to be adjusted against inflation plus default interest. We filed an appeal to the State Court of Appeals, which was granted in 2008 and the plaintiff presented a special appeal to the Superior Court of Justice of Brazil. On December 1, 2011 the Superior Court of Justice of Brazil granted the special appeal in order to restore the Lower Court Judge decision. After that found our Brazilian subsidiary filed for clarification, which is still pending.

Any litigation related to unpaid or undelivered purchases or defective items could be expensive for us, divert management s attention and could result in increased costs of doing business. In addition, any negative publicity generated as a result of the fraudulent or deceptive conduct of our users could damage our reputation and diminish the value of our brands.

We could face legal and financial liability for the sale of items that infringe on the intellectual property and distribution rights of others and for information disseminated on the MercadoLibre Marketplace.

Even though we monitor listings on our web sites, we are not able to detect every item that may infringe on the intellectual property rights of third parties. As a result, we have received in the past, and anticipate that we will receive in the future, complaints alleging that certain items listed and/or sold through the MercadoLibre Marketplace and/or using MercadoPago infringe third-party copyrights, trademarks or other intellectual property rights. Content owners and other intellectual property rights owners have been active in defending their rights against online companies, including us. We have taken steps to work in coordination and cooperation with the intellectual property rights owners to seek to eliminate allegedly infringing items listed in the MercadoLibre Marketplace. Our user policy prohibits the sale of goods which may infringe third-party intellectual property rights, and we may suspend the account of any user who infringes third-party intellectual property rights. Despite all these measures some rights owners have expressed that our efforts are insufficient. Content owners and other intellectual property rights owners have been active in asserting their purported rights against online companies. Allegations of infringement of intellectual property rights could result in threats of litigation and actual litigation against us by rights owners.

Specifically, allegations of infringement of intellectual property rights have already resulted in claims against us from time to time, including litigation in Brazil brought by Cartier International B.V., Montblanc Simplo Gmbh, Richemont International S.A., Puma Sports Ltda., Lacoste do Brasil Indústria e Comercio Ltda., Sporloisirs S.A., Qix Skateboards Indústria e Comercio Ltda, Vintage Denim Ltda., Editora COC Empreendimentos Culturais Ltda., Barros Fischer e Associados Ltda., Fallms Distribuição de Fitas Ltda., 100% Nacional Distribuidora de Fitas Ltda., Xuxa Promoções e Produções Artísticas Limitada, Praetorium Instituto de Ensino, Pesquisas e Atividades de Extensão e Direito Ltda., Sette Informações Educacionãis Ltda., Serasa S.A., Botelho Industria e Distribuição Cinematográfica Ltda., and Citizen Watch do Brasil S/A and in Argentina brought by Nike International Ltd. and Iglesia Mesianica Mundial Sekai Kyusei Kio.

While we have been largely successful to date in settling existing claims by agreeing to monitor the brands, the current lack of laws related to the Internet results in great uncertainty as to the outcome of any future claims. Other companies providing similar services to us have also been subject to these types of claims in the United States and other countries. In June 2008, the Paris Court of Commerce ruled that eBay, Inc. and eBay International AG were liable to Louis Vuitton Malletier and Christian Dior Couture for failing to prevent the sale of counterfeit items on its web sites that traded on plaintiffs brand names and for interfering with the plaintiffs selective distribution network. The court awarded plaintiffs approximately EUR 38.6 million in damages and issued an injunction prohibiting all sales of perfumes and cosmetics bearing the Dior, Guerlain, Givenchy and Kenzo brands over all worldwide eBay sites to the extent they are accessible from France. We cannot assure you that MercadoLibre and MercadoPago will not be subject to similar suits, which could result in substantial awards and costly injunctions against us.

We continue to have outstanding litigation and, although we intend to defend each of these claims, we cannot assure you that we will be successful. This type of litigation is expensive for us, could result in damage awards or increased costs of doing business through adverse judgments or settlements, could require us to change our business practices in expensive ways, or could otherwise harm our business. Litigation against other online companies could result in interpretations of the law that could also require us to change our business practices or otherwise increase our costs.

In addition, new bills of laws have been introduced in the U.S. Congress proposing certain regulation to Internet companies with respect to intellectual property issues, like the Stop Online Piracy Act (SOPA) and the Protect Intellectual Property Act (PIPA), that would give intellectual property rights owners and the government broad powers to file lawsuits against websites accused of facilitating copyright infringement, and such lawsuits could result in, among other consequences, payment providers from doing business with allegedly infringing sites, as well as search engines being precluded from linking to, and Internet service providers being required to block access to, such sites. If these or similar laws were finally enacted, it could have a negative impact in our business.

We are subject to risks with respect to information and material disseminated through our platforms.

It is possible that third parties could bring claims against us for defamation, libel, invasion of privacy, negligence, or other theories based on the nature and content of the materials disseminated through our services. Other online services companies are facing several lawsuits for this type of liability. As mentioned previously, the liability of online services companies for content hosted and the information carried on or disseminated through their services is currently unclear in the Latin American countries where we operate. This could allow for claims being made against us by purportedly aggrieved third parties. For example, the MercadoLibre service contains a User Feedback feature, which includes reviews and ratings from users regarding the reliability of other users in paying or delivering goods sold in a transaction promptly. Although users generate all the feedback, it is possible that a party could bring a claim for defamation or other injury against us for content posted through the User Feedback feature. If we or other online services providers are held liable or potentially liable for information carried on or disseminated through our services, we may have to implement measures to reduce our exposure to this liability. Any measures we may need to implement may involve spending substantial resources and/or discontinuing certain services. Any costs that we incur as a result of liability or asserted liability could have a material adverse effect on our business, results of operations and financial condition. In addition, public attention to liability issues, lawsuits and legislative proposals could impact the growth of Internet use, and subsequently have a negative impact on our business results.

The market in which we operate is rapidly evolving and we may not be able to maintain our profitability.

As a result of the emerging nature of the markets in which we compete, the increased variety of services offered on our web site and the rapidly evolving nature of our business, it is particularly difficult for us to forecast our revenues or earnings accurately. In addition, we have no backlog and substantially all of our net revenues for each quarter are derived from listing fees, optional feature fees, up-front fees, final value fees, commissions on MercadoPago payments and advertising that are earned during that quarter. Our current and future expense levels are based largely on our investment plans and estimates of future revenues and are, to a large extent, fixed. We may not be able to adjust spending in a timely manner to compensate for any unexpected revenue shortfall. Accordingly, any significant shortfall in revenues relative to our planned expenditures would have an immediate adverse effect on our business, results of operations and financial condition.

If we continue to grow, we may not be able to appropriately manage the increased size of our business.

We are currently experiencing a period of significant expansion and anticipate that further expansion will be required to address potential growth in our customer base and market opportunities. This expansion has placed, and is expected to continue to place, a significant strain on management and our operational and financial resources.

We must constantly add new hardware, update software, enhance and improve our billing and transaction systems, and add and train new engineering and other personnel to accommodate the increased use of our web site and the new products and features we regularly introduce. This upgrade process is expensive, and the increasing complexity and enhancement of our web site results in higher costs. Failure to upgrade our technology, features, transaction processing systems, security infrastructure, or network infrastructure to accommodate increased traffic or transaction volume could harm our business. Adverse consequences could include unanticipated system disruptions, slower response times, degradation in levels of customer support, impaired quality of users   experiences of our services and delays in reporting accurate financial information.

Our revenues depend on prompt and accurate billing processes. Our failure to grow our transaction-processing capabilities to accommodate the increasing number of transactions that must be billed on our web site would harm our business and our ability to collect revenue.

Furthermore, we may need to enter into relationships with various strategic partners, web sites and other online service providers and other third parties necessary to our business. The increased complexity of managing multiple commercial relationships could lead to execution problems that can affect current and future revenues and operating margins.

Our current and planned systems, procedures and controls, personnel and third party relationships may not be adequate to support our future operations. Our failure to manage growth effectively could have a material adverse effect on our business, results of operations and financial condition.

Our systems may fail or suffer interruptions due to human acts, technical problems, or natural disasters.

Our success, and in particular our ability to facilitate trades or payments successfully and provide high quality customer service, depends on the efficient and uninterrupted operation of our computer and communications hardware systems. Substantially all of our computer hardware for operating the MercadoLibre Marketplace and MercadoPago services is currently located at the facilities of the Savvis Datacenter in Sterling, Virginia, with a redundant database backup in Atlanta, Georgia. These systems and operations are vulnerable to damage or interruption from earthquakes, tornadoes, floods, fires, power loss, computer viruses, telecommunication failures, physical or electronic break-ins, sabotage, intentional acts of vandalism, terrorism, and similar events. If our system suffers a major failure, it would take as much as several days to get the service running again because our Atlanta database is only a backup with very limited hardware. We also have no formal disaster recovery plan or alternative providers of hosting services and do not carry business interruption insurance to compensate us for losses that may occur. Despite any precautions we have taken and plan to take, if there is a natural disaster or major failure, a decision by our providers to close one of the facilities we use without adequate notice, or other unanticipated problem at the Virginia or Atlanta facilities, the services we provide could suffer interruptions. We currently have no plans to upgrade the Atlanta facility capabilities. Additionally, in the occurrence of such pronounced, frequent or persistent system failures, our reputation and name brand could be materially adversely affected.

We are subject to security breaches or other confidential data theft from our systems, which can adversely affect our reputation and business.

A significant risk associated with online commerce and communications is the secure transmission of confidential information over public networks. Currently, a number of MercadoLibre users authorize us to bill their credit card accounts or debit their bank accounts directly, or use MercadoPago for all the transaction fees that we charge. We rely on encryption and authentication necessary to provide the security and authentication technology to transmit confidential information securely, including customer credit card numbers and other account information. Advances in computer capabilities, new discoveries in the field of cryptography, or other events or developments may result in a compromise or breach of the technology that we use to protect customer transaction data. If our security were compromised, it could have a material adverse effect on our reputation. We cannot assure you that our security measures will prevent security breaches or that failure to prevent them will not have a material adverse effect on our business, results of operations and financial condition.

As stated above, our users are targeted by parties using fraudulent spoof and phishing emails to misappropriate passwords, credit card numbers, or other personal information or to introduce viruses to our users computers. Those emails appear to be legitimate emails sent by MercadoLibre or MercadoPago or by a user of one of our businesses, but direct recipients to fake websites operated by the sender of the email or misstates that certain payment was credited in MercadoPago and request that the recipient send the product sold or provide a password or other confidential information. Despite our efforts to mitigate spoof and phishing emails, those activities could damage our reputation and diminish the value of our brands or discourage use of our websites and increase our costs.

We depend on key personnel, the loss of which could have a material adverse effect on us.

Our performance depends substantially on the continued services and on the performance of our senior management and other key personnel. Our ability to retain and motivate these and other officers and employees is fundamental to our performance.

Our most senior executive officers have been with us since 2000 or before, providing us with a stable and experienced management team. The loss of the services of any of these executive officers or other key employees could have a material adverse effect on our business, results of operations and financial condition. We do not have employment agreements with any of our key technical personnel other than our senior executives (whose agreements are for an undetermined period and establish general employment terms and conditions) and maintain no key person life insurance policies. The option grants to most of our senior management and key employees are fully vested. Therefore, these employees may not have sufficient financial incentive to stay with us. Consequently we may have to incur costs to replace key employees who leave and our ability to execute our business model could be impaired if we cannot replace them in a timely manner.

Our future success also depends on our ability to identify, attract, hire, train, retain and motivate other highly skilled technical, managerial, marketing and customer service personnel. Competition for this personnel is intense, and we cannot assure you that we will be able to successfully attract, integrate, train, retain, motivate and manage sufficiently qualified personnel.

Currently our revenues depend substantially on up-front, final value fees and fees related to our payment solution we charge to sellers and such revenues may decrease if market conditions force us to lower such fees or if we fail to diversify our sources of revenue.

Our revenues currently depend primarily on up-front fees, final value fees and fees related to our payment solution that we charge to our sellers for listing and upon selling their items and services. Our platform depends upon providing access to a large market at a lower cost than other comparable alternatives. If market conditions force us to substantially lower our listing or final value fees or fees related to our payment solution or if we fail to continue to attract new buyers and sellers, and if we are unable to effectively diversify and expand our sources of revenue, our profitability, results of operations and financial condition could be materially and adversely affected.

We are subject to consumer trends and could lose revenue if certain items become less popular.

We derive substantially all of our revenues from fees charged to sellers for listing products for sale on our service, fees from successfully completed transactions and fees for making payments through MercadoPago. Our future revenues depend on continued demand for the types of goods that users list on the MercadoLibre Marketplace or pay with MercadoPago on or off the MercadoLibre Marketplace. The popularity of certain categories of items, such as computer and electronic products, cellular telephones, toys, clothing and sporting goods, among consumers may vary over time due to perceived availability, subjective value, and trends of consumers and society in general. A decline in the demand for or popularity of certain items sold through the MercadoLibre Marketplace without an increase in demand for different items could reduce the overall volume of transactions on the MercadoLibre service, resulting in reduced revenues. In addition, certain consumer fads may temporarily inflate the volume of certain types of items listed on the MercadoLibre Marketplace, placing a significant strain on our infrastructure and transaction capacity. These trends may also cause significant fluctuations in our operating results from one quarter to the next.

Retailers may encourage manufacturers to limit distribution of their products to dealers who sell through us, or may encourage the government to limit online commerce.

Manufacturers may attempt to enforce minimum resale price maintenance arrangements to prevent distributors from selling on our websites or on the Internet generally, or at prices that would make our site attractive relative to other alternatives. The adoption by manufacturers of policies, or the adoption of new laws or regulations or interpretations of existing laws or regulations by government authorities, in each case discouraging the sales of goods or services over the Internet, could force our users to stop selling certain products on our websites. Increased competition or anti-Internet distribution policies or regulations may result in reduced operating margins, loss of market share and diminished value of our brand. In order to respond to changes in the competitive environment, we may, from time to time, make pricing, service or marketing decisions or acquisitions that may be controversial with and lead to dissatisfaction among some of our sellers, which could reduce activity on our websites and harm our profitability.

The success of other e-commerce companies such as eBay and Amazon is not an indication of our future financial performance.

Several companies that operate e-commerce web sites, such as eBay and Amazon, have been successful and profitable in the past. However, we operate in a business environment that is different from eBay s and other e-commerce companies operating outside of Latin America. These differences include the smaller size of the national markets, lower Internet adoption rates, lower confidence in remote payment mechanisms, less reliable postal and parcel services, and less predictable political, economic regulatory and legal environments. Therefore, you should not interpret the success of any of these companies as indicative of our financial prospects.

We could be subject to liability and forced to change our MercadoPago business practices if we were found to be subject to or in violation of any laws or regulations governing banking, money transmission, tax regulation, anti-money laudering regulations or electronic funds transfers in any country where we operate.

A number of jurisdictions where we operate have enacted legislation regulating money transmitters. We believe we do not require a license under the existing statutes of Argentina, Brazil, Mexico, Chile, Colombia and Venezuela to operate MercadoPago with its current agency-based structure. If our operation of MercadoPago were found to be in violation of money services laws or regulations or any tax or anti-money laundering regulations, or engaged in an unauthorized banking or financial business, we could be subject to liability, forced to cease doing business with residents of certain countries, or forced to change our business practices or to become a financial entity. Any change to our MercadoPago business practices that makes the service less attractive to customers or prohibits its use by residents of a particular jurisdiction could decrease the speed of trade on the MercadoLibre Marketplace, which would further harm our business. Even if we are not forced to change our MercadoPago business practices, we could be required to obtain licenses or regulatory approvals that could be very expensive and time consuming, and we cannot assure you that we would be able to obtain these licenses in a timely manner or at all.

MercadoPago is susceptible to illegal uses, and we could potentially face liability for any illegal use of MercadoPago.

MercadoPago, like the MercadoLibre platform, is also susceptible to potentially illegal or improper uses, including, fraudulent and illicit sales, money laundering, bank fraud, different fraud schemes and online securities fraud. In addition, MercadoPago s service could be subject to unauthorized credit card use, identity theft, break-ins to withdraw account balances, employee fraud or other internal security breaches, and we may be required to reimburse customers for any funds stolen as a result of such breaches. Merchants could also request reimbursement, or stop using MercadoPago, if they are affected by buyer fraud.

In addition, MercadoPago may be subject to anti-money laundering laws and regulations that prohibit, among other things, its involvement in transferring the proceeds of criminal activities or impose taxes collection obligations or obligation to provide certain information about transactions occurred in our platforms, or about our users. Because of different laws and regulations in each jurisdiction where we operate, as we roll-out and adapt MercadoPago in other countries, additional verification and reporting requirements could apply. These regulations could impose significant costs on us and make it more difficult for new customers to join the MercadoPago network. Future regulation (under the USA Patriot Act or otherwise), may require us to learn more about the identity of our MercadoPago customers before opening an account, to obtain additional verification of customers and to monitor our customers activities more closely. These requirements, as well as any additional restrictions imposed by credit card associations, could raise our MercadoPago costs significantly and reduce the attractiveness of MercadoPago. Failure to comply with money laundering laws could result in significant criminal and civil lawsuits, penalties, and forfeiture of significant assets.

We incur losses from claims that customers did not authorize a purchase, from buyer fraud and from erroneous transmissions. In addition to the direct costs of such losses, if they are related to credit card transactions and become excessive, they could result in MercadoPago losing the right to accept credit cards for payment. If MercadoPago is unable to accept credit cards, our business will be adversely affected given that credit cards are the most widely used method for funding the MercadoPago accounts. We have taken measures to detect and reduce the risk of fraud on MercadoPago, such as running address verification system (AVS) and card security code (CSC) checks in some countries, calling users to have them answer personal questions to confirm their identity or asking users to fax extra documentation for higher risk transactions, implementing caps on overall spending per users and data mining to detect potentially fraudulent transactions. However, these measures may not be effective against current and new forms of fraud. If these measures do not succeed, excessive charge-backs may arise in the future and our business will be adversely affected.

Our failure to manage MercadoPago customer funds properly would harm our business.

Our ability to manage and account accurately for MercadoPago customer funds requires a high level of internal controls. We have neither an established operating history nor proven management experience in maintaining, over a long term, these internal controls. As MercadoPago continues to grow, we must strengthen our internal controls accordingly. MercadoPago s success requires significant public confidence in our ability to handle large and growing transaction volumes and amounts of customer funds. Any failure to maintain necessary controls or to properly manage customer funds could severely reduce customer use of MercadoPago.

MercadoPago is a relatively new service that faces competition from other payment method and competitors may adversely affect the success of MercadoPago.

MercadoPago competes with existing online and offline payment methods, including, among others, banks and other providers of traditional payment methods, particularly credit cards, checks, money orders, and electronic bank deposits; international online payments services such as Paypal and Google Checkout, and local online payment services such as DineroMail in Argentina, Chile, Colombia and Mexico, and Pagamento Digital and PagSeguro in Brazil; money remitters such as Western Union; the use of cash, which is often preferred in Latin America; and offline funding alternatives such as cash deposit and money transmission services. Some of these services may operate at lower commission rates than MercadoPago s current rates and, accordingly, we are subject to market pressures with respect to the commissions we charge for MercadoPago services.

MercadoPago s competitors may respond to new or emerging technologies and changes in customer requirements faster and more effectively than us. They may devote greater resources to the development, promotion, and sale of products and services than we do for MercadoPago. Competing services tied to established banks and other financial institutions may offer greater liquidity and create greater consumer confidence in the safety and efficacy of their services than MercadoPago. Established banks and other financial institutions currently offer online payments and those which do not yet provide such a service could quickly and easily develop it.

We are currently in the process of rolling out our direct payments product in some countries in order to provide a better experience to our users. For the same reason we are also charging a single final value fee for the right to use MercadoLibre and MercadoPago in those transactions. This change may result in our experiencing a lower combined take rate. We consider MercadoPago s direct payment s product to be in early release and have identified several opportunities to improve upon the product. In addition, the transition to the new system may not be a smooth one. The occurrence of any of these events could adversely affect our business.

We continue to expand MercadoPago s services internationally. We have no experience with the online payment solution in Costa Rica, the Dominican Republic, Ecuador, Panama, Peru, Portugal or Uruguay. In order to introduce MercadoPago in some countries we may require a close commercial relationship with one or more local banks. These or other factors may prevent, delay or limit our introduction of MercadoPago in other countries, or reduce its profitability.

We rely on banks or payment processors to fund transactions, and changes to credit card association fees, rules or practices may adversely affect our business.

Because MercadoPago is not a bank, we cannot belong to or directly access credit card associations, such as Visa and MasterCard. As a result, we must rely on banks or payment processors to process the funding of MercadoPago transactions and MercadoLibre Marketplace collections, and must pay a fee for this service. From time to time, credit card associations may increase the interchange fees that they charge for each transaction using one of their cards. The credit card processors of MercadoPago and the MercadoLibre Marketplace have the right to pass any increases in interchange fees on to us as well as increase their own fees for processing. These increased fees increase the operating costs of MercadoPago, reduce our profit margins from MercadoPago operations and, to a lesser degree, affect the operating margins of the MercadoLibre Marketplace.

We are also required by MercadoPago and MercadoLibre s processors to comply with credit card association operating rules. The credit card associations and their member banks set and interpret the credit card rules. Some of those member banks compete with MercadoPago. Visa, MasterCard, American Express or other credit card companies could adopt new operating rules or re-interpret existing rules that we or MercadoPago s processors might find difficult or even impossible to follow. As a result, we could lose our ability to provide MercadoPago customers the option of using credit cards to fund their payments and MercadoLibre users the option to pay their fees using a credit card. If MercadoPago were unable to accept credit cards, our MercadoPago business would be adversely affected.

We could lose the right to accept credit cards or pay fines if MasterCard and/or Visa determine that users are using MercadoPago to engage in illegal or high risk activities or if users generate a large amount of chargebacks. Accordingly, we are working to prevent high risk merchants from using MercadoPago.Additionally, we may be unable to access financing in the credit and capital markets at reasonable rates to fund our MercadoPago and for that reason our profitability and total payments volume could decrease.

Our operating results may be impacted by an economic crisis.

General adverse economic conditions, including the possibility of a severe recession and a worldwide economic slowdown, would adversely impact our operating results and business. If the current weakness in the global economy persists or or worsens, or the present global economic uncertainties persist for an extended period of time, many of our users, may delay or reduce their purchases of goods on the MercadoLibre Marketplace, which would reduce our revenues and have a material adverse impact on our business. Furthermore, future changes in trends could result in a material impact to future consolidated statements of income and cash flows.

The failure of the financial institutions with which we conduct business may have a material adverse effect on our business, operating results, and financial condition.

The financial services industry experienced a period of unprecedented turmoil in 2008 and 2009, characterized by the bankruptcy, failure or sale of various financial institutions and an unprecedented level of intervention from the United States and other governments. If the condition of the financial services industry again deteriorates or becomes weakened for an extended period of time, the following factors could have a material adverse effect on our business, operating results, and financial condition:

- Disruptions to the capital markets or the banking system may materially adversily affect the value of investments or bank deposits we currently consider safe or liquid. We may be unable to find suitable alternative investments that are safe, liquid, and provide a reasonable return. This could result in lower interest income or longer investment horizons.

- We may be required to increase the installment and financing fees we charge to customers for purchases made in installments or cease offering installment purchases altogether, each of which may result in a lower volume of transactions completed.

- We may be unable to access financing in the credit and capital markets at reasonable rates in the event we find it desirable to do so. Due to the nature of our MercadoPago business, we generate high account receivable balances that we typically sell to financial institutions, and accordingly, lack of access to credit, or bank liquidations could cause us to experience severe difficulties in paying our sellers.

- The failure of financial institution counterparties to honor their obligations to us under credit instruments could jeopardize our ability to rely on and benefit from those instruments. Our ability to replace those instruments on the same or similar terms may be limited under difficult market conditions.

A rise in interest rates may negatively affect our MercadoPago payment volume.

In each of Brazil, Argentina and Mexico, we offer users the ability to pay for goods purchased using MercadoPago in installments. In 2009, 2010 and 2011, installment payments represented 58.4%, 54.6% and 53.0% of MercadoPago s total payment volume, respectively. To facilitate the offer of the installment payment feature, we pay interest to credit card processors and issuer banks in Mexico and Argentina and we pay interest to advance credit card coupons in Brazil. In all of these cases, if interest rates increase, we may have to raise the installment fees we charge to users which would likely have a negative effect on MercadoPago s total payment volume.

Changes in MercadoPago s funding mix could adversely affect MercadoPago s results.

MercadoPago pays significant transaction fees when senders fund payment transactions using credit cards, PagoMisCuentas and Pago Fácil, nominal fees when customers fund payment transactions from their bank accounts in Brazil, Argentina and Mexico, and no fees when customers fund payment transactions from an existing MercadoPago account balance. Senders funded approximately 74.3%, 71.3% and 76.0% of MercadoPago s payment volume using credit cards during 2009, 2010 and 2011, respectively (either in a single payment or in installments), and MercadoPago s financial success will remain highly sensitive to changes in the rate at which its senders fund payments using credit cards. Senders may prefer credit card funding rather than bank account transfers for a number of reasons, including the ability to pay in installments in

Brazil, Mexico and Argentina, the ability to dispute and reverse charges if merchandise is not delivered or is not as described, the ability to earn frequent flyer miles or other incentives offered by credit cards, the ability to defer payment, or a reluctance to provide bank account information to us.

Changes in MercadoPago ticket mix could adversely affect MercadoPago s results.

The transaction fees MercadoPago pays in connection with certain means of payment such as OXXO are fixed regardless of the ticket price, and certain costs incurred in connection with the processing of credit card transactions are also fixed. Currently, MercadoPago charges a fee calculated as a percentage of each transaction. If MercadoPago receives a larger percentage of low ticket transactions its margin may erode or we may need to raise prices by including a fixed fee per transaction which, in turn, may affect the volume of transactions.

We have no business insurance coverage, which would require us to spend significant resources in the event of a disruption of our services or other contingency.

Insurance companies in Latin America offer limited business insurance products. We do not carry any business liability or disruption insurance coverage for our operations. Any business disruption, litigation, system failure or natural disaster may cause us to incur substantial costs and divert resources, which could have a material adverse effect on our business, results of operation and financial condition.

We may not be able to adequately protect and enforce our intellectual property rights. We could potentially face claims alleging that our technologies infringe the property rights of others.

We regard the protection of our copyrights, service marks, trademarks, domain names, trade dress and trade secrets as critical to our future success and rely on a combination of copyright, trademark, service mark and trade secret laws and contractual restrictions to establish and protect our proprietary rights in our products and services. We have entered into confidentiality and invention assignment agreements with our employees and certain contractors, and non-disclosure agreements with our employees and certain suppliers and strategic partners in order to limit access to and disclosure of our proprietary information. We cannot assure you that these contractual arrangements or the other steps that we have taken or will take in the future to protect our intellectual property will prove sufficient to prevent misappropriation of our technology or to deter independent third-parties from developing similar or competing technologies.

We pursue the registration of our domain names, trademarks, logos and service marks in each country where we operate, in the United States and in certain other Latin American countries. Effective trademark, service mark, copyright, domain name and trade secret protection may not be available or granted to us by the appropriate regulatory authority in every country in which our services are made available online. For example, since 1999, we have filed several applications to register the name MercadoLivre and our logo in Brazil. Although most of the applications are still pending, certain applications were denied in that country under the argument that the name was descriptive of its activities. We cannot assure you that we will succeed in obtaining these trademarks or in our challenges to existing or future applications by other parties or by the Instituto Nacional da Propriedade Industrial (the National Institute of Industrial Property). If we are not successful, MercadoLibre s ability to protect its brand in Brazil against third-party infringers would be compromised and we could face claims by any future trademark owners. Any past or future claims relating to these issues, whether meritorious or not, could cause us to enter into costly royalty and/or licensing agreements. If any of these claims against us are successful we may also have to modify our brand name in certain countries. Any of these circumstances could adversely affect our business, results of operations and financial condition.

We have licensed in the past, and expect that we may license in the future, certain of our proprietary rights, such as trademarks or copyrighted material, to third parties. While we attempt to ensure that our licensees maintain the quality of the MercadoLibre brand, our licensees may take actions that could materially adversely affect the value of our proprietary rights or reputation, which could have a material adverse effect on our business, results of operations and financial condition.

To date, we have not been notified that our technology infringes on the proprietary rights of third parties, but third parties may claim infringement on our part with respect to past, current or future technologies or features of our services. We expect that participants in our markets will be increasingly subject to infringement claims as the number of services and competitors in the e-commerce segment grows. Any of these claims could have a material adverse effect upon our business, results of operations and financial condition.

Since 2001, eBay has been subject to a lawsuit alleging infringement of patents relating to online consignment auction technology, multiple database searching and electronic consignment systems. In September 2001, MercExchange LLC filed a complaint against eBay and their subsidiaries in the U.S. District Court for the Eastern District of Virginia alleging infringement of three patents (relating to online consignment auction technology, multiple database searching and electronic consignment systems) and seeking a permanent injunction and damages (including treble damages for willful infringement). Following a trial and jury verdict, in August 2003, the court entered judgment for MercExchange in the amount of approximately $30 million plus pre-judgment interest and post-judgment interest, but refused to grant an injunction. eBay appealed the verdict and judgment in favor of MercExchange, and MercExchange filed a cross-appeal. In May, 2006, following appeals to the U.S. Court of Appeals for the Federal Circuit and the U.S. Supreme Court, the Supreme Court ruled that an outright denial of an injunction in a patent case is not appropriate, and remanded the case to the district court for further proceedings. On August 28, 2006, MercExchange renewed its motion for a permanent injunction in the U.S. District Court for the Eastern District of Virginia. Final briefs on such motion were filed in March 2007, and in July 2007, the U.S. District Court for the Eastern District of Virginia denied MercExchange s motion for permanent injunction. MercExchange subsequently entered a notice of appeal. In December 2007, the court entered judgment for MercExchange for $25 million plus prejudgment and post judgment interest. eBay subsequently entered a notice of appeal.

In February 2008, eBay and all parties involved agreed to settle and dismiss all claims and appeals stemming from the lawsuit. As a part of the settlement, eBay will purchase all three patents involved in the lawsuit, and related technology and inventions, as well as a license to another search-related patent portfolio that was not asserted in the lawsuit.

From time to time, we are involved in other disputes or regulatory inquiries that arise in the ordinary course of business. The number and significance of these disputes and inquiries are increasing as our business expands and we grow larger. Any claims or regulatory actions against us, whether meritorious or not, could be time consuming, result in expensive litigation, require significant amounts of management time, and result in the diversion of significant operational resources.

We may not be able to secure licenses for third-party technologies upon which we rely.

We rely on certain technologies that we license from third parties, such as Oracle Corp., SAP AG, Salesforce.com Inc., Microstrategy, Radware, Juniper Networks, Cisco Systems Inc, F5 Networks, and Netapp, the suppliers of key database technology, operating system and specific hardware components for our services. We cannot assure you that these third-party technology licenses will continue to be available to us on commercially reasonable terms. If we were not able to make use of this technology, we would need to obtain substitute technology that may be of lower quality or performance standards or at greater cost, which could materially adversely affect our business, results of operations and financial condition.

Problems that affect our third-party service providers could potentially adversely affect us as well.

A number of parties provide beneficial services to us or to our users. These services include the hosting of our servers, and the postal and payments infrastructures that allow users to deliver and pay for the goods and services traded amongst themselves, in addition to paying their MercadoLibre Marketplace bills. Financial, regulatory, or other problems that might prevent these companies from providing services to us or our users could reduce the number of listings on our web sites or make completing transactions on our web sites more difficult, which would harm our business. Any security breach at one of these companies could also affect our customers and harm our business. Although we generally have been able to renew or extend the terms of contractual arrangements with these third party service providers on acceptable terms, we cannot assure you that we will continue to be able to do so in the future.

Complaints from customers or negative publicity about our services can diminish consumer confidence and adversely affect our business.

Because volume and growth in adoption of new users are key factors for our profitability, customer complaints or negative publicity about our customer service could severely diminish consumer confidence in and use of our services. Measures we sometimes take to combat risks of fraud and breaches of privacy and security can damage relations with our customers. To maintain good customer relations, we need prompt and accurate customer service to resolve irregularities and disputes. Effective customer service requires significant personnel expense and investment in developing programs and technology infrastructure to help customer service representatives carry out their functions. These expenses, if not managed properly, could significantly impact our profitability. Failure to manage or train our customer service representatives properly could compromise our ability to handle customer complaints effectively. If we do not handle customer complaints effectively, our reputation may suffer and we may lose our customers confidence.

As part of our program to reduce fraud losses in relation to MercadoPago, we make use of MercadoPago anti-fraud models and we may temporarily restrict the ability of customers to withdraw their funds if we identify those funds or the customer s account activity as suspicious. MercadoPago has not been subject to any significant negative publicity about this. However, users who were banned from withdrawing funds or received fake mail appearing to be sent by MercadoPago initiated legal actions against us. As a result of our efforts to police the use of our services, MercadoPago may receive negative publicity, our ability to attract new MercadoPago customers may be damaged, and we could become subject to litigation. If any of these events happen, current and future revenues could suffer, and our database technology operating margins may decrease. In addition, negative publicity about or experiences with MercadoPago customer support could cause MercadoLibre s reputation to suffer or affect consumer confidence in the MercadoLibre brand.

If our goodwill becomes impaired, we may be required to record a significant charge to earnings.

As of December 31, 2011, we have recorded goodwill for approximately 17.4% of our consolidated assets. Under United States Generally Accepted Accounting Principles (US GAAP), we review our goodwill for impairment annually or more frequently when events or changes in circumstances indicate that the carrying value may not be recoverable. Factors that may be considered a change in circumstances indicating that the carrying value of our goodwill may not be recoverable include a decline in stock price and market capitalization, future cash flows, and slower growth rates in our industry. We may be required to record a significant charge to earnings in our financial statements during the period in which any impairment of our goodwill is determined, resulting in an adverse impact on our results of operations.

We may not realize benefits from recent or future strategic acquisitions of businesses, technologies, services or products despite their costs in cash and dilution to our stockholders.

We intend to continue to acquire businesses, technologies, services or products, as we have done in the past with our acquisitions of iBazar, Lokau, DeRemate, CMG and AutoPlaza, which we believe are strategic if an appropriate opportunity presents itself. We may not, however, be able to identify, negotiate or finance such future acquisitions successfully or at favorable valuations, or to effectively integrate these acquisitions with our current business. The process of integrating an acquired business, technology, service or product into our business may result in unforeseen operating difficulties and expenditures. Moreover, future acquisitions may also generate unforeseen pressures and/or strains on our organizational culture.

Additionally, acquisitions could result in potentially dilutive issuances of equity securities, the incurrence of debt, contingent liabilities and/or amortization expenses related to goodwill and other intangible assets, which could materially adversely affect our business, results of operations and financial condition. Any future acquisitions of other businesses, technologies, services or products might require us to obtain additional equity or debt financing, which might not be available on favorable terms, or at all. If debt financing for potential future acquisitions is unavailable, we may determine to issue shares of our common stock in connection with such an acquisition and any such issuance could result in the dilution of our common stock.

We are subject to seasonal fluctuations in our results of operations.

We believe that our results of operations are somewhat seasonal in nature (as is the case with traditional retailers), with relatively fewer listings and transactions in the first quarters of the year, and increased activity as the year-end shopping season initiates. This seasonality is the result of fewer listings after the Christmas and other holidays and summer vacation periods in our Southern hemisphere markets. To some degree, our historical rapid growth may have overshadowed seasonal or cyclical factors that might have influenced our business to date. Seasonal or cyclical variations in our operations could become more pronounced over time, which could materially adversely affect our quarter to quarter results of operations in the future.

We operate in a highly competitive and evolving market, and therefore face potential reductions in the use of our service.

The market for trading over the Internet is relatively new in Latin America, rapidly evolving and intensely competitive, and we expect competition to become more intense in the future. Barriers to entry are relatively low, and current offline and new competitors, including small businesses who want to create and promote their own stores or platforms, can easily launch new sites at relatively low cost using software that is commercially available. We currently or potentially compete with a number of other companies.

Our direct competitors include various online sales and auction services, including MasOportunidades.com in Argentina, and a number of other small services, including those that serve specialty markets. We also compete with business-to-consumer online e-commerce services, such as pure play Internet retailer Submarino (a website of B2W Inc), and a growing number of bricks and mortar retailers who have launched on line offerings such as Americanas (a website of B2W Inc), Casas Bahia and Falabella, OLX, QueBarato and with shopping comparison sites located throughout Latin America such as Buscape and Bondfaro, located throughout Latin America. In addition, we compete with online communities that specialize in classified advertisements. Although no regional competitor exists in the classified market, local players such as Webmotors, VivaStreet and Zap have important positions in certain markets.

We face competition from a number of large online communities and services that have expertise in developing online commerce and facilitating online interaction. Certain of these competitors, including Google, Amazon.com, Microsoft and Yahoo! currently offer a variety of business-to-consumer commerce services, searching services and classified advertising services, and certain of these companies may introduce broader online commerce to their large user populations. Other large companies with strong brand recognition and experience in online commerce, such as large newspaper or media companies also compete in the online listing market. Companies with experience in online commerce, such as Amazon, may also seek to compete in the online listing market in Latin America. We also compete with traditional brick-and-mortar retailers to the extent buyers choose to purchase products in a physical establishment as opposed to on our platform. In connection with our payment solution, our direct competitors include international online payments services such as Paypal and Google Checkout, and local online payment services such as DineroMail in Argentina, Chile, Colombia and Mexico, and Pagamento Digital and PagSeguro in Brazil; money remitters such as Western Union. Any or all of these companies could create competitive pressures, which could have a material adverse effect on our business, results of operations and financial condition.

In addition, if certain websites stop linking or containing links in their properties that send us traffic across the internet in the future, our gross merchandise volume could substantially decrease and we could suffer a material adverse effect on our business, financial condition and results of operations.

We no longer have a non-competition arrangement with eBay. If eBay were to compete directly with us by launching a competing platform in Latin America, it would have a material adverse effect on our results of operations and prospects. Similarly, eBay or other larger, well-established and well-financed companies may acquire, invest in or enter into other commercial relationships with competing online commerce services. Therefore, some of our competitors and potential competitors may be able to devote greater resources to marketing and promotional campaigns, adopt more aggressive pricing policies and devote substantially more resources to web site and systems development than us, which could adversely affect us.

In many cases, companies that directly or indirectly compete with us provide Internet access. These competitors include incumbent telephone companies, cable companies, mobile communications companies and large Internet service providers. Some of these providers may take measures that could degrade, disrupt, or increase the cost of customers use of our services. For example, they could restrict or prohibit the use of their lines for our services, filter, block or delay the packets containing the data associated with our products, charge increased fees to us or our users for use of their lines to provide our services, or seek to charge us for our customers use of our services or receipt of our e-mails. These activities are technically feasible. Although we have not identified any providers who intend to take these actions, any interference with our services or higher charges for access to the Internet, could cause us to lose existing users, impair our ability to attract new users, limit our potential expansion and harm our revenue and growth.

Risks related to doing business in Latin America

Political and economic conditions in Venezuela may have an adverse impact on our operations.

We conduct significant operations in Venezuela, offering both our MercadoLibre Marketplace and MercadoPago online payments solution, and have 139 employees who work in the country. For the year ended December 31, 2011, our Venezuelan net revenues represented 11.6% of our consolidated net revenues. The political and economic conditions in Venezuela are very unstable, and we cannot predict the impact of any future political and economic events on our business. We cannot predict the economic and regulatory impact of President Chávez s initiatives, or whether the Venezuelan government will extend nationalization to e-commerce or other businesses that could impact our business and results of operations. Nationalization of telecommunications, electrical or other companies could reduce our or our customers access to our web site or our services or increase the costs of providing or accessing our services. Certain political events have also resulted in significant civil unrest in the country. Continuation or worsening of the political and economic conditions in Venezuela could materially and adversely impact our future business, financial condition and results of operations.

Venezuela has suffered severe electricity shortages that prompted the Venezuelan government to declare an energy emergency. This situation could impact the operation of our automobile classifieds points of sale in Venezuela as well as our Venezuelan users ability to access the Internet, either of which could have a material adverse impact on our business.

In addition, the Venezuelan government has imposed foreign exchange and price controls on the local currency. These foreign exchange controls increase our costs to, and also limit our ability to, convert local currency into U.S. dollars and transfer funds out of Venezuela, and may have an adverse effect on our Venezuelan customers. We cannot predict the long-term effects of exchange controls on our ability to process payments from Venezuelan customers or on the Venezuelan economy in general.

Venezuela had an official exchange rate which was 2.15 Bolivares Fuertes per U.S. dollar as of December 31, 2009, and a parallel exchange rate that was 6.05 Bolivares Fuertes per US dollar at December 31, 2009. On January 8, 2010, the Venezuelan government announced that the fixed official rate of 2.15 Bolivares Fuertes per US would be changed to a dual system that included a rate of 2.6 Bolivares Fuertes per US dollar for food and heavy machine importers and a rate of 4.3 Bolivares Fuertes per US dollar for all others.

In 2009, we requested U.S. dollars at the official exchange rate for the first time for dividend distributions, through a process that included obtaining approval from the Venezuelan Commission of Foreign Exchange Administration (CADIVI). We cannot predict if we will obtain approval of the CADIVI to distribute dividends using the official Venezuelan exchange rate, and the future impact in our financial condition. Starting in the fourth quarter of 2009, as a result of the changes in facts and circumstances that affected the Company s ability to convert currency for dividends remittances using the official exchange rate in Venezuela, our Venezuelan subsidiaries assets, liabilities, income and expense accounts were translated using the parallel exchange rate.

Until May 13, 2010, the only way by which US dollars could be purchased outside the official currency market was using an indirect mechanism consisting in the purchase and sale of securities, including national public debt bonds (DPNs) denominated in Bolivares Fuertes and bonds issued by the government that were denominated in U.S. dollars. This mechanism for transactions in certain securities created an indirect parallel foreign currency exchange market in Venezuela that enabled entities to obtain foreign currency through financial brokers without going through CADIVI. Although the parallel exchange rate was higher, and accordingly less beneficial, than the official exchange rate, some entities used the parallel market to exchange currency because, as it was already mentioned, CADIVI used not to approve in a timely manner the exchange of currency requested by such entities. Until May 13, 2010, our Venezuelan subsidiaries used this mechanism to buy US dollars and accordingly we used the parallel average exchange rate to re-measure those foreign currency transactions.

However, on May 14th, 2010, the Venezuelan government enacted reforms to its exchange regulations and closed down the parallel market by declaring that foreign-currency-denominated securities issued by Venezuelan entities were included in the definition of foreign currency, thus making the Venezuelan Central Bank (BCV) the only institution that could legally authorize the purchase or sale of foreign currency bonds, thereby excluding non-authorized brokers from the foreign exchange market.

Trading of foreign currencies was re-opened as a regulated market on June 9, 2010 with the BCV as the only institution through which foreign currency-denominated transactions can be brokered. Under the new system, known as the Foreign Currency Securities Transactions System (SITME), entities domiciled in Venezuela can buy U.S. dollar denominated securities only through banks authorized by the BCV to import goods, services or capital inputs. Additionally, the SITME imposes volume restrictions on an entity s trading activity, limiting such activity to a maximum equivalent of $50,000 per day, not to exceed $350,000 in a calendar month. This limitation is non-cumulative, meaning that an entity cannot carry over unused volume from one month to the next.

As a consequence of this new system, commencing on June 9, 2010, we transitioned from the parallel exchange rate to the SITME rate and started re-measuring foreign currency transactions using the SITME rate published by BCV, which was 5.27 Bolivares Fuertes per U.S. dollar as of June 9, 2010.

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

Accordingly, the June 9, 2010 exchange rate published by the Venezuelan Central Bank has been used to re-measure transactions during the abovementioned period.

In addition, due to unstable political and economic conditions in Venezuela, the official and parallel exchange rates could continue to devalue significantly. Strong devaluations or changes in accounting rules could impact our results materially and we may have to recognize losses in the future.

For accounting purposes, Venezuela was designated as a highly inflationary economy beginning January 1, 2010 because the three-year cumulative blended inflation rate exceeded 100%. For this reason, as from that date, we are required to account for the operations of our Venezuelan subsidiaries using the functional currency of MercadoLibre, Inc., which is the U.S. dollar, rather than the Bolivar Fuerte as the functional currency. As a consequence, we may experience a decrease in terms of U.S. dollars of our Venezuela revenues and expenses, which would have an adverse impact on our reported results of operations in U.S. dollars.

The devaluation of the Venezuelan currency, the highly inflationary status and the government price control could have a material adverse effect on the country s economy and adversely affect our business, financial condition and results of operations.

We face the risk of political and economic crises, instability, terrorism, civil strife, expropriation and other risks of doing business in emerging markets.

We conduct our operations in emerging market countries in Latin America. Economic and political developments in these countries, including future economic changes or crises (such as inflation, currency devaluation or recession), government deadlock, political instability, terrorism, civil strife, changes in laws and regulations, expropriation or nationalization of property, and exchange controls could impact our operations or the market value of our common stock and have a material adverse effect on our business, financial condition and results of operations.

In the past, the performance of the economies of Latin American countries has been affected by each country s political situation. For example, during its crisis in 2001 and 2002, Argentina experienced social and political turmoil, including civil unrest, riots, looting, protests, strikes and street demonstrations which have resulted in significant changes in its general economic policies and regulations. More recently, the Venezuelan and Bolivian administrations have nationalized or announced plans to nationalize certain industries and expropriate certain companies and property, and, in Venezuela, as described above, the administration has imposed exchange controls.

Although economic conditions in one country may differ significantly from another country, we cannot assure that events in one country alone will not adversely affect the market value of, or market for, our common stock.

Concerns regarding a downgrade of the U.S. credit rating and the sovereign debt crisis in Europe could have a material adverse effect on our business, financial condition and liquidity.

On August 5, 2011, Standard & Poor s lowered its long term sovereign credit rating on the United States of America from AAA to AA+. While U.S. lawmakers reached agreement to raise the federal debt ceiling on August 2, 2011, the downgrade reflected Standard & Poor s view that the fiscal consolidation plan within that agreement fell short of what would be necessary to stabilize the U.S. government s medium term debt dynamics. Further downgrades, or downgrades initiated by other rating agencies, could have material adverse impacts on financial markets and economic conditions in the United States and throughout the world and, in turn, the market s anticipation of these impacts could have a material adverse effect on our business, financial condition and liquidity. In particular, it could disrupt payment systems, money markets, long-term or short-term fixed income markets, foreign exchange markets, commodities markets and equity markets and adversely affect the cost and availability of funding and certain impacts, such as increased spreads in money market and other short term rates, have been experienced already. Because of the unprecedented nature of negative credit rating actions with respect to U.S. government obligations, the ultimate impacts on global markets and our business, financial condition and liquidity are unpredictable and may not be immediately apparent.

In addition, global markets and economic conditions have been negatively impacted by the ability of certain European Union (EU) member states to service their sovereign debt obligations. The continued uncertainty over the outcome of the EU governments financial support programs and the possibility that other EU member states may experience similar financial troubles could further disrupt global markets. In particular, it has and could in the future disrupt equity markets and result in volatile bond yields on the sovereign debt of EU members. These factors could have an adverse effect on our business, financial condition and liquidity.

Latin American governments have exercised and continue to exercise significant influence over the economies of the countries where we operate. This involvement, as well as political and economic conditions, could adversely affect our business.

Governments in Latin America frequently intervene in the economies of their respective countries and occasionally make significant changes in policy and regulations. Governmental actions to control inflation and other policies and regulations have often involved, among other measures, price controls, currency devaluations, capital controls and limits on imports. Our business, financial condition, results of operations and prospects may be adversely affected by changes in government policies or regulations, including such factors as: exchange rates and exchange control policies; inflation rates; interest rates; tariff and inflation control policies; price control policies, import duties on information technology equipment; liquidity of domestic capital and lending markets; electricity rationing; tax policies, including royalty, tax increases and retroactive tax claims; and other political, diplomatic, social and economic developments in or affecting the countries where we operate. An eventual reduction of foreign investment in any of the countries where we operate may have a negative impact on such country s economy, affecting interest rates and the ability of companies such as ourselves to access financial markets. In addition, our employees in Brazil and some of our employees in Argentina are currently represented by a labor union and employees in other Latin American countries may eventually become unionized. We may incur increased payroll costs and reduced flexibility under labor regulations if unionization in other countries were to occur, any of which may negatively impact our business.

Latin America, including Argentina, has experienced adverse economic conditions.

Latin American countries have historically experienced uneven periods of economic growth, as well as recession, periods of high inflation and economic instability. Currently, as a consequence of adverse economic conditions in global markets and diminishing commodity prices, many of the economies of Latin American countries have slowed their rates of growth, and some have entered mild recessions. The duration and severity of this slowdown is hard to predict and could adversely affect our business, financial condition, and results of operations. Additionally, certain countries have experienced severe economic crises, which may still have future effects. For example, in 2001 Argentina defaulted on its sovereign debt due to severe economic turmoil. In the first half of 2005, Argentina restructured part of this sovereign debt. Certain creditors did not agree to the restructuring. Argentina s past default and its failure to restructure completely its remaining sovereign debt and fully negotiate with the holdout creditors may prevent Argentina from obtaining favorable terms or interest rates when accessing the international capital markets. Litigation initiated by holdout creditors or other parties may result in material judgments against the Argentine government and could result in attachments of or injunctions relating to assets of Argentina that the government intended for other uses. As a result, the government may not have the financial resources necessary to implement reforms and foster growth, which could have a material adverse effect on the country s economy.

In addition, as a result of this economic instability, the Argentine peso has been subject to significant devaluation in the past and may be subject to significant fluctuations in the future. In August 2008, Standard & Poor s Inc. downgraded Argentina s foreign debt rating based upon renewed concerns regarding economic conditions and rising fears of increased inflationary pressures. Such economic turmoil has given rise to significant uncertainties about Argentina s economic and political future. It is currently unclear whether the economic and political instability experienced over the past several years will continue and it is possible, that despite recent economic growth, Argentina may return to a deeper recession, higher inflation and unemployment and greater social unrest. We conduct significant operations in Argentina, offering both our MercadoLibre Marketplace and MercadoPago online payments solution in Argentina and have our corporate headquarters in that country. Argentina is our third leading revenue producing country. As a result, our business is to a very large extent dependent upon the economic conditions prevalent in Argentina and adverse economic conditions in that country, as well as any other Latin American country in which we operate, could have a material adverse affect on our business, financial condition and results of operations.

Local currencies used in the conduct of our business are subject to depreciation, volatility and exchange controls.

The currencies of many countries in Latin America, including Brazil, Argentina, Mexico and Venezuela, which together accounted for 94.0% of our revenues for 2009, 93.5% for 2010 and 93.6% of our revenues for 2011, have experienced volatility in the past, particularly against the U.S. dollar. Currency movements, as well as higher interest rates, have materially and adversely affected the economies of many Latin American countries, including countries which account or are expected to account for a significant portion of our revenues. The depreciation of local currencies creates inflationary pressures that may have an adverse effect on us and generally restricts access to the international capital markets. For example, the devaluation of the Argentine peso has had a negative impact on the ability of Argentine businesses to honor their foreign currency denominated debt, led to very high inflation initially, significantly reduced real wages, had a negative impact on businesses whose success is dependent on domestic market demand, and adversely affected the government s ability to honor its foreign debt obligations. On the other hand, the appreciation of local currencies against the U.S. dollar may lead to the deterioration of public accounts and the balance of payments of the countries where we operate, and may reduce export growth in those countries.

We may be subject to exchange control regulations which might restrict our ability to convert local currencies into U.S. dollars. For example, in 2001 and 2002, Argentina imposed exchange controls and transfer restrictions substantially limiting the ability of companies to retain foreign currency or make payments abroad. During 2011 and in the first two month of 2012, Ministry of Economy and Argentine Central Bank implemented controls and transfer restrictions substantially limiting the ability of companies to buy dollars or make payments abroad. In addition, Brazilian law provides that whenever there is a serious imbalance in Brazil s balance of payments or reason to foresee a serious imbalance, the Brazilian government may impose temporary restrictions on the remittance to foreign investors of the proceeds of their investments in Brazil. Currently, Venezuela has exchange control regulations in place that restrict our ability to convert local currency into U.S. dollars. In addition, in May 2010, the Venezuelan government imposed additional foreign exchange controls under a newly implemented regulatory system controlled by the Central Bank of Venezuela. Among other things, the new exchange rate system prohibits trading of foreign currencies through parallel market transactions, sets a standard exchange rate, imposes volume restrictions on a Venezuelan entity s ability to purchase U.S. dollar-denominated securities and imposes strict criminal and economic sanctions on the use of methods other than those officially designated for the exchange of Venezuelan currency with other currencies. These new regulations will limit our Venezuelan subsidiaries access to U.S. dollars. In addition, if current volume restrictions on foreign exchange imposed by the government worsen significantly or new regulations are implemented which impact our ability to settle transactions at either the official rates or SITME rate, we could be required to deconsolidate our Venezuelan operations for accounting purposes, which would reduce our consolidated net revenues, consolidated income from operations and other income statement lines, except for net income and earnings per share.

Our reporting currency is the U.S. dollar but our revenues are paid in foreign currencies. Therefore, if the U.S. dollar strengthens relative to these foreign currencies (i.e. the foreign currencies devaluate against the U.S. dollar), the economic value of our revenues in U.S. dollar terms will decline.

We are subject to increased risks relating to foreign currency exchange rate fluctuations. Because we conduct our business outside the United States and receive almost all of our revenues in currencies other than the U.S. dollar, but report our results in U.S. dollars, we face exposure to adverse movements in currency exchange rates. The currencies of certain countries where we operate, including most notably Brazil, Argentina, Mexico and Venezuela, have historically experienced significant devaluations. The results of operations in the countries where we operate are exposed to foreign exchange rate fluctuations as the financial results of the applicable subsidiaries are translated from the local currency into U.S. dollars upon consolidation. If the U.S. dollar weakens against foreign currencies, as occurred in previous years, the translation of these foreign-currency-denominated transactions will result in increased net revenues, operating expenses, and net income. Similarly, our net revenues, operating expenses, and net income will decrease if the U.S. dollar strengthens against the foreign currencies of countries in which we operate. For the year ended December 31, 2011, 55.5% of our revenues were denominated in Brazilian Reais, 19.0% in Argentine Pesos , 11.6% in Venezuelan Bolivares Fuertes , and 7.5% in Mexican Pesos . The foreign currency exchange rates for the full year 2011 relative to 2010 resulted in higher net revenues of approximately $7.1 million and an increase in aggregate cost of net revenues and operating expenses of approximately $5.1 million. The foreign currency exchange rates for the full year 2010 relative to 2009 resulted in lower net revenues of approximately $10.2 million and a decrease in aggregate cost of net revenues and operating expenses of approximately $4.8 million. The foreign currency exchange rates for the full year 2009 relative to 2008 resulted in lower net revenues of approximately $22.5 million and a decrease in aggregate cost of net revenues and operating expenses of approximately $15.5 million. The abovementioned foreign currency exchange rate effect includes the Venezuelan translation effect discussed in Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations Critical accounting policies and estimates Foreign Currency Translation . While we have entered in the past into transactions to hedge portions of our foreign currency translation exposure, these are expensive, and in addition it is very difficult to perfectly predict or completely eliminate the effects of this exposure.

Inflation and certain government measures to curb inflation may have adverse effects on the economies of the countries where we operate, our business and our operations.

Most Latin American countries have historically experienced high rates of inflation. Inflation and some measures implemented to curb inflation have had significant negative effects on the economies of Latin American countries. Governmental actions taken in an effort to curb inflation, coupled with speculation about possible future actions, have contributed to economic uncertainty over the years in most Latin American countries. The Latin American countries where we operate may experience high levels of inflation in the future that could lead to further government intervention in the economy, including the introduction of government policies that could adversely affect our results of operations. In addition, if any of these countries experience high rates of inflation, particularly in Venezuela, which recently was determined to be highly inflationary, we may not be able to adjust the price of our services sufficiently to offset the effects of inflation on our cost structures. A return to a high inflation environment would also have negative effects on the level of economic activity and employment and adversely affect our business and results of operations.

Developments in other markets may affect the Latin American countries where we operate, our financial condition and results of operations.

The market value of securities of companies such as ourselves, may be, to varying degrees, affected by economic and market conditions in other global markets. Although economic conditions vary from country to country, investors perceptions of the events occurring in one country may substantially affect capital flows into and securities from issuers in other countries, including Latin American countries. Various Latin American economies have been adversely impacted by the political and economic events that occurred in several emerging economies in recent times, including Mexico in 1994, the collapse of several Asian economies between 1997 and 1998, the economic crisis in Russia in 1998, the Brazilian devaluations in January of 1999 and in 2002, the Argentine crisis of 2001 and the market decline after September 11, 2001. Furthermore, Latin American economies may be affected by events in developed economies which are trading partners or that impact the global economy.

Developments of a similar magnitude to the international markets in the future can be expected to adversely affect the economies of Latin American countries and therefore us.

E-commerce transactions in Latin America may be impeded by the lack of secure payment methods.

Unlike in the United States, consumers and merchants in Latin America can be held fully liable for credit card and other losses due to third-party fraud. As secure methods of payment for e-commerce transactions have not been widely adopted in Latin America, both consumers and merchants generally have a relatively low confidence level in the integrity of e-commerce transactions. In addition, many banks and other financial institutions have generally been reluctant to give merchants the right to process online transactions due to these concerns about credit card fraud. Unless consumer fraud laws in Latin American countries are modified to protect e-commerce merchants and consumers, and until secure, integrated online payment processing methods are fully implemented across the region, our ability to generate revenues from e-commerce may be limited, which could have a material adverse effect on our company.

Risks related to our shares

The price of our shares of common stock may fluctuate substantially, and our stockholders investment may decline in value.

The trading price of our common stock may be highly volatile and could be subject to wide fluctuations in response to factors, many of which are beyond our control, including those described above under Risks related to our business.

Further, the stock markets in general, and the Nasdaq Global Market and the market for Internet-related and technology companies in particular, have experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of these companies. We cannot assure you that trading prices and valuations will be sustained. These broad market and industry factors may materially and adversely affect the market price of our common stock, regardless of our operating performance. Market fluctuations, as well as general political and economic conditions in the countries where we operate, such as recession or currency exchange rate fluctuations, may also adversely affect the market price of our common stock. In the past, following periods of volatility in the market price of a company s securities, that company is often subject to securities class-action litigation. This kind of litigation could result in substantial costs and a diversion of management s attention and resources, which would have a material adverse effect on our business, results of operations and financial condition. In addition, the market price of our common stock may fluctuate in connection with the declaration and payment of quarterly or special dividends on our common stock.

We continue to be significantly influenced by a group of stockholders that control a significant percentage of our common stock and the value of our common stock could be negatively affected by any significant disposition of our shares by any of these stockholders.

Certain stockholders own a significant percentage of our common stock. As of December 31, 2011, eBay owned approximately 8.1 million shares of our common stock (which represents 18.4% of our outstanding common stock as of December 31, 2011). Certain members and certain entities affiliated with members of our management also hold a significant percentage of our common stock. These stockholders retain the power to influence the outcome of important corporate decisions or matters submitted to a vote of our stockholders. The interests of these stockholders may conflict with, or differ from, the interests of other holders of our common stock. For example, these stockholders could cause us to make acquisitions that increase the amount of our indebtedness or outstanding shares of common stock, sell revenue-generating assets or inhibit change of control transactions that benefit other stockholders. They may also pursue acquisition opportunities that may be complementary to our business, and as a result, those acquisition opportunities may not be available to us. So long as these stockholders continue to own a substantial number of shares of our common stock, they will significantly influence all our corporate decisions and together with other stockholders may be able to effect or inhibit changes in control of our company.

Additionally, the actual sale, communication of an intention to sell or perceptions that any of the above mentioned stockholders may sell any significant amount of our common stock could negatively impact the market value of our common stock.

Provisions of our certificate of incorporation and Delaware law could inhibit others from acquiring us, prevent a change of control, and may prevent efforts by our stockholders to change our management.

Certain provisions of our certificate of incorporation and by-laws may inhibit a change of control that our board of directors does not approve or changes in the composition of our board of directors, which could result in the entrenchment of current management.

These provisions include:

- advance notice requirements for stockholder proposals and director nominations;
- a staggered board of directors;
- limitations on the ability of stockholders to remove directors other than for cause;
- limitations on the ability of stockholders to own and/or exercise voting power over 20% of our common stock;

limitations on the ability of stockholders to amend, alter or repeal our by-laws;

the inability of stockholders to act by written consent;

the authority of the board of directors to adopt a stockholder rights plan;

the authority of the board of directors to issue, without stockholder approval, preferred stock with any terms that the board of directors determines and additional shares of our common stock; and limitations on the ability of certain stockholders to enter into certain business combinations with us, as provided under Section 203 of the Delaware General Corporation Law.

These provisions of our certificate of incorporation and by-laws may delay, defer or prevent a transaction or a change in control that might otherwise be in the best interests of our stockholders. See Description of capital stock for more information.

We may require additional capital in the future, and this additional capital may not be available on acceptable terms or at all.

We may need to raise additional funds in order to fund more rapid expansion (organically or through strategic acquisitions), to develop new or enhanced services or products, to respond to competitive pressures or to acquire complementary products, businesses or technologies. If we raise additional funds through the issuance of equity or convertible debt securities, the percentage ownership of our stockholders will be reduced, stockholders may experience additional dilution and the securities that we issue may have rights, preferences and privileges senior to those of our common stock. Additional financing may not be available on terms favorable to us or at all. If adequate funds are not available or are not available on acceptable terms, we may not be able to fund our expansion, take advantage of unanticipated acquisition opportunities, develop or enhance services or products or respond to competitive pressures. These inabilities could have a material adverse effect on our business, results of operations and financial condition.

Shares eligible for future sale may cause the market price of our common stock to drop significantly, even if our business is doing well.

The market price of our common stock could decline as a result of sales of a large number of shares of our common stock in the market in the future or the perception that these sales could occur. These sales, or the possibility that these sales may occur, also might make it more difficult for us to sell equity securities in the future at a time and at a price that we deem appropriate.

Certain stockholders or entities controlled by them or their permitted transferees beneficially own shares of our common stock that have not been registered for resale with the SEC. The holders of these restricted shares may sell their shares in the public market from time to time without registering them, subject in the case of our affiliates, to certain limitations on the timing, amount and method of those sales imposed by regulations promulgated by the SEC. Holders of restricted stock will also have the right to cause us to register the resale of shares of common stock beneficially owned by them.

In the future, we may issue securities in connection with investments and acquisitions. The amount of our common stock issued in connection with an investment or acquisition could constitute a material portion of our then outstanding common stock.

Our stockholders may not receive dividends or dividends may not grow over time.

During 2011, the Company paid quarterly dividends on shares of our common stock throughout the year. Despite the Company announced its intention to pay regular quarterly dividends on shares of our common stock in the future, we have not established a minimum dividend payment level and our ability to pay dividends in the future may be adversely affected by a number of factors, including the risk factors described herein. All dividends will be declared at the discretion of our board of directors and will depend on our earnings, our financial condition and other factors as our board of directors may deem relevant from time to time. Our board is under no obligation or requirement to declare a dividend. We cannot assure you that we will achieve results that will allow us to pay a specified level of dividends, if any, or to grow our dividends over time**.**

Requirements associated with being a public company require significant company resources and management attention.

In connection with our initial public offering, we became subject to the periodic reporting requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act, and the other rules and regulations of the SEC and the Nasdaq Global Market. We are also subject to various other regulatory requirements, including the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act. Section 404 of the Sarbanes-Oxley Act requires that we evaluate and determine the effectiveness of our internal control over financial reporting. If we have a material weakness or significant deficiency in our internal control over financial reporting, we may not detect errors on a timely basis and our financial statements may be materially misstated. As a result, our stockholders could lose confidence in our financial reporting, which could harm the trading price of our stock. In addition, in connection with our initial public offering in August 2007, we became subject to the rules of the Nasdaq Global Market. Our compliance with these rules and regulations has increased our legal and financial compliance costs and make some activities more time-consuming and costly.

It may be difficult to enforce judgments against us in U.S. courts.

Although we are a Delaware corporation, our subsidiaries and most of our assets are located outside of the United States. Furthermore, most of our directors and officers and some experts named in this report reside outside the United States. As a result, you may not be able to enforce judgments against us or our directors or officers in U.S. courts judgments based on the civil liability provisions of U.S. federal securities laws. It is unclear if original actions of civil liabilities based solely upon U.S. federal securities laws are enforceable in courts outside the United States. It is equally unclear if judgments entered by U.S. courts based on the civil liability provisions of U.S. federal securities laws are enforceable in courts outside the United States. Any enforcement action in a court outside the United States will be subject to compliance with procedural requirements under applicable local law, including the condition that the judgment does not violate the public policy of the applicable jurisdiction.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

Our principal administrative, marketing and product development facilities are located in our offices in Bogotá, Colombia; Buenos Aires, Argentina; Santana do Parnaíba, Brazil; Caracas, Venezuela; Mexico City, Mexico; Zona America, Uruguay and Palo Alto, California (USA). In 2012 we will open new offices in Aguada Park, Uruguay. Currently, all of our offices are occupied under lease agreements, except for our Argentine and Venezuelan offices. The leases for our facilities provide for renewal options, except for the lease of our offices in California (USA). After expiration of these leases, we can renegotiate the leases with our current landlords, or move to another location. From time to time we consider various alternatives related to our long-term facility needs. While we believe our existing facilities are adequate to meet our immediate needs, it may become necessary to lease or acquire additional or alternative space to accommodate any future growth. The following table shows the location of our offices and centers, and the expiration date of the leases under which they operate.

City and Country	September 30, Facility	September 30, Address	September 30, Approximate Square Meters	September 30, Lease Expiration Date
Bogotá, Colombia	TuCarro Colombia operation	Transversal 23 Nº 97-73, Piso 4°, Oficina 405, Bogotá D.C., Colombia	622	January 2014
Bogotá, Colombia	Colombia operation	Transversal 23 Nº 97-73 Oficina 405, piso 4°, Bogotá D.C., Colombia	622[1]	January 2014
Buenos Aires, Argentina	Corporate headquarters, Argentina operation & Customer service center	Arias 3751 pisos 5°, 6°, 7°, 8°, 9°, Buenos Aires, 1430 Argentina	5,340[1]	N/A
Buenos Aires, Argentina	Customer service center	Av. Costanera Rafael Obligado y Geronimo Salguero, Buenos Aires, Argentina	1,842[1]	January 2012
Caracas, Venezuela	Venezuela operation	Planta 6 (nivel 8) Edificio Torre La Castellana, Avenida Eugenio Mendoza y José Ángel Lamas, Urbanización La Castellana, Municipio Chacao del Estado Bolivariano de Miranda	992	N/A
Lithia Springs, Georgia, U.S.A.	SAVVIS Data Center	375 Riverside Parkway Lithia Springs, Georgia 30122,	3.0	November 2012
Mexico City, Mexico	Mexico operation	Félix Cuevas No. 6 Int. 501 Col. Tlacoquemecatl del Valle, Delegación Benito Juarez, CP 03200 Mexico DF., Mexico	562[1]	May 2016
Sterling, Virginia, U.S.A.	SAVVIS Data Center	45901 Nokes Blvd. Sterling, Virginia 20166	179	November 2012
San Luis, Argentina	Technology Development center	Av. Universitaria s/n, Ciudad de la Punta, San Luis, Argentina	207[2]	No End Date
Santana do Parnaíba, Brazil	Brazilian Subsidiary main office Customer service center	Avenida Marte, 489 Andar Térreo, 1°, 2° andar Partes A e B Cep 06541-005 Santana de Parnaíba, São Paulo, Brazil	4,090[1]	July 2014
Zona America, Uruguay	Uruguay Staff	Ruta 8, km 17.5 Edificio 200, local 208-07 Zona America, Uruguay	37[2]	December 2012
Sterling, Virginia, U.S.A.	SAVVIS Data Center	21110 Ridgetop Circle Sterling, Virginia	53	November 2012
Aguada Park, Uruguay	Uruguay operation. Customer service center	Edificio 1, Zona Franca, Piso 20, Oficina 2001, Aguada Park, Montevideo, Uruguay	836	2022
Palo Alto, California, U.S.A.	Research and development center	364 University Ave., 2nd floor, Palo Alto, California, U.S.A.	59	July 2012
Mexico City, Mexico	Autoplaza operation	Juan Salvador Agraz N°50 piso 3 Col. Santa Fe, Deleg. Cuajimalpa de Morelos, CP 05300 México D.F.	200[1]	September 2012

1 This surface includes the area of the office leased and parking spaces.
2 This surface corresponds to the area of the office leased. It does not include any parking spaces.

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ITEM 3. LEGAL PROCEEDINGS

From time to time, we are involved in disputes that arise in the ordinary course of our business. The number and significance of these disputes is increasing as our business expands and our company grows. Any claims against us, whether meritorious or not, may be time consuming, result in costly litigation, require significant amounts of management time, result in the diversion of significant operational resources and require expensive implementations of changes to our business methods to respond to these claims. See Item 1A Risk Factors for additional discussion of the litigation and regulatory risks facing our company.

As of December 31, 2011, our total reserves for proceeding-related contingencies were approximately $1.8 million to cover legal actions against the Company where we have determined that a loss is probable. We do not reserve for losses we determine to be possible or remote.

As of December 31, 2011, there were 398 lawsuits pending against our Brazilian subsidiary in the Brazilian ordinary courts. In addition, as of December 31, 2011, there were more than 1,983 lawsuits pending against our Brazilian subsidiary in the Brazilian consumer courts, where a lawyer is not required to file or pursue a claim. In most of these cases, the plaintiffs asserted that we were responsible for fraud committed against them, or responsible for damages suffered when purchasing an item on our website, when using MercadoPago, or when we invoiced them. We believe we have meritorious defenses to these claims and intend to continue defending them.

Set forth below is a description of the legal proceedings that we have determined to be material to our business. We have excluded ordinary routine legal proceedings incidental to our business. In each of these proceedings we also believe we have meritorious defenses, and intend to continue defending these actions. We have established a reserve for those proceedings which we have considered that a loss is probable.

Litigation

On November 5, 2003, Editora COC Empreendimentos Culturais Ltda., or Editora COC, sued the Company s Brazilian subsidiary in the 3rd Civil Court of the County of Bauru, State of São Paulo, Brazil. Editora COC alleged that the Brazilian subsidiary and an identified user were both infringing Editora COC s trademarks as a result of the user s selling allegedly pirated copies of Editora s COC CD-ROMs through the Brazilian page of the website, based on Brazilian Industrial Property Law (Law 9,279/96) and the Brazilian Copyright Law (Law 9,610/98). Editora COC sought an order for the search and seizure of products held by the user and enjoining the sale of Editora COC-branded products on MercadoLibre s platform. An injunction was granted to prohibit the offer of Editora COC s products on the Company s platform. On September 8, 2005, the court ruled against the Company and held that it had to pay $3,000 and its co-defendant had to pay $900 in moral damages, plus an amount of material damages to be defined at judgment execution, plus attorneys fees in the amount of 10% of the total damages paid by each defendant. On January 13, 2006 the Company appealed the ruling to the relevant court of appeals. On November, 18, 2010, the appeal was denied by the court of appeals. On December 3, 2010, the Company filed an appeal with the Superior Court of Appeals, which was also denied. The enforcement of decision is still pending due to certain documents to be presented by Plaintiff.

On March 17, 2006, Vintage Denim Ltda., or Vintage, sued the Company s Brazilian subsidiaries MercadoLivre.com Atividades de Internet Ltda. and eBazar.com.br Ltda. in the 29th Civil Court of the County of São Paulo, State of São Paulo, Brazil. Vintage requested a preliminary injunction alleging that these subsidiaries were infringing Diesel trademarks and their right of exclusive distribution as a result of sellers listing allegedly counterfeit and original imported Diesel branded clothing through the Brazilian page of the Company s website, based on Brazilian Industrial Property Law (Law 9,279/96). Vintage sought an order enjoining the sale of Diesel-branded clothing on the Company s platform. A preliminary injunction was granted on April 11, 2006 to prohibit the offer of Diesel-branded products, and a fine for non-compliance was imposed in the approximate amount of $5,300 per defendant per day of non-compliance. The Company appealed that fine and obtained its suspension in 2006. Because the appeal of the preliminary injunction failed, in March of 2007, Vintage presented petitions alleging the Company s non-compliance with the preliminary injunction granted to Vintage and requested a fine of approximately $3.3 million against the Company s subsidiaries, which represents approximately $5,300 per defendant per day of alleged non-compliance since April 2006. In July 2007, the judge ordered the payment of the fine mandated in the preliminary injunction, without specifying the amount. In September 2007, the judge decided that (i) the Brazilian subsidiaries were not responsible for alleged infringement of intellectual property rights by its users; and that (ii) the plaintiffs did not prove the alleged infringement of its intellectual property rights. However, the decision maintained the injunction until such ruling is non-appealable. The plaintiff appealed the judge s ruling regarding the subsidiary s non-responsibility and the Company appealed the decision that maintained the preliminary injunction. On July 26, 2011 the State Court of Appeals of the State of São Paulo confirmed the judge s ruling regarding our subsidiary s non-responsibility. The decision on the appeal regarding the decision that maintained the preliminary injunction is still pending. In the opinion of the Company s legal counsel, as of December 31, 2011, the amount of $213,242 was not reserved since it was considered reasonably possible but not probable.

On April 6, 2006, Fallms Distribuicão de Fitas Ltda., or Fallms, and 100% Nacional Distribuidora de Fitas Ltda., or 100% Nacional, sued the Company s Brazilian subsidiary in the Second Civil Court of Santo Amaro, County of São Paulo, State of São Paulo, Brazil. Fallms and 100% Nacional alleged that the Brazilian subsidiary was infringing their intellectual property rights as a result of users selling unauthorized copies of their copyrighted movies through the Brazilian page of MercadoLibre s website and by using their trademark Brasileirinhas on such copies. Fallms and 100% Nacional sought an order enjoining the sale of Fallms, 100% Nacional and Brasileirinhas branded movies on the platform. An injunction was granted to prohibit the offer of Fallms, 100% Nacional and Brasileirinhas branded movies in the Company s website. In July, 2007, the judge revoked the preliminary injunction. On the same date, the judge decided that (i) the Brazilian subsidiary was not responsible for alleged infringement of intellectual property rights by its users; and that (ii) the plaintiffs did not prove that (a) they own the trademark Brasileirinhas and copyrights of Brasileirinhas branded movies and (b) the alleged infringement of intellectual property rights resulted in an effective copyright violation. The plaintiffs have appealed the decision dismissing the case, which appeal is still pending.

On March 7, 2007, Xuxa Promoções e Produções Artísticas Ltda., or Xuxa, sued the Company s Brazilian subsidiary in the Court of Barra da Tijuca, Rio de Janeiro, State of Rio de Janeiro, Brazil. Xuxa, a popular television personality in Brazil, alleged that counterfeit copies of one of her CDs and of a movie with her participation as an actress (for which she owns the copyright and distribution rights) are being sold on the Company s platform, and as such the Brazilian subsidiary is infringing her intellectual and property rights. Xuxa seeks an injunction, the establishment of preventive measures, fines, and compensatory and statutory damages. An injunction ordering the removal of any offers of copies of this CD and movie was granted to Xuxa. The Company presented its defense and appealed the injunction, which appeal is still pending. The lower court s ruling is still pending.

On June 11, 2007, Praetorium Instituto de Ensino, Pesquisas e Atividades de Extensão e Direito Ltda., or Praetorium, sued the Brazilian subsidiary in the Fourth Civil Court of the County of Belo Horizonte, State of Minas Gerais, Brazil. Praetorium alleged that the Brazilian subsidiary was infringing Praetorium s copyrights as a result of users selling allegedly counterfeit copies of Praetorium s courses through the Brazilian page of the website. Praetorium seeks an injunction, fines, and compensatory and statutory damages. An injunction ordering the removal of any offers containing the name of Praetorium was granted to Praetorium in July 2007. In addition to the preliminary injunction, a fine of approximately $5,300 per day of noncompliance was imposed up to a maximum of approximately $131,000 and a fine of approximately $530 was also imposed for each new product posted after July 13, 2007 containing the name of Praetorium and listed in the Brazilian page of MercadoLibre s website. The Company has appealed the decision granting the preliminary injunction, which appeal is still pending.

On August 23, 2007, Serasa S.A., or Serasa, sued the Company s Brazilian subsidiary in the Sixth Civil Court of Santo Amaro, City of São Paulo, State of São Paulo, Brazil. Serasa, a company which provides credit-related analysis, information services and data bank and payment habits related to individuals and corporations, alleged that the Brazilian subsidiary should be responsible for the sale by its users of allegedly unlawful content and unfair uses of its services and Serasa s trade name and trademarks. Serasa seeks an injunction, fines, and compensatory damages. On November 5, 2007 a preliminary injunction was granted to Serasa, ordering the Brazilian subsidiary (a) to remove any content offering: (i) consultation of Serasa s database; and (ii) passwords, texts or any material that promises to consult, remove or teach how to remove someone name from Serasa s database; (b) to prohibit on the website any content similar to the aforementioned; and (c) to provide certain personal data of certain users who have offered such products. In addition to the preliminary injunction, a fine of approximately $5,500 per day of noncompliance was imposed. On December 17, 2007, the Brazilian subsidiary presented the information requested. The Company appealed the preliminary injunction to the State Court of São Paulo and presented the defense on January 7, 2008. Serasa replied to MercadoLibre s appeal on January 30, 2008. On March 26, 2008, the Company was summoned with a petition presented by Serasa alleging non-compliance with the injunction. The Company presented its response on March 31, 2008, arguing that it is in full compliance with the injunction. On August 26, 2008 the State Court of São Paulo lifted the prohibition to allow in the Brazilian website any content related to Serasa as established in the injunction but it was not appealed by the plaintiff. On June 5, 2009 the judge declared that the Brazilian subsidiary shall not be held liable for the content posted by its users. Nonetheless, the sentence ordered the Brazilian subsidiary to remove certain contents related to the plaintiff. Serasa filed a motion for clarification of that decision, which was rejected by the Judge. In July 2009, Serasa presented an appeal to the higher court. In August 2009 the Brazilian subsidiary presented the response to the appeal. The lower court s ruling is still pending.

On November 23, 2007 Botelho Indústria e Distribuição Cinematográfica Ltda., or Botelho, sued the Company s Brazilian subsidiary in the Third Civil Court of the City of Rio de Janeiro, State of Rio de Janeiro, Brazil. Botelho alleged that the Brazilian subsidiary was infringing its intellectual property rights as a result of users selling unauthorized copies of Botelho s courses through the Brazilian website. Botelho seeks an injunction, fines, and compensatory and statutory damages, which was not yet analyzed by the judge. In February, 2008, the Company presented arguments to give the judge support and background to analyze the requested injunction. The Company presented its defense on March 5, 2008. A conciliation and settlement hearing was held on September 29, 2008, but no settlement was reached. A decision of the lower court judge is still pending.

On October 25, 2007, Iglesia Mesianica Mundial Sekai Kyusei Kio en la Argentina, or Iglesia Mesianica, filed suit against the Company s Argentine subsidiary, MercadoLibre S.A., in the Thirteenth Civil Court of the City of Buenos Aires, Argentina. Iglesia Mesianica alleged in the complaint that the Argentine subsidiary should be held liable as a result of users selling books that allegedly plagiarized certain Iglesia Mesianica s books through the Argentine page of the Company s website. Iglesia Mesianica seeks monetary damages in the amount of approximately $95,000. The Company presented its defense in May 2008 and also filed a preliminary objection arguing the lack of jurisdiction of the Civil Court and requested that the case should be heard by a Federal Court instead. Iglesia Mesianica responded to the preliminary objection and the court rejected it in September 2010. On November 30, 2011 the court decided to begin with the evidence stage, and ordered the production of the parties evidence. As of the date of this report, according to the opinion of external legal counsel of the Company the risk of loss of this case is remote.

On February 22, 2008, Nike International Ltd., or Nike, requested a preliminary injunction against the Company s Argentine subsidiary DeRemate.com de Argentina S.A. in the Court on Civil and Commercial Matters in Buenos Aires, Argentina. Nike alleged that this subsidiary was infringing Nike trademarks as a result of sellers listing allegedly counterfeit Nike branded products through the website www.deremate.com.ar. A preliminary injunction was granted in February 2008 to suspend the offer of Nike-branded products until sellers could be properly identified. The Company appealed the decision. In November, 2008 the Federal Court of Appeals on Civil and Commercial Matters lifted the prohibition to allow on the website of this subsidiary any listing related to Nike branded products subject to our requesting certain personal information from users listing those items. On March 25, 2008 Nike sued the Argentine subsidiary DeRemate.com de Argentina S.A. in the same venue, for the same reasons argued in the request preliminary injunction. The Company presented its defense on September 11, 2009. The court s ruling is still pending. As of the date of this report, according to the opinion of external legal counsel of the Company the risk of loss in this case is remote.

On July 25, 2008, Nike International Ltd. or Nike requested a preliminary injunction against the Argentine subsidiary in the First Civil and Commercial Federal Court, Argentina. The Company was officially notified on August 14, 2008. Nike requested the injunction alleging that this subsidiary was infringing Nike trademarks as a result of sellers listing allegedly counterfeit Nike branded products through the Argentine page of MercadoLibre s website. A preliminary injunction was granted on August 11, 2008 to suspend the offer of Nike-branded products until sellers could be properly identified. The Company appealed the decision on August 22, 2008. On March 23, 2009 the Federal Court of Appeals on Civil and Commercial Matters, lifted the prohibition to allow in the Argentine website any listing related to Nike branded products subject to our requesting certain personal information from users willing to list those items. On May 22, 2009, the Company was summoned about a lawsuit file by Nike against the Argentine subsidiary in the same venue, for the same reasons argued in the request preliminary injunction. On May 27, 2009 the Company presented a preliminary objection requesting that Nike deposit as a security bond for costs. The court established that a bond for costs of approximately $3,500 should be deposited by Nike and both parties appealed this amount which was confirmed by the same Federal Court of Appeals. The Company presented its defense on April 21, 2010. As of the date of this report, according to the opinion of external legal counsel of the Company the risk of loss in this case is remote.

On August 25, 2010, Citizen Watch do Brasil S/A, or Citizen, sued MercadoLivre.com Atividades de Internet Ltda., a Brazilian subsidiary, in the 31th Central Civil Court State of São Paulo, Brazil. Citizen alleged that the Brazilian subsidiary was infringing Citizen s trademarks as a result of users selling allegedly counterfeit Citizen watches through the Brazilian page of the Company s website. Citizen sought an order enjoining the sale of Citizen-branded watches on the MercadoLibre Marketplace with a $6,000 daily non-compliance penalty. On September 23, 2010, the Brazilian subsidiary was summoned of an injunction granted to prohibit the offer of Citizen products on its platform, but the penalty was established at $6,000. On September 26, 2010, the Company presented its defense and appealed the decision of the injunction on September 27, 2010. On October 22, 2010 the injunction granted to Citizen was suspended. The court s ruling is still pending.

State of São Paulo Fraud Claim

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

City of São Paulo Tax Claim

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

Brazilian Federal Tax Claims

On September 2, 2011, the Brazilian Federal tax authority have asserted taxes and fines against our Brazilian subsidiary relating to the income tax for the 2006 period in an approximate amount of R$5.2 million or $2.8 million, according to the exchange rate at December 31, 2011. On September 30, 2011 the Company presented administrative defenses against the authorities claim. The Company s management and its legal counsel believe that the risk of loss is remote, and as a result, has not reserved any provisions for this claim.

State of São Paulo Customer Service Level Claim

On September 1, 2010, a state prosecutor of the State of São Paulo, Brazil presented a claim against the Company s Brazilian subsidiary. The state prosecutor alleges that the Brazilian subsidiary should improve our customer service level and provide (among other things) a telephone number for customer support. On November 17, 2010, the Judge of the first instance court granted an injunction against the Brazilian subsidiary imposing the obligation to provide customer service over telephone means within 60 days with a penalty of approximately $65,000 per day of non-compliance. On April 08, 2011, the Company was summoned of the lawsuit and the injunction. On April 14, 2011, the Company presented a recourse to the lower court; and although, the injunction was not lifted, an extension of 30 days was granted, and the non-compliance fine would start running as of July11, 2011. On April 20, 2011, the Company presented an appeal and requested to suspend the effects of the injunction issued by the lower court until the appeal is decided by State Court of Appeals which was granted on May 4, 2011. On November 29, 2011, the state prosecutor signed an agreement with the Brazilian subsidiary and presented a motion for dismissal of the case. On January 16, 2012, Instituto Barão de Mauá de Defesa de Vítimas e Consumidores contra Entes Poluidores e Maus Fornecedoreas, a consumer protection entity which had joined the case as a co-plaintiff, presented a petition manifesting its partial disagreement with the commitments assumed by the Company. A judge s decision is pending. In the opinion of the Company s management and its legal counsel the risk associated with this claim is considered remote.

State of Rio de Janeiro Customer Service Level Claim

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

Intellectual Property Claims

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

ITEM 4. (REMOVED AND RESERVED)

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PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Price of and Dividends on the Registrant s Common Equity

Shares of our common stock, par value $0.001 per share, or our common stock, trade on the Nasdaq Global Market (NASDAQ) under the symbol MELI. As of December 31, 2011, the closing price of our common stock was $79.54 per share. As of February 17, 2012, we had approximately 22 holders of record of our common stock. This figure does not reflect the beneficial ownership of shares held in nominee name. The following table sets forth, for the indicated periods, the high and low closing sale prices for our common stock on the Nasdaq Global Market and the cash distributions declared per share:

	September 30,	September 30,
	Closing stock Price	
	High	Low
2010:		
1st quarter	$ 51.88	$ 36.37
2nd quarter	$ 60.75	$ 44.79
3rd quarter	$ 75.14	$ 52.13
4th quarter	$ 72.48	$ 58.00
2011:		
1st quarter	$ 81.63	$ 64.97
2nd quarter	$ 92.20	$ 74.33
3rd quarter	$ 85.06	$ 53.75
4th quarter	$ 94.62	$ 49.53

Recent Sales of Unregistered Securities

There were no sales of unregistered securities by us during the three-month period ending December 31, 2011.

Dividend Policy

In each of February, May, August and October of 2011, our board of directors declared quarterly cash dividends of $3.5 million or $0.08 per share on our outstanding shares of common stock. The dividends were payable on April 15, July 15, October 15, 2011 and January 17, 2012 to stockholders of record as of the close of business on March 31, June 30, September 30, and December 30, 2011. In February 2012, our board of directors declared a quarterly cash dividend of $4.8 million on our outstanding shares of common stock. The dividend is payable on April 16, 2012 to stockholders of record as of the close of business on March 30, 2012. We currently expect to continue paying comparable cash dividends on a quarterly basis. However, any future determination as to the declaration of dividends on our common stock will be made at the discretion of our board of directors and will depend on our earnings, operating and financial condition, capital requirements and other factors deemed relevant by our board of directors, including the applicable requirements of the Delaware General Corporation Law.

Equity Compensation Plan Information

Information regarding securities authorized for issuance under the Company s equity compensation plan as of December 31, 2011 is set forth in Item 12, Security Ownership of Certain Beneficial Owners and Management.

Performance Graph

The graph below shows the total stockholder return of an investment of $100 on August 10, 2007 (the first day of trading of our common stock on the Nasdaq Stock Exchange) through December 31, 2011 for (i) our common stock (ii) The Nasdaq Composite Index (iii) The S&P 500 Index and (iv) the Dow Jones Ecommerce Index. The Dow Jones Ecommerce Index is a weighted index of stocks of companies in the e-commerce industry. Stock price performance shown in the graph below is not indicative of future stock price performance.

We cannot assure you that our share performance will continue into the future with the same or similar trends depicted in the graph above. We will not make or endorse any predictions as to our future stock performance.

The foregoing graph and chart shall not be deemed incorporated by reference by any general statement incorporating by reference this Annual Report on Form 10-K into any filing under the Securities Act of 1933, as amended, or under the Securities Exchange Act of 1934, as amended, except to the extent we specifically incorporate this information by reference, and shall not otherwise be deemed filed under those acts.

ITEM 6. SELECTED FINANCIAL DATA

The following summary financial data is qualified by reference to and should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and related notes thereto included elsewhere in this report.

	September 30,	September 30,	September 30, Year ended December 31,	September 30,	September 30,
(in millions)	**2007**	**2008 (3)**	**2009**	**2010**	**2011**
Statement of income data:					
Net revenues	$ 85.1	$ 137.0	$ 172.8	$ 216.7	$ 298.9
Cost of net revenues	(18.3)	(27.5)	(36.0)	(46.5)	(72.1)
Gross profit	66.9	109.5	136.9	170.2	226.9
Operating expenses:					
Product and technology development	(4.4)	(7.3)	(12.1)	(15.9)	(23.3)
Sales and marketing	(27.6)	(40.0)	(42.9)	(48.9)	(65.0)
General and administrative	(13.2)	(22.8)	(25.8)	(30.8)	(38.8)
Compensation cost related to acquisitions		(1.9)			

	September 30,	September 30,	September 30, Year ended December 31,	September 30,	September 30,
(in millions)	**2007**	**2008 (3)**	**2009**	**2010**	**2011**
Total operating expenses	(45.2)	(72.0)	(80.9)	(95.6)	(127.1)
Income from operations	21.7	37.5	56.0	74.6	99.8
Other income (expenses):					
Interest income and other financial gains	1.6	1.8	2.7	4.9	9.9
Interest expense and other financial charges	(2.7)	(8.4)	(13.4)	(7.6)	(3.6)
Foreign currency (loss) gains	(3.1)	(1.5)	(2.7)	(0.1)	2.4
Other income (expenses), net	(3.0)	0.1			0.1
Net income before income and asset tax and cumulative effect of change in accounting principle	14.4	29.4	42.7	71.9	108.5
Income and asset tax expense	(4.7)	(10.6)	(9.5)	(15.8)	(31.7)
Net income before cumulative effect of change in accounting principle and gain from discontinued operations	9.7	18.8	33.2	56.0	76.8
Net income	9.7	18.8	33.2	56.0	76.8
Accretion of preferred stock	(0.3)				
Less: Net Income attributable to Noncontrolling					(0.0)
Net income available to common stockholders	$ 9.4	$ 18.8	$ 33.2	$ 56.0	$ 76.8

The table above may not total due to rounding.

September 30,	September 30,	September 30,	September 30, At December 31,	September 30,	September 30,
(in millions)	**2007**	**2008 (3)**	**2009**	**2010**	**2011**
Balance sheet data:					
Total assets	$ 134.5	$ 156.7	$ 182.6	$ 269.7	$ 355.9
Long term debt		3.1		0.2	0.1
Total liabilities	42.8	63.3	68.4	98.0	132.8
Net assets	91.7	93.4	114.2	171.7	223.1
Redeemable Noncontrolling Interest					4.0
Common stock	0.1	0.1	0.1	0.1	0.1
Stockholders equity	$ 91.7	$ 93.4	114.2	171.7	219.2

	September 30,	September 30,	September 30, Year Ended December 31,	September 30,	September 30,
	2007	**2008**	**2009**	**2010**	**2011**
Earnings per share data:					
Basic net income available to common stockholders per common share	$ 0.22	$ 0.43	$ 0.75	$ 1.27	$ 1.73

Diluted net income per common share	$	0.22	$	0.42	$	0.75	$	1.27	$	1.73
Weighted average shares (2):										
Basic		25,149,405(1)		44,239,443		44,086,892		44,124,018		44,138,397
Diluted		25,478,336		44,348,950		44,144,368		44,146,858		44,151,437

(1) Includes the effect of the issuance of 3,000,000 shares of our common stock in connection with our initial public offering in August 2007.
(2) Shares outstanding at December 31, 2011 were 44,142,020.
(3) Includes the acquisition of DeRemate.com.

	September 30,		September 30,		September 30, Year ended December 31,		September 30,		September 30,
(in millions)		**2007**		**2008**		**2009**		**2010**	**2011**
Other data:									
Number of confirmed registered users at end of period (1)		24.9		33.7		42.6		52.9	65.8
Number of confirmed new registered users during period (2)		6.7		8.8		8.9		10.3	12.9
Gross merchandise volume (3)	$	1,511.5	$	2,078.9	$	2,750.7	$	3,405.9	$ 4,820.1
Number of successful items sold (4)		17.5		21.1		29.5		39.2	52.8
Total payment volume (5)	$	158.0	$	255.9	$	382.5	$	697.5	$ 1,311.9
Total payment transactions (6)		1.3		1.9		3.1		6.7	14.3
Capital expenditures	$	3.1	$	5.0	$	4.8	$	13.6	$ 24.7
Depreciation and amortization	$	2.3	$	3.3	$	3.9	$	4.9	$ 7.3

(1) Measure of the cumulative number of users who have registered on the MercadoLibre Marketplace and confirmed their registration.
(2) Measure of the number of new users who have registered on the MercadoLibre Marketplace and confirmed their registration. As of December 31, 2008 the number of confirmed new registered users includes 2.2 million coming from the DeRemate integration.
(3) Measure of the total U.S. dollar sum of all transactions completed through the MercadoLibre Marketplace, excluding motor vehicles, vessels, aircraft and real estate.
(4) Measure of the number of items that were sold/purchased through the MercadoLibre Marketplace.
(5) Measure of total U.S. dollar sum of all transactions paid for using MercadoPago.
(6) Measure of the number of all transactions paid for using MercadoPago.

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis of our financial condition and results of our operations in conjunction with our Selected Financial Data and our audited consolidated financial statements and the notes to those statements included elsewhere in this report. This discussion contains forward-looking statements reflecting our current expectations that involve risks and uncertainties. Actual results and the timing of events may differ materially from those contained in these forward-looking statements due to a number of factors, including those discussed in the section entitled Risk Factors and elsewhere in this report.

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

- a brief overview of our company;
- a discussion of our principal trends and results of operations for the years ended December 31, 2009, 2010, and 2011;
- a review of our financial presentation and accounting policies, including our critical accounting policies;
- a discussion of the principal factors that influence our results of operations, financial condition and liquidity;

a discussion of our liquidity and capital resources, a discussion of our capital expenditures and a description of our contractual obligations; and

a discussion of the market risks that we face.

Overview

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

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

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

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

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

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

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

We were incorporated in Delaware in October 1999 and introduced web sites in Argentina, Brazil, Mexico, Colombia, Chile, Uruguay and Venezuela by April 2000. In order to build a critical mass of customers, we initially offered our services free of charge in all of these markets.

In May 2000, we obtained significant financing and reached gross merchandise volume of $14.3 million. In 2001, we launched a new version of our site and brand and launched our operations in Ecuador. Our gross merchandise volume for the year ended December 31, 2001 grew to $21.3 million. Our gross merchandise volume reached $55.4 million for 2002, $164.3 million for 2003 and $299.3 million for 2004. In November of 2005, we acquired certain operations of DeRemate.com, Inc. and our gross merchandise volume reached $607.7 million. During 2006, we launched sites in Costa Rica, the Dominican Republic and Panama, and our gross merchandise volume reached $1,075.1 million. Our gross merchandise volume was $1,511.5 million for 2007.

In August 2007, we successfully completed our initial public offering through which 16,077,185 shares of our common stock were sold at a initial public offering price of $18.00 per share less an underwriting discount of 4.5%. Out of that total, 2,608,696 shares of common stock were sold by us and 13,468,489 were sold by selling shareholders. We, along with certain shareholders, granted to the underwriters an option, exercisable for 30 days from August 9, 2007, to purchase up to 2,411,577 additional shares at the public offering price less the underwriting discount. The option was exercised in full, and of that total, an additional 391,304 shares were sold by us and 2,020,273 were sold by the selling shareholders.

In January 2008, we acquired 100% of the issued and outstanding shares of capital stock of Classified Media Group, Inc., or CMG, and its subsidiaries. CMG and its subsidiaries operate an online classified advertisements platform primarily dedicated to the sale of automobiles at www.tucarro.com in Venezuela, Colombia and Puerto Rico and real estate at www.tuinmueble.com in Venezuela, Colombia, Panama, the United States, Costa Rica and the Canary Islands. On the acquisition date, we paid $19 million subject to certain escrows and working capital adjustment clauses. On June 27, 2008, the Company released to the former CMG shareholders $1.9 millions in full satisfaction of the management escrow. On January 22, 2009, we released the escrow balance of $1.1 million to the sellers of CMG.

In September 2008, we completed the acquisition of DeRemate.com de Argentina S.A., DeRemate.com Chile S.A., Interactivos y Digitales México S.A. de C.V. and Compañía de Negocios Interactiva de Colombia E.U. for an aggregate purchase price of $37.6 million. We also purchased certain URLs, domains, trademarks, databases and intellectual property rights related to those businesses for $2.4 million. On February 12, 2009, the purchase price allocation period ended and we agreed with the sellers to a working capital adjustment of $480,912 to be paid by the sellers to us.

In September 2011, the Company acquired 60% of outstanding membership interest of Autopark LLC, a limited liability company organized under the laws of Delaware with 100% ownership of AP Clasificados, an online classified advertisements platform in Mexico primarily dedicated to the sale of automobiles at www.autoplaza.com.mx and real estate at www.homeshop.com.mx. The aggregate purchase price paid in cash was $5.5 million and includes URLs, domain names, trademarks, databases non-compete agreements and intellectual property rights that are used or useful in connection with the online platforms of the acquired business.

Reporting Segments

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

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

During 2011, our gross merchandise volume reached $4,820.1 million and visitors to our web site were able to browse an average of over 10.9 million listings on any given day, organized by country, in over 2,000 different product categories. We believe that we have achieved a critical mass of active buyers, sellers and product listings in most of the countries where we operate and that our business can be readily scaled to handle increases in our user base and transaction volume. At December 31, 2011, we had 65.8 million confirmed registered MercadoLibre users. For 2011, we had 5.0 million unique sellers, 14.1 million unique buyers and 52.8 million successful items sold.

For 2011, our net revenues were $298.9 million. Of the $298.9 million in revenues, approximately 55.5% was attributable to our Brazilian business, 19.0% to our Argentine business, 11.6% to our Venezuelan business, 7.5% to our Mexican business, and 6.4% to other countries. Although we discuss long-term trends in our business, it is our policy to not provide earnings guidance in the traditional sense. We believe that uncertain conditions make the forecasting of near-term results difficult. Further, we seek to make decisions focused primarily on the long-term welfare of our company and believe focusing on short term earnings does not best serve the interests of our stockholders. We believe that execution of key strategic initiatives as well as our expectations for long-term growth in our markets will best create stockholder value. We, therefore, encourage potential investors to consider this strategy before making an investment in our common stock. A long-term focus may make it more difficult for industry analysts and the market to evaluate the value of our company, which could reduce the value of our common stock or permit competitors with short term tactics to grow stronger than us.

Description of line items

Net revenues

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

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

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

Since the third quarter of 2010, we have offered payment processing through our MercadoPago solution at no added cost in Brazil and Argentina. On April 15, 2011 and November 10, 2011, we launched a new and improved version of our MercadoPago payments platform that may be used for all our marketplace transactions in Mexico and Venezuela, respectively. We also made offering MercadoPago obligatory in our Mexican marketplace listings (with the exception of free listings). This change in pricing results, with respect to marketplace transactions, in our no longer charging our users a specific fee for processing on-platform payments as we did in the past. We do continue, however, to generate payment related revenues, reported within each of our reporting segments, attributable to:

commissions charged to sellers for the use of the MercadoPago platform with respect to transactions that occur outside of our marketplace platform;

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

Prior to the third quarter of 2009, we used to generate revenues from the MercadoLibre Marketplace transactions from:

listing fees;

optional feature fees;

final value fees; and

online advertising fees.

During the third quarter of 2009, we modified our pricing structure by replacing our previous listing fees and optional feature fees with consolidated up-front fees which bundle these features, as discussed above.

The following table sets forth the percentage of consolidated net revenues by country for each of 2009, 2010 and 2011:

	September 30,	September 30,	September 30,
	Year ended December 31,		
(% of total consolidated net revenues)	2009(*)	2010	2011
Brazil	53.9%	56.7%	55.5%
Argentina	15.5	18.4	19.0
Venezuela	15.8	9.6	11.6
Mexico	8.9	8.8	7.5
Other countries	6.0	6.5	6.4

(*) The column above may not total due to rounding.

The following table summarizes the changes in net revenues for the years ended December 31, 2009, 2010 and 2011:

	September 30,	September 30,	September 30,	September 30,	September 30,	September 30,	September 30,	September 30,
	Year Ended December 31,		Change from 2010 to 2011 (*)		Year Ended December 31,		Change from 2009 to 2010 (*)	
	2011	2010	in Dollars	in %	2010	2009	in Dollars	in %
	(in millions, except percentages)				(in millions, except percentages)			
Net Revenues:								
Brazil	$ 165.9	$ 122.8	$ 43.1	35.1%	$ 122.8	$ 93.1	$ 29.7	31.9%
Argentina	56.7	39.9	16.8	42.2	39.9	26.7	13.2	49.2
Venezuela	34.8	20.9	13.9	66.8	20.9	27.3	(6.4)	(23.6)
Mexico	22.3	19.0	3.3	17.5	19.0	15.3	3.6	23.7
Other Countries	19.2	14.2	5.0	35.6	14.2	10.4	3.8	36.5
Total Net Revenues	$ 298.9	$ 216.7	$ 82.2	37.9%	$ 216.7	$ 172.8	$ 43.9	25.4%

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

We have a highly fragmented customer revenue base given the large numbers of sellers and buyers who use our platforms. For the years ended December 31, 2011, 2010 and 2009, no single customer accounted for more than 5.0% of our net revenues in our MercadoLibre Marketplace or our MercadoPago payment solution. Our MercadoLibre Marketplace is available in thirteen countries (Argentina, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Mexico, Panama, Peru, Portugal, Uruguay and Venezuela), and MercadoPago is available in six countries (Argentina, Brazil, Chile, Colombia, Mexico and Venezuela). The functional currency for each country s operations is the local currency, except for Venezuela whose functional currency is the US dollar due to Venezuela s status as a highly inflationary economy. See Critical accounting policies and estimates Foreign Currency Translation included in this report. Therefore, our net revenues are generated in multiple foreign currencies and then translated into US dollars at the average monthly exchange rate.

Our subsidiaries in Brazil, Argentina, Venezuela and Colombia are subject to certain taxes on revenues which are classified as costs of net revenues. These taxes represented 6.2%, 6.9% and 7.2% of net revenues for 2009, 2010 and 2011, respectively.

Cost of net revenues

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

Product and technology development expenses

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

Sales and marketing expenses

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

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

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

General and administrative expenses

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

Other income (expenses), net

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

Income and asset tax

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

The following table summarizes the composition of our income/asset taxes for the years ended December 31, 2009, 2010 and 2011.

(in millions)	September 30, Year ended December 31, 2009	September 30, 2010	September 30, 2011
Current:			
Federal	$	$	$
Foreign	11.5	22.2	29.8
	11.5	**22.2**	**29.8**
Deferred:			
Federal		0.4	2.1
Foreign	(2.5)	(6.8)	(0.3)
	(2.5)	(6.4)	1.8
	9.0	**15.8**	**31.6**
Asset Tax:			
Federal			
Foreign	0.5	0.0	0.0
	0.5	**0.0**	**0.0**
Income / asset tax expense	**$ 9.5**	**$ 15.8**	**$ 31.7**

Seasonality

The following table presents certain unaudited quarterly financial information for each of the twelve quarters set forth below:

	September 30, Quarter Ended March 31,	September 30, June 30,	September 30, September 30,	September 30, December 31,
2011				
Net Revenues	$ 61,459,668	$ 69,378,160	$ 81,628,144	$ 86,465,653
Gross profit	47,127,964	52,439,042	61,567,671	65,741,114
Net Income	14,057,634	14,820,826	26,296,449	21,621,431
Net Income per share-basic	0.32	0.34	0.60	0.47
Net Income per share-diluted	0.32	0.34	0.60	0.47
Weighted average shares				
Basic	44,131,383	44,138,105	44,141,925	44,142,020
Diluted	44,147,667	44,152,296	44,151,218	44,152,658
2010				
Net Revenues	$ 45,937,774	$ 52,510,331	$ 55,951,378	$ 62,316,230
Gross profit	36,044,723	41,098,770	44,500,459	48,521,916
Net Income	9,620,601	11,673,962	18,790,963	15,939,493
Net Income per share-basic	0.22	0.26	0.43	0.36
Net Income per share-diluted	0.22	0.26	0.43	0.36
Weighted average shares				
Basic	44,113,595	44,121,087	44,129,762	44,131,376
Diluted	44,149,700	44,145,255	44,151,367	44,151,762

2009				
Net Revenues	$ 32,322,501	$ 40,901,799	$ 50,599,276	$ 49,020,045
Gross profit	25,688,515	32,306,322	40,208,605	38,682,129
Net Income	5,391,176	6,679,779	9,852,268	11,285,570
Net Income per share-basic	0.12	0.15	0.22	0.26
Net Income per share-diluted	0.12	0.15	0.22	0.26
Weighted average shares				
Basic	44,069,134	44,074,462	44,088,936	44,108,207
Diluted	44,130,866	44,127,208	44,138,031	44,143,281

Seasonal fluctuations in Internet usage and retail seasonality have affected, and are likely to continue to affect, our business. Typically, the fourth quarter of the year is the strongest in every country where we operate due to the significant increase in transactions before the Christmas season. However, the result of our operations in the fourth quarter of 2009 were impacted by the change in Venezuelan translation rate as described in Foreign currency translation below, for that reason, our 2009 fourth quarter revenues were lower when measured in U.S. dollars than the third quarter revenues. Our slowest period is typically the first quarter of the year. The months of January, February and March normally correspond to summer vacation time in Argentina, Brazil, Chile, Peru and Uruguay. Additionally, the Easter holiday falls in March or April, and Brazil celebrates Carnival for one week in February or March. This is partially mitigated by the countries located in the northern hemisphere, such as Colombia, Mexico and Venezuela for which the slowest months are their summer months of July, August and September.

Critical accounting policies and estimates

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

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

Foreign Currency Translation

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

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

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

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

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

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

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

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

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

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

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

However, on May 14, 2010, the Venezuelan government enacted reforms to its exchange regulations and closed down such parallel market by declaring that foreign-currency-denominated securities issued by Venezuelan entities were included in the definition of foreign currency, thus making the Venezuelan Central Bank (BCV) the only institution that could legally authorize the purchase or sale of foreign currency bonds, thereby excluding non-authorized brokers from the foreign exchange market.

Trading of foreign currencies was re-opened as a regulated market on June 9, 2010 with the Venezuelan Central Bank as the only institution through which foreign currency-denominated transactions can be brokered. Under the new system, known as the Foreign Currency Securities Transactions System (SITME), entities domiciled in Venezuela can buy US dollar denominated securities only through banks authorized by the BCV to import goods, services or capital inputs. Additionally, the SITME imposes volume restrictions on an entity s trading activity, limiting such activity to a maximum equivalent of $50,000 per day, not to exceed $350,000 in a calendar month. This limitation is non-cumulative, meaning that an entity cannot carry over unused volume from one month to the next.

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

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

Accordingly, the June 9, 2010 exchange rate published by the Venezuelan Central Bank has been used to re-measure transactions during the above-mentioned period.

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

The following table sets forth net revenues, assets, liabilities and net assets of our Venezuelan subsidiaries, before intercompany eliminations, as of December 31, 2011, 2010 and 2009:

	September 30, 2011	September 30, 2010	September 30, 2009
Venezuelan operations			
Net Revenues	$ 34,828,878	$ 20,885,541	$ 27,331,095
Assets	31,074,871	21,928,340	15,471,344
Liabilities	(10,414,881)	(8,212,581)	(6,557,337)
Net Assets	$ 20,659,990	$ 13,715,759	$ 8,914,007

Net assets of our Venezuelan subsidiary amount to approximately 9.3% of our consolidated net assets, and cash and investments of our Venezuelan subsidiary held in local currency in Venezuela amount to approximately 7.6% of our consolidated cash and investments.

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

Although the current mechanisms available to obtain U.S. dollars for dividend distributions to our Venezuelan subsidiaries to those subsidiaries of our company that are located outside Venezuela imply increased restrictions, we do not expect that the current restrictions on purchasing U.S.

dollars will have a significant adverse effect on our business plans or with regard to our investment in Venezuela.

Impairment of long-lived assets and goodwill

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

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

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

For the year ended December 31, 2010, the fair values of the reporting units were estimated using a combination of the income or discounted cash flows approach and the market approach, which utilizes comparable companies data. Cash flow projections used were based on financial budgets approved by management. The growth rates applied do not exceed the long-term average growth rate for the business in which the reporting unit operates. The average discount rate used for 2010 was 18.9%. That rate reflected the Company s real weighted average cost of capital. Key drivers in the analysis include Confirmed Registered Users (CRUs), Gross Merchandise Volume (GMV) which represents a measure of the total U.S. dollar amount of all transactions completed through the MercadoLibre Marketplace, excluding motor vehicles, vessels, aircraft, real estate, and services and take rate defined as marketplace revenues as a percentage of gross merchandise volume. In addition, the benchmark in the analysis includes a business to e-commerce rate, which represents the growth of e-commerce as a percentage of GDP, internet penetration rates as well as trends in the Company s market share.

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

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

Allowance for doubtful accounts and chargebacks

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

Our allowance for doubtful accounts and chargebacks amounted to $3.8 million at December 31, 2009, $11.7 million at December 31, 2010 and $16.0 million at December 31, 2011. We write off accounts receivable with an aging of 181 days or more. The increase in the 2010 and 2011 allowance for doubtful accounts mainly relates to an increase in our net revenues. In addition, during 2010, we changed our billing cycle period, so that customers received a bill from us one time per month. Prior to 2010, customers received bills from us multiple times per month.

The following table illustrates our bad debt charges as a percentage of net revenues for 2009, 2010 and 2011:

	September 30,	September 30,	September 30,
		Year Ended December 31,	
(in millions, except percentages)	2009	2010	2011
Net revenues	$ 172.8	$ 216.7	$ 298.9
Bad debt charges	10.0	14.9	18.9
Bad debt charges as a percentage of net revenues	5.8%	6.9%	6.3%

Historically, our actual losses have been consistent with our charges. However, future changes in trends could result in a material impact to future consolidated statements of income and cash flows.

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

Legal Contingencies

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

From time to time, we are involved in disputes that arise in the ordinary course of business. We are currently involved in certain legal proceedings as discussed in Business Legal Proceedings, and in Note 15 to our audited consolidated financial statements. We believe that we have meritorious defenses to the claims against us, and we will defend ourselves accordingly. However, even if successful, our defense could be costly and could divert management s time. If the plaintiffs were to prevail on certain claims, we might be forced to pay damages or modify our business practices. Any of these consequences could materially harm our business and could have a material adverse impact on our financial position, results of operations or cash flows.

Income taxes

We are required to recognize a provision for income taxes based upon taxable income and temporary differences between the book and tax bases of our assets and liabilities for each of the tax jurisdictions in which we operate. This process requires a calculation of taxes payable under currently enacted tax laws in each jurisdiction and an analysis of temporary differences between the book and tax bases of our assets and liabilities, including various accruals, allowances, depreciation and amortization. The tax effect of these temporary differences and the estimated tax benefit from our tax net operating losses are reported as deferred tax assets and liabilities in our condensed consolidated balance sheet. We also assess the likelihood that our net deferred tax assets will be realized from future taxable income. To the extent we believe that it is more likely than not that some portion or all of deferred tax asset will not be realized, we establish a valuation allowance. At December 31, 2011, we had a valuation allowance on certain foreign net operating losses based on our assessment that it is more likely than not that the deferred tax asset will not be realized. To the extent we establish a valuation allowance or change the allowance in a period, we reflect the change with a corresponding increase or decrease in our Income/asset tax expense line in our consolidated statement of income.

The following table summarizes the composition of our deferred tax assets for the years ended December 31, 2011 and 2010:

	September 30,	September 30,	September 30,	September 30,
	Year Ended December 31,		Year Ended December 31,	
Deferred tax assets	2011	in % (*)	2010	in % (*)
	(in millions, except percentages)		(in millions, except percentages)	
2005 DeRemate.com acquisition	2.9	15.7%	5.9	28.6%
Brazilian operations	4.8	25.7%	5.3	25.6%
Foreign tax credits & others domestic deferred tax assets	3.3	17.6%	2.8	13.3%

Operations in others countries	1.3	7.1%	1.2	6.0%
2008 DeRemate.com acquisition	0.4	2.3%	0.6	2.9%
Mexican operations	1.0	5.5%	1.2	5.7%
Venezuelan operations	1.4	7.5%	1.1	5.4%
Argentine operations	3.4	18.6%	2.6	12.6%
Total	18.5	100%	20.7	100%

(*) Percentages have been calculated using the whole figures, instead on rounding figures.
The table above may not total due to rounding.

At December 31, 2011, our deferred tax assets are comprised mainly of loss carryforwards and foreign tax credits representing 23.6% and 16.0%, respectively of the total deferred tax assets. At December 31, 2010, our deferred tax assets are comprised mainly of loss carryforwards and foreign tax credits representing 44.5% and 11.8%, respectively of the total deferred tax assets.

The following table summarizes the composition of our loss carryforwards for the years ended December 31, 2011 and 2010:

	September 30,	September 30,	September 30,	September 30,
	Year Ended December 31,		Year Ended December 31,	
Loss carryforwards	**2011**	**in % (*)**	**2010**	**in % (*)**
	(in millions, except percentages)		**(in millions, except percentages)**	
2005 DeRemate.com acquisition	0.0	0.5%	3.9	42.7%
Brazilian operations	2.6	59.4%	3.0	32.7%
2008 DeRemate.com acquisition	0.4	8.5%	0.5	5.8%
Mexican operations	0.8	18.4%	0.9	10.3%
Domestic loss carry forwards	0.1	1.4%	0.1	1.1%
Chilean operations	0.5	10.7%	0.7	7.1%
Operations in others countries	0.0	1.1%	0.1	0.4%
Total	4.4	100%	9.2	100%

(*) Percentages have been calculated using the whole figures, instead on rounding figures.
The table above may not total due to rounding.

We also assess the likelihood that our net deferred tax assets will be realized from future taxable income. To the extent we believe that it is more likely than not that some portion or the total deferred tax assets will not be realized, we establish a valuation allowance.

At December 31, 2011 and 2010, our valuation allowance amounted to $2.9 million and $4.8 million, respectively.

The following table summarizes the composition of our valuation allowance for the years ended December 31, 2011 and 2010:

	September 30,	September 30,	September 30,	September 30,
	Year Ended December 31,		Year Ended December 31,	
Valuation Allowance	**2011**	**in % (*)**	**2010**	**in % (*)**
	(in millions, except percentages)		**(in millions, except percentages)**	
2005 DeRemate.com acquisition	0.1	3.0%	0.1	1.8%
Brazilian operations	0.0	0.0%	2.1	42.6%
2008 DeRemate.com acquisition	0.4	15.0%	0.6	12.4%
Operations in others countries	2.4	82.0%	2.1	43.2%
United States	0.0	0.0%	0.0	0.0%
Total	2.9	100%	4.8	100%

(*) Percentages have been calculated using the whole figures, instead on rounding figures.
The table above may not total due to rounding.

Our valuation allowance is based on our assessment that it is more likely than not that the deferred tax asset will not be realized. The fluctuations in the valuation allowance will depend on the capacity of each country operation to generate taxable income or our execution of future tax planning strategies that allow us to use the aforementioned deferred tax assets. To the extent we establish a valuation allowance or change the allowance in a period, we reflect the change with a corresponding increase or decrease in our tax provision in our consolidated statement of income.

During the year ended December 31, 2011, the Company has reversed $2.0 million related to certain valuation allowance in one of our Brazilian subsidiaries, acquired in 2001, as a consequence of a business reorganization in that country, The reversal of the tax valuation allowance was based on the assessment that it is more likely than not that the deferred tax asset will be realized.

During the year ended December 31, 2010, the Company has reversed $4.6 million related to certain Brazilian valuation allowances as a consequence of a business reorganization in that country, The reversal of the tax valuation allowance was based on the assessment that it is more likely than not that the deferred tax asset will be realized.

As of December 31, 2011, there are $64.3 million of non-U.S. subsidiaries undistributed earnings. In determining the amount of non-U.S. subsidiaries undistributed earnings, we have not considered some certain of the non-U.S. subsidiaries undistributed earnings as of December 31, 2011 for U.S. federal income tax purposes because our strategy is to reinvest our undistributed earnings of our foreign operations in those operations and to distribute dividends when they can be offset with available tax credits. We do not expect a material impact in any repatriation of undistributed earnings of foreign subsidiaries on our operations since the taxable domestic gains generated by any dividend distributions will be mostly offset with foreign tax credits that arise from income tax paid in our foreign operations, which we are allowed to compute for domestic income tax purposes. Upon distribution of those earnings in the form of dividends or otherwise, we would be subject to U.S. federal income taxes if such distribution exceeds available foreign tax credits. It is not practicable to determine the income tax liability that might be incurred if these earnings were to be distributed.

The following table sets forth the blended tax rates for 2011, 2010 and 2009:

	September 30,	September 30,	September 30,
		Year ended December 31,	
(in millions, except percentages)	**2011**	**2010**	**2009**
Income and asset tax expense	$ (31.7)	$ (15.8)	$ (9.5)
As a percentage of income before income and asset tax	(29.2)%	(22.0)%	(22.3)%

Our effective income tax rates for the years ended December 31, 2011, 2010 and 2009, are 27.5%, 30.8% and 26,9%, respectively. Historically, these provisions have adequately provided for our actual income tax liabilities. Our future effective tax rates could be adversely affected by earnings being lower than anticipated in countries where we have lower statutory rates and higher than anticipated in countries where we have higher statutory rates, by changes in the valuations of our deferred tax assets or liabilities, or by changes or interpretations in tax laws, regulations or accounting principles.

Stock-based compensation

During 2008 and 2009, we granted our outside directors restricted shares of our common stock (Restricted Shares) as part of their compensation, as described in the following table:

Grant date	**September 30, Number of Restricted Shares**
January 24, 2008	600
June 9, 2008	1,348
June 10, 2009	2,305
June 10, 2009	8,350

During the years ended December 31, 2011 and 2010, we did not grant any restricted share of our common stock.

Under the compensation plan adopted in September 2007, each outside director is entitled to receive an annual grant of Restricted Shares. Each grant of Restricted Shares vests in full twelve months following the grant date. On September 17, 2007, we awarded two of our outside directors 1,000 Restricted Shares each for their original grants. On January 24, 2008, we awarded another outside director 600 Restricted Shares for his original grant. On June 9, 2008, we awarded the remaining two outside directors 674 Restricted Shares each for their original grants.

For the first and second year of board service following the date each outside director received his initial grant, he or she is entitled to receive a grant of additional Restricted Shares having a value equal to $30,000 and $40,000, respectively. Beginning in 2009, Restricted Shares issuable to the directors during the relevant year were issued on the date of our annual stockholder s meeting. Restricted shares were valued at the closing sale price of our common stock on the day preceding the annual meeting. As a result of moving the grant dates, other than the initial grants to directors in January and June 2008, we did not issue any Restricted Shares to any of the outside directors in 2008 and, accordingly, made catch up Restricted Share grants on the date of the 2009 stockholder s annual meeting.

In accordance with SFAS 123(R) these Restricted Share awards are measured at the grant-date fair value of our shares as if these shares were vested and issued on the grant date. For the year ended December 31, 2009, we recognized $27,944 of compensation expense related to these awards, which were included in operating expenses in the accompanying consolidated statements of income. No expense was recorded in the years ended December 31, 2011 and 2010 related to these awards. As of December 31, 2011, the Restricted Shares are fully vested and no longer subject to forfeiture.

The additional grants of shares for fixed amounts of $30,000 and $40,000 were classified as liabilities in the accompanying consolidated balance sheet up to June 10, 2009, the issuance date. On June 10, 2009, the Company issued 2,305 and 8,350 shares related to the abovementioned additional Restricted Shares for the first and second year of board service following the date each outside director received their initial grant, respectively. The 8,350 shares related to the second year vested on June 10, 2010. Non-vested shares awarded to employees are measured at their fair market value by the grant-date price of our shares. As from the issuance date, the outstanding liabilities amounting to $171,099 as well as all future compensation cost is classified as equity. For the years ended December 31, 2011, 2010 and 2009, we recognized $nil, $37,696, and $85,689, respectively, of compensation expense related to these awards, which are included in operating expenses in the accompanying consolidated statement of income.

To date, all Restricted Shares have been granted pursuant to our Amended and Restated 1999 Stock Option and Restricted Stock Plan.

In addition, on August 8, 2008, our Board of Directors approved a four year employee retention program (the 2008 LTRP) payable 50% in cash and 50% in shares, subject to certain performance conditions which were satisfied. Subject to an employee s continued employment as of the applicable payment date, the vesting schedule for awards under the 2008 LTRP is as follows:

Year One Paid on or before March 31, 2009: 17% (8.5% in cash and 8.5% in common stock);

Year Two Paid on or before March 31, 2010: 22% (11% in cash and 11% in common stock);

Year Three Paid on or before March 31, 2011: 27% (13.5% in cash and 13.5% in common stock); and

Year Four Paid on or before March 31, 2012: 34% (17% in cash and 17% in common stock).

The compensation cost is recognized in accordance with the graded-vesting attribution method and is accrued up to each payment date.

The total compensation cost of the 2008 LTRP amounts to approximately $1.6 million, including cash and shares. The 21,591 shares to be issued in the four years of the plan were valued at the grant-date fair market value of $36.80 per share. For the year ended December 31, 2011, the related accrued compensation expense was $0.2 million, $0.1 million of which corresponds to the share portion of the award credited to Additional Paid-in Capital and $0.1 million of which corresponds to the cash portion included in the Balance Sheet as Social security payable. For the year ended December 31, 2010, the related accrued compensation expense was $0.2 million, $0.1 million of which corresponds to the share portion of the award credited to Additional Paid-in Capital and $0.1 million of which corresponding to the cash portion included in the Balance Sheet as Social security payable. For the year ended December 31, 2009, the related accrued compensation expense was $0.4 million, $0.2 million of which corresponds to the share portion of the award credited to Additional Paid-in Capital and $0.2 million of which corresponds to the cash portion included in the Balance Sheet as Social security payable.

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

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

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

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

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

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

The following tables summarize the LTRP accrued compensation expense for the years ended December 31, 2011, 2010 and 2009:

	September 30,	September 30,	September 30,
		Year ended December 31,	
	2011	2010	2009
LTRP 2008	$ 98,451	$ 246,357	$ 398,175
LTRP 2009	1,457,838	1,675,185	1,503,773
LTRP 2010	1,330,238	1,657,952	
LTRP 2011	1,519,760		
	$ 4,406,288	$ 3,579,494	$ 1,901,948

On June 25, 2010, our board of directors, upon the recommendation of the compensation committee of our board, adopted the 2010 Director Compensation Program (the Plan) for outside directors. Under the terms of the 2010 Director Plan, starting in 2011, each outside director will be entitled to receive the following compensation for services provided as a director of the Company:

an annual fixed cash retainer for service on the board (the Fixed Retainer);

an annual fixed cash retainer for service as chairman of the audit committee (the Audit Chairman Retainer), compensation committee (the Compensation Chairman Retainer), nominating and corporate governance committee (the Nominating Chairman Retainer) and lead independent director (the Lead Director Retainer), as applicable; and

an annual variable cash retainer based upon the change in our stock price from year to year (the Variable Retainer).

The amount of the Variable Retainer payable in any year is determined by multiplying the target Variable Retainer award amount (the Target Variable Retainer) for such year by the quotient of (a) divided by (b), where (a), the numerator, equals the Prior Year Stock Price (as defined below) and (b), the denominator, equals the Current Year Stock Price (as defined below). For purposes of the 2010 Director Plan, the Applicable Year Stock Price shall equal the average closing price of our common stock on the NASDAQ Global Market during the 30 trading day period preceding the date of the annual stockholders meeting held in the year the payment is made and the Prior Year Stock Price shall equal the average closing price of our common stock on the NASDAQ Global Market during the 30 trading day period preceding the date of our annual stockholders meeting held in the year prior to the year in which the payment is made.

The Fixed Retainer and Target Variable Retainer payable in 2011 following the 2011 annual stockholders meeting for services provided in 2010 are $32,436 and $43,248, respectively. The Audit Chairman Retainer, Compensation Chairman Retainer, Nominating Chairman Retainer and Lead Director retainer for the same period are $16,218, $12,974, $5,406 and $10,812, respectively. The Fixed Retainer and Target Variable Retainer payable in 2012 following the 2012 annual stockholders meeting for services provided in 2010 are $37,703 and $50,271, respectively. The Audit Chairman Retainer, Compensation Chairman Retainer, Nominating Chairman Retainer and Lead Director retainer for the same period are $18,852, $15,081, $6,284 and $12,568, respectively. Under the 2010 Director Plan, the amount of each retainer is scheduled to increase by approximately 16% in 2013. The 2010 Director Plan is scheduled to terminate following the 2013 Annual Stockholders Meeting.

The total accrued compensation cost for the Plan for the years ended December 31, 2011 and 2010 amounts to $570,950 and $280,247, respectively.

Stock option awards granted under the Amended and Restated 1999 Stock Option and Restricted Stock Plan , (the Plan) are at the discretion of the Company s Board of Directors and may be in the form of either incentive or nonqualified stock options. Outstanding options granted under the Plan generally vest over a four year period and expire ten years after the date of grant. As of December 31, 2011, there were 275,199 shares of Common Stock available for additional awards under the Plan.

Stock options are accounted for at their grant date fair value. Fair value of stock options was calculated using the Black-Scholes option pricing model. This calculation was affected by the Company s stock price as well as assumptions regarding a number of highly complex and subjective variables. The use of a Black-Scholes model requires extensive actual employee exercise behavior data and a number of complex assumptions including expected life, expected volatility, risk-free interest rate and dividend yield. As a result, the future stock-based compensation expense may differ from historical amounts.

Stock-based compensation expense related to stock options for the years ended December 31, 2011, 2010 and 2009 was $nil, $244 and $1,752, respectively. Stock-based compensation expense is based on the estimated portion of the awards that are expected to vest.

As of December 31, 2011, all stock-based compensation expense related to stock options has been recognized.

No stock options were granted during the period from January 1, 2007 to December 31, 2011.

Recent accounting pronouncements

Presentation of Comprehensive Income

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

Fair value measurement and disclosure

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

Goodwill Impairment Test

On September 15, 2011, the Financial Accounting Standards Board (FASB) issued an amendment to the guidance on testing goodwill for impairment. Under the revised guidance, entities testing goodwill for impairment have the option of performing a qualitative assessment before calculating the fair value of the reporting unit (i.e., step 1 of the goodwill impairment test). If entities determine, on the basis of qualitative factors, that the fair value of the reporting unit is more likely than not less than the carrying amount, the two-step impairment test would be required. The accounting standard update does not change how goodwill is calculated or assigned to reporting units, nor does it revise the requirement to test goodwill annually for impairment. In addition, it does not amend the requirement to test goodwill for impairment between annual tests if events or circumstances warrant; however, it does revise the examples of events and circumstances that an entity should consider. The amendments are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011 and early adoption is permitted. The Company decided to early adopt this new guidance for its financial statements related to the fiscal year ending December 31, 2011.

Results of operations

The following table sets forth, for the periods presented, certain data from our consolidated statement of income. This information should be read in conjunction with our audited consolidated financial statements and the notes to those statements included elsewhere in this report.

(In millions)	September 30, 2011	September 30, 2010	September 30, 2009
	Year Ended December 31,		
Net revenues	$ 298.9	$ 216.7	$ 172.8
Cost of net revenues	(72.1)	(46.5)	(36.0)
Gross profit	226.9	170.2	136.9
Operating expenses:			
Product and technology development	(23.3)	(15.9)	(12.1)
Sales and marketing	(65.0)	(48.9)	(42.9)
General and administrative	(38.8)	(30.8)	(25.8)
Total operating expenses	(127.1)	(95.6)	(80.9)
Income from operations	99.8	74.6	56.0
Other income (expenses):			
Interest income and other financial gains	9.9	4.9	2.7
Interest expense and other financial charges	(3.6)	(7.6)	(13.4)
Foreign currency gains / losses	2.4	(0.1)	(2.7)
Other income, net	0.1		
Net income before income / asset tax expense	108.5	71.9	42.7
Income / asset tax expense	(31.7)	(15.8)	(9.5)
Net income	$ 76.8	$ 56.0	$ 33.2
Less: Net Income attributable to Noncontrolling	.02		
Net income available to common shareholders	$ 76.8	$ 56.0	$ 33.2

The table above may not total due to rounding.

(% of net revenues)	September 30, 2011	September 30, 2010	September 30, 2009
	Year Ended December 31, (Unaudited)		
Net revenues	100%	100%	100%
Cost of net revenues	(24.1)	(21.5)	(20.8)
Gross profit	75.9	78.5	79.2
Operating expenses:			
Product and technology development	(7.8)	(7.3)	(7.0)
Sales and marketing	(21.7)	(22.6)	(24.8)
General and administrative	(13.0)	(14.2)	(15.0)

Total operating expenses	(42.5)	(44.1)	(46.8)
Income from operations	33.4	34.4	32.4
Other income (expenses):			
Interest income and other financial gains	3.3	2.3	1.6
Interest expense and other financial charges	(1.2)	(3.5)	(7.7)
Foreign currency gains/(loss)	0.8	(0.0)	(1.5)
Other expenses, net	0.0		
Net income before income / asset tax expenses	36.3	33.2	24.7
Income / asset tax expense	(10.6)	(7.3)	(5.5)
Net income	25.7	25.9	19.2
Less: Net Income attributable to Noncontrolling	0.0		
Net income available to common shareholders	25.7	25.9	19.2

Principal trends in results of operations

Growth in net revenues from year to year

Since our inception, we have consistently generated revenue growth from our MercadoLibre Marketplace and from MercadoPago, driven by the strong growth of our key operational metrics. From 2009 to 2010, our gross merchandise volume increased by 23.8%, our successful items sold increased by 33.1% and MercadoPago total payment volume increased by 82.3%. From 2010 to 2011, the growth rates for the same key operational metrics were 41.5%, 34.6% and 88.1%, respectively. Our growth in net revenues was 25.4% from 2009 to 2010 and 37.9% from 2010 to 2011. We believe that the growth in net revenues should continue in the future. However, despite this positive historical trend, current weak global macro-economic environment, coupled with devaluations of certain local currencies in Latin America versus the U.S. dollar, and the effect of Venezuelan translation and high interest rates in that country, could cause an experience declining year-to-year net revenues, particularly as measured in U.S. dollars.

Gross profit margins

Our business has generated sustained high gross profit margins over time, as defined by total net revenues minus total cost of net revenues, as a percentage of net revenues. Historically, gains in gross profit margins have been mainly attributable to increased economies of scale in customer service, Internet Service Provider (ISP) connectivity and site operations and improved economic terms obtained from payment processors.

Our gross profit margins were 79.2% for 2009, 78.5% for 2010 and 75.9% for 2011. In 2011 and 2010, variations in gross profit margins are mainly a result of the higher penetration of our payment solution into our marketplace, which has a higher cost of net revenue. In the future, gross profit margins could decline if the cost of net revenues as a percentage of net revenues increases as the penetration of our payment solution grows faster than our marketplace, or if we cannot sustain the economies of scale that we have achieved.

Improving Operating income margins

We have generated and expect to continue generating economies of scale in operating expenses. For the past three years, our operating income margins, defined as our income from operations as a percentage of net revenues has improved from 32.4% for 2009 to 34.4% for 2010 and to 33.4% for 2011, mostly as a result of the impact of economies of scale. We anticipate, however, that as we continue to invest in product development, sales and marketing and human resources in order to promote our services and capture the long term business opportunity offered by the Internet in Latin America, it is increasingly difficult to sustain growth in operating income margins, and at some point in the future we could experience decreasing operating income margins.

Growth in Net Income

We have generated growth in our net income as a consequence of the above mentioned trends. In 2009 our net income was $33.2 million. For 2010, our net income grew 68.7% to $56.0 million. For 2011, our net income grew 37.1% to $76.8 million. However, as mentioned above, if any of these trends were to revert, our net income growth could be affected, or could even become negative on a year-to-year basis.

Year ended December 31, 2011 compared to year ended December 31, 2010

Net revenues

	September 30,	September 30,	September 30,	September 30,
	Year Ended December 31,		Change from 2010 to 2011 (*)	
	2011	2010	in Dollars	in %
	(in millions, except percentages)			
Total Net Revenues	$ 298.9	$ 216.7	$ 82.2	37.9%
As a percentage of net revenues (*)	100.0%	100.0%		

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

The 37.9% growth in net revenues from the year ended December 31, 2010 to the year ended December 31, 2011 resulted principally from a 41.5% increase in the gross merchandise volume (GMV) transacted through our platform from 2010 to 2011. This GMV growth resulted from a 34.6% increase in items sold between those years. The increase in GMV and items sold was partially offset by a decrease in our take rate, which we define as net revenues as a percentage of gross merchandise volume, from 6.36% for the year ended December 31, 2010 to 6.20% for the year ended December 31, 2011. The decrease in our take rate was primarily due to GMV growing faster than some of our revenue sources not tied to GMV, such as Classifieds and upfront fees. In addition, this GMV growth was positively impacted by U.S. dollars figures mainly due to the fact that the parallel exchange rate used by our Venezuelan subsidiaries in the first half of 2010 was 6.28 Bolivares Fuertes per U.S. dollar as compared to 5.3 Bolivares Fuertes per U.S. dollar for 2011. See Critical accounting policies and estimates Foreign currency translation for more detail.

Measured in local currencies, net revenues grew 34.7% in the year ended December 31, 2011, compared to the same period in 2010. The local currency revenue growth was calculated by using the average monthly exchange rates for each month during 2010 and applying them to the corresponding months in 2011, so as to calculate what our financial results would have been had exchange rates remained stable from one year to the next.

The following table summarizes the changes in net revenues by segment for the years ended December 31, 2011 and 2010:

	September 30,	September 30,	September 30,	September 30,
	Year Ended December 31,		Change from 2010 to 2011 (*)	
	2011	2010	in Dollars	in %
	(in millions, except percentages)			
Net Revenues:				
Brazil	$ 165.9	$ 122.8	$ 43.1	35.1%
Argentina	56.7	39.9	16.8	42.2
Venezuela	34.8	20.9	13.9	66.8
Mexico	22.3	19.0	3.3	17.5
Other Countries	19.2	14.2	5.0	35.6
Total Net Revenues	$ 298.9	$ 216.7	$ 82.2	37.9%

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

On a segment basis, our net revenues for the year ended December 31, 2011 as compared to the year ended December 31, 2010, increased across all segments.

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

	September 30,	September 30,	September 30,	September 30,
	Quarter Ended			
	March 31,	June 30,	September 30,	December 31,
	(in millions, except percentages)			
		(*)		
2011				
Net Revenues	$ 61.5	$ 69.4	$ 81.6	$ 86.5
Percent change from prior quarter	-1%	13%	18%	6%
2010				
Net Revenues	$ 45.9	$ 52.5	$ 56.0	$ 62.3
Percent change from prior quarter	-6%	14%	7%	11%
2009				
Net Revenues	$ 32.3	$ 40.9	$ 50.6	$ 49.0
Percent change from prior quarter	-3%	27%	24%	-3%
2008				
Net Revenues	$ 28.8	$ 34.5	$ 40.3	$ 33.4
Percent change from prior quarter	7%	20%	17%	-17%
2007				
Net Revenues	$ 16.5	$ 19.0	$ 22.8	$ 26.9
Percent change from prior quarter	6%	15%	20%	18%

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

The 2009 fourth quarter decrease in net revenues is a consequence of the change in our Venezuelan translation rate from the official exchange rate of 2.15 to the parallel exchange rate of 5.67. See Critical accounting policies and estimates Foreign Currency Translation for more detail.

Cost of net revenues

	September 30,	September 30,	September 30,	September 30,
	Year Ended December 31,		Change from 2010 to 2011 (*)	
	2011	2010	in Dollars	in %
	(in millions, except percentages)			
Total cost of net revenues	$ 72.1	$ 46.5	$ 25.6	54.8%
As a percentage of net revenues (*)	24.1%	21.5%		

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

The increase in cost of net revenues was primarily attributable to an $11.2 million increase in collection fees. The increase in collection fees, which occurred primarily in Brazil and Argentina, was a result of the higher penetration of MercadoPago, our payment solution, which has a higher collection fee cost, into our marketplace. For the year ended December 31, 2011 and 2010, 27.2% and 20.9%, respectively, of our total gross merchandise volume (excluding motor vehicles, vessels, aircraft and real estate) was completed through MercadoPago. In addition, sales taxes on our net revenues increased by $6.3 million, or 42.1% for the year ended December 31, 2011, compared to the same period of 2010 as a consequence of an increase in our net revenues. Moreover, during the year ended December 31, 2011 as compared to the same period in the prior year, expenditures related to our in-house customer support operations increased by $5.4 million, which increase was primarily driven by increases in compensation costs, recruitment, investments in improved service and initiatives to combat fraud, illegal items and fee evasion. Finally, for the year ended December 31, 2011, as compared to the previous year, bank transfer fees related to MercadoPago, mainly in Brazil, increased by $0.9 million.

The cost of net revenues margin increased 262 basis points, from 21.5% in 2010 to 24.1% in 2011, primarily as a result of the higher penetration of our Payment solution into our marketplace.

Product and technology development

	September 30,	September 30,	September 30,	September 30,
	Year Ended December 31,		Change from 2010 to 2011 (*)	
	2011	2010	in Dollars	in %
	(in millions, except percentages)			
Product and technology development	$ 23.3	$ 15.9	$ 7.4	47.3%
As a percentage of net revenues (*)	7.8%	7.3%		

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

The growth in product and technology development expenses in 2011 as compared to the same periods in 2010 was primarily attributable to an increase of $2.7 million or a 33.7% increase in compensation costs. These additional compensation expenses were primarily related to the addition of engineers and, to a lesser extent, to increases in salaries, as we continue to invest in top quality talent to develop enhancements and new features across our platforms. We believe product development is one of our key competitive advantages and intend to continue to invest in adding engineers to meet the increasingly sophisticated product expectations of our customer base.

Product and technology development expenses also grew in 2011 as a consequence of an increase in maintenance expenses of $1.9 million compared to 2010, related to the use of cloud computing (AWS), IT consulting fees, real-time monitoring of our applications and the use of content distribution network (CDN) which is a system of computers containing copies of data placed at various nodes of a network and, an increase in depreciation and amortization expenses related to product and technology development of $1.7 million, or 50.7% compared to 2010. In addition, there was an increase of $1.1 million, compared to the same period in 2010, in other product and development expenses.

Sales and marketing

	September 30,	September 30,	September 30,	September 30,
	Year Ended December 31,		Change from 2010 to 2011 (*)	
	2011	2010	in Dollars	in %
	(in millions, except percentages)			
Sales and marketing	$ 65.0	$ 48.9	$ 16.1	32.9%
As a percentage of net revenues (*)	21.7%	22.6%		

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

The increase in sales and marketing expenses in 2011 when compared to the same period in 2010 was primarily attributable to a $8.8 million or 296.3% increase in other marketing expenses related to MercadoPago chargebacks mainly in Brazil and due to a one-time negative impact related to certain voided or overdrawn checks that were processed by one of MercadoPago s payments processors in Brazil, which resulted in a loss of $1.6 million in the second quarter of 2011. Sales and marketing expenses also grew as a consequence of $4.1 million increase in bad debt charges. Bad debt charges for the year ended December 31, 2011 represented 6.3% of net revenues versus 6.9% for the same period in 2010. In addition, sales and marketing expenses grew in 2011, due to a $1.7 million or 18.9% increase in compensation costs driven by higher salaries to retain talent, and a $1.5 million increase in trust and safety expenses due to the increased use of our buyer protection program developed to compensate buyers for unfulfilled transactions or other claims related to the quality of the purchased goods. Finally, our business off-line expenses increased $0.2 million year over year.

The increase in sales and marketing expenses for the year ended December 31, 2011 was partially offset by a $0.5 million decrease in on line expenses as a consequence of decreases in our affiliate program expenses. Online advertising, including our affiliate program and portal deals expenses, represented 5.8% of our net revenues in the year ended December 31, 2011, down from 8.2% for the same period in 2010.

General and administrative

	September 30,	September 30,	September 30,	September 30,
	Year Ended December 31,		Change from 2010 to 2011 (*)	
	2011	2010	in Dollars	in %
	(in millions, except percentages)			
General and administrative	$ 38.8	$ 30.8	$ 8.0	25.8%
As a percentage of net revenues (*)	13.0%	14.2%		

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

The increase in general and administrative expenses in 2011 as compared to the same period of 2010, was primarily attributable to a $4.7 million increase in compensation costs mainly related to our long term retention plans, increases in salaries to retain talent, a $2.8 million increase in outside services mainly related to legal and tax fees and a $1.0 million increase in other general and administrative expenses. The increase in general and administrative expenses was partially offset by a $0.4 million decrease in other office expenses.

Other income (expenses), net

	September 30,	September 30,	September 30,	September 30,

	Year Ended December 31,		Change from 2010 to 2011 (*)	
	2011	2010	in Dollars	in %
	(in millions, except percentages)			
Other income (expenses)	$ 8.7	$ (2.7)	$ 11.4	417.8%
As a percentage of net revenues	2.9%	-1.3%		

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

The increase in other income (expenses) in 2011 was primarily a result of: (a) a $4.0 million decrease in financial expenses resulting from our determination to pre-sell installment-related financing receivables, which we commenced in the third quarter of 2010; (b) a $5.0 million increase in interest income and other financial charges related to higher interest income earned on our investments driven by a greater volume of investments and higher interest rates, particularly in Brazil; and (c) a $2.4 million increase in foreign currency gains attributable to the impact of the local currency appreciation on the cash balances held by our Brazilian and Mexican subsidiaries in U.S. dollars during the year ended December 31, 2011 versus the same period of 2010.

Income and asset tax expense

	September 30,	September 30,	September 30,	September 30,
	Year Ended December 31,		Change from 2010 to 2011 (*)	
	2011	2010	in Dollars	in %
	(in millions, except percentages)			
Income and asset tax	$ 31.7	$ 15.8	$ 15.8	99.9%
As a percentage of net revenues (*)	10.6%	7.3%		

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

The $15.8 million increase in our income and asset tax expense from the year ended December 31, 2010 to the same period in 2011 was primarily a result of increases in income tax charges in all our segments, driven by higher taxable income year over year. For the year ended December 31, 2011, our income and asset tax expense margin is higher as compared to the same period in the previous year, because in the year ended December 31, 2010 we recognized an income tax gain of $4.6 million due to a reversal of tax valuation allowance related to our Brazilian subsidiaries while during the year ended December 31, 2011we reversed $2.0 million related to a Brazilian subsidiary acquired in 2001. The reversal of the tax valuation allowance was derived from our tax planning strategies implemented during the year which were designed to more efficiently use our accumulated tax loss carryforward credits from acquired companies. In addition, for the year ended December 31, 2011 as compared to the previous year, our income and asset tax expense margin was negatively impacted by increases in income tax charge in Brazil as a consequence of permanent tax differences period over period.

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

The following table summarizes the changes in our blended and effective tax rate for the years ended December 31, 2011 and 2010:

	September 30,	September 30,
	Year Ended December 31,	
	2011	2010
Blended tax rate	29.2%	22.0%
Effective tax rate	27.5%	30.8%

Our blended tax rate increased from the year ended December 31, 2010 to the year ended December 31, 2011 because: (a) in 2010 we recognized an income tax gain of $4.6 million due to a reversal of tax valuation allowance related to our Brazilian subsidiaries while during the year ended December 31, 2011we reversed $2.0 million related to a Brazilian subsidiary acquired in 2001, (b) in 2011 we recorded an increase of $1.8 million of our domestic deferred tax liabilities mainly as a consequence of temporary differences related to property and equipment, and to withholding taxes, (c) in 2011 our Argentine taxable income has a lower share of the consolidated taxable income when compared to the same period in 2010, which results in a higher consolidated tax rate as a consequence that Argentina has a lower tax rate (as we are beneficiary of a software development law) compared to other locations and (d) in 2011 we recorded certain Brazilian non-deductible losses related to voided and/or overdrawn checks processed by a MercadoPago payments processor as described in our Sales and Marketing discussion.

Our effective tax rate decreased from year ended December 31, 2010 to the same period in 2011 due to our Brazilian business reorganization generated as part of our tax planning strategy, which permitted us to use tax loss carryforwards in that country and due to a decrease in the Argentine effective tax rate as described below.

The following table sets forth our effective income tax rate related to our main locations for the years ended December 31, 2011 and 2010:

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	September 30,	September 30,
	Year Ended December 31,	
	2011	2010
Effective tax rate by country		
Argentina	15.7%	18.2%
Brazil	30.2%	31.9%
Mexico	25.5%	33.9%
Venezuela	35.9%	41.9%

The Company s Argentine subsidiary is a beneficiary of a software development law granting it a relief of 60% of total income tax determined in each year. Mainly for that reason, our Argentine operation s effective income tax rate for the years ended December 31, 2011 and 2010 are currently lower than the local statutory rate of 35%. If we had not been granted the Argentine tax holiday, our Argentine effective income tax rate would have been higher but, in that case, we would have pursued an alternative tax planning strategy.

The decrease in our Argentine operation s effective income tax rate year over year is mainly related to variations in temporary tax differences.

For the years ended December 31, 2011 and 2010, our Brazilian effective income tax rate are lower than the local statutory rate of 34% mainly because of the business reorganization generated as part of our tax planning strategy, which permitted us to use tax loss carryforwards in that country.

For the year ended December 31, 2011, our Mexican effective income tax rate is lower than the local statutory rate of 30% mainly because of variations in permanent tax differences. For the year ended December 31, 2010, our Mexican effective income tax rate is higher than the local statutory rate mainly as a consequence of temporary and permanent tax differences.

For the years ended December 31, 2011 and 2010, our Venezuelan effective income tax rates are higher than the local statutory rate mainly due to losses related to temporary differences generated by the re-measurement of our foreign-currency position computed for tax purposes that cannot be considered for U.S. GAAP purposes (our Venezuelan subsidiaries functional currency is the U.S. dollar due to a highly inflationary environment).

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

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

Year ended December 31, 2010 compared to year ended December 31, 2009

Net revenues

	September 30,	September 30,	September 30,	September 30,
	Year Ended December 31,		Change from 2009 to 2010 (*)	
	2010	2009	in Dollars	in %
	(in millions, except percentages)			
Total Net Revenues	$ 216.7	$ 172.8	$ 43.9	25.4%
As a percentage of net revenues (*)	100.0%	100.0%		

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

The 25.4% growth in net revenues from the year ended December 31, 2009 to the year ended December 31, 2010 resulted principally from a 23.8% increase in the gross merchandise volume (GMV) transacted through our platform from 2009 to 2010. In addition, US dollars figures were positively impacted during this year mainly because of the appreciation of the Brazilian Reais, which was partially offset by a decrease in US dollar revenues provided by our Venezuelan subsidiaries as a consequence of the Venezuelan devaluation where we used to report our results at the previous official exchange rate of 2.15 (for the first nine months of 2009) and currently we are reporting it at 5.3. See Critical accounting policies and estimates Foreign currency translation for more detail.

Measured in local currencies, net revenues grew 31.3% in the year ended December 31, 2010, compared to the same period in 2009. The local currency revenue growth was calculated by using the average monthly exchange rates for each month during 2009 and applying them to the corresponding months in 2010, so as to calculate what our financial results would have been had exchange rates remained stable from one year to the next.

In addition, net revenues increased slightly due to an increase in our take rate, defined as net revenues as a percentage of gross merchandise volume, from 6.3% for year ended December 31, 2009 to 6.4% for the year ended December 31, 2010.

The following table summarizes the changes in net revenues by segment for the years ended December 31, 2010 and 2009:

September 30,	September 30,	September 30,	September 30,	September 30,
	Year Ended December 31, 2010	2009	Change from 2009 to 2010 (*) in Dollars	in %
	(in millions, except percentages)			
Net Revenues:				
Brazil	$ 122.8	$ 93.1	$ 29.7	31.9%
Argentina	39.9	26.7	13.2	49.2%
Venezuela	20.9	27.3	(6.4)	-23.6%
Mexico	19.0	15.3	3.6	23.7%
Other Countries	14.2	10.4	3.8	36.5%
Total Net Revenues	$ 216.7	$ 172.8	$ 43.9	25.4%

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

On a segment basis, our net revenues for the year ended December 31, 2010 as compared to the year ended December 31, 2009, increased across all segments except for the Venezuelan segment which, measured in US dollars, decreased 23.6%. The decrease in net revenues for the Venezuelan segment is attributable to the re-measurement of our Venezuelan revenues as discussed above. In local currency, our revenues in Venezuela grew 56.9% in the year ended December 31, 2010 compared to the same period a year earlier.

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

September 30,	September 30,	September 30,	September 30,	September 30,
	Quarter Ended March 31,	June 30,	September 30,	December 31,
	(in millions, except percentages)			
		(*)		
2010				
Net Revenues	$ 45.9	$ 52.5	$ 56.0	$ 62.3
Percent change from prior quarter	-6%	14%	7%	11%
2009				
Net Revenues	$ 32.3	$ 40.9	$ 50.6	$ 49.0
Percent change from prior quarter	-3%	27%	24%	-3%
2008				
Net Revenues	$ 28.8	$ 34.5	$ 40.3	$ 33.4
Percent change from prior quarter	7%	20%	17%	-17%

2007				
Net Revenues	$ 16.5	$ 19.0	$ 22.8	$ 26.9
Percent change from prior quarter	6%	15%	20%	18%

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

The 2009 fourth quarter decrease in net revenues is a consequence of the change in our Venezuelan translation rate from the official exchange rate of 2.15 to the parallel exchange rate of 5.67. See Critical accounting policies and estimates Foreign Currency Translation for more detail.

Cost of net revenues

	September 30,	September 30,	September 30,	September 30,
	Year Ended December 31,		Change from 2009 to 2010 (*)	
	2010	2009	in Dollars	in %
	(in millions, except percentages)			
Total cost of net revenues	$ 46.5	$ 36.0	$ 10.5	29.5%
As a percentage of net revenues (*)	21.5%	20.8%		

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

The increase in cost of net revenues was primarily attributable to a $5.4 million increase in collection fees. The increase in collection fees, which occurred primarily in Brazil and Argentina, was a result of the higher penetration of MercadoPago, our payment solution, into our marketplace, which has a higher collection fee cost. In addition, sales taxes on our net revenues increased by $4.3 million, or 39.9% for the year ended December 31, 2010, compared to the same period of 2009 as a consequence of decreases in deductions we can compute with respect to our Brazilian sales taxes. Moreover, during the year ended December 31, 2010 as compared to the same period in the prior year, expenditures related to our in-house customer support operations increased by $3.3 million primarily driven by an increase in compensation costs, recruitment, investments in improved service and initiatives to combat fraud, illegal items and fee evasion. The increase in our in-house customer support operations was partially offset by a $2.7 million decrease in other costs mainly related to a charge attributable to the re-measurement of the US dollar denominated expenses of our Venezuelan subsidiaries during the first nine months of 2009. These expenses were re-measured at an average parallel exchange rate of 6.3 Bolivares Fuertes per US dollar and translated at the official exchange rate (2.15 Bolivares Fuertes per US dollar). We did not have any similar re-measurement charge in 2010 (See Critical accounting policies and estimates Foreign currency translation for more detail).

The cost of net revenues margin increased 70 basis points from 20.8% in 2009 to 21.5% in 2010 due the higher penetration of our Payment solution into our marketplace.

Product and technology development

	September 30,	September 30,	September 30,	September 30,	September 30,
		Year Ended December 31,		Change from 2009 to 2010 (*)	
		2010	2009	in Dollars	in %
		(in millions, except percentages)			
Product and technology development		$ 15.9	$ 12.1	$ 3.8	30.6%
As a percentage of net revenues (*)		7.3%	7.0%		

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

The growth in product and technology development expenses in 2010 as compared to the same periods in 2009 was primarily attributable to an increase of $2.2 million or a 39.0% increase in compensation costs. These additional compensation expenses were primarily related to the addition of engineers and, to a lesser extent, to increases in salaries, as we continue to invest in top quality talent to develop enhancements and new features across our platforms. We believe product development is one of our key competitive advantages and intend to continue to invest in adding engineers to meet the increasingly sophisticated product expectations of our customer base.

Product and technology development expenses also grew in 2010 as a consequence of an increase in depreciation and amortization expenses related to product and technology development of $0.8 million, or 30.3% compared to 2009 and an increase in maintenance expenses of

$0.5 million compared to 2009.

Sales and marketing

	September 30,	September 30,	September 30,	September 30,
	Year Ended December 31,		Change from 2009 to 2010 (*)	
	2010	2009	in Dollars	in %
	(in millions, except percentages)			
Sales and marketing	$ 48.9	$ 42.9	$ 6.0	14.0%
As a percentage of net revenues (*)	22.6%	24.8%		

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

The increase in sales and marketing expenses in 2010 when compared to the same period in 2009 was primarily attributable to a $4.9 million increase in bad debt charges. Bad debt charges for the year ended December 31, 2010 represented 6.9% of net revenues versus 5.8% for the same period in 2009. In addition, sales and marketing expenses also grew in 2010 due to a $1.2 million or 63.5% increase in other marketing expenses related to our payments solution, a $0.9 million or 10.8% increase in compensation costs driven by higher salaries to retain talent, and a $0.8 million increase in trust and safety expenses due to the implementation of our buyer protection program developed to compensate buyers for unfulfilled transactions or other claims related to the quality of the purchased goods.

The increase in sales and marketing expenses for the year ended December 31, 2010 was partially offset by a $1.4 million decrease in our online advertising expenses related to specific deals, as we have optimized investment allocation over the previous year and also related to decreases in our affiliate program. Online advertising represented 8.2% of our net revenues in the year ended December 31, 2010, down from 11.1% for the same period in 2009.

General and administrative

	September 30,	September 30,	September 30,	September 30,	September 30,
	Year Ended December 31,			Change from 2009 to 2010 (*)	
	2010		2009	in Dollars	in %
	(in millions, except percentages)				
General and administrative	$	30.8	$ 25.8	$ 5.0	19.3%
As a percentage of net revenues (*)		14.2%	15.0%		

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

The increase in general and administrative expenses in 2010 as compared to the same period of 2009, was primarily attributable to a $4.1 million increase in compensation costs related to our long term retention plans, increases in salaries to retain talent, to a $1.0 million increase in outside services mainly related to legal and tax fees and to a $0.6 million increase in travel and accommodation and offices expenses. The increase in general and administrative expenses was partially offset by a $0.9 million decrease in other general and administrative expenses related to the re-measurement of the US dollar denominated expenses of our Venezuelan subsidiaries at an average parallel exchange rate of 6.3 Bolivares Fuertes per US dollar and the translation of these expenses at the official exchange rate (2.15 Bolivares Fuertes per US dollar). We did not have any similar translation effect due to the change in functional currency in the year ended December 31, 2010 (See Critical accounting policies and estimates Foreign currency translation for more detail).

Other income (expenses), net

	September 30,	September 30,	September 30,	September 30,	September 30,
	Year Ended December 31,			Change from 2009 to 2010 (*)	
	2010		2009	in Dollars	in %
	(in millions, except percentages)				
Other (expenses) income	$	(2.7)	$ (13.3)	$ 10.6	-79.5%
As a percentage of net revenues		-1.3%	-7.7%		

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

The decrease in other expenses in 2010 was primarily a result of: (a) a $5.8 million decrease in financial expenses, as a consequence of a greater funding of working capital needs for installment-related financing receivables related to our payment solution in 2009, while during 2010 we pre-sold some of those installment related receivables to better manage credit risk and (b) a $2.6 million decrease in foreign currency losses. The decrease in foreign currency losses for the year ended December 31, 2010, was primarily due to losses in Brazil attributable to the impact of the local currency appreciation on the cash balances held by those subsidiaries in US dollars during the year ended December 31, 2009, versus a lesser impact in the same period of 2010.

In addition, interest income and other financial charges increased by $2.2 million from $2.7 million in the year ended December 31, 2009 to $4.9 million in the same period of 2010. These increases are mainly related to higher interest income earned on our investments driven by higher interest rates and a greater volume of investments, particularly in Brazil.

Income and asset tax expense

	September 30,	September 30,	September 30,	September 30,
	Year Ended December 31,		Change from 2009 to 2010 (*)	
	2010	2009	in Dollars	in %
	(in millions, except percentages)			
Income and asset tax	15.8	9.5	6.3	66.7%
As a percentage of net revenues (*)	7.3%	5.5%		

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

The increase in our income and asset tax expense from the year ended December 31, 2009 to the same period in 2010 was primarily a result of increases in income tax charges in Brazil and Argentina, driven by higher taxable income period over period partially offset by a $4.6 million reversal of tax valuation allowance related to our Brazilian subsidiaries. The reversal of the tax valuation allowance was derived from our tax planning strategies implemented during the year which were designed to more efficiently use our accumulated tax loss carryforward credits from acquired companies.

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

The following table summarizes the changes in our blended and effective tax rate for the years ended December 31, 2010 and 2009:

	September 30,	September 30,
	Year Ended December 31,	
	2010	2009
Blended tax rate	22.0%	22.3%
Effective tax rate	30.8%	26.9%

Factors affecting results of operations and financial condition

Our total net assets balances as of December 31, 2011 have increased as compared to December 31, 2010 as a result of our net income of the year in an amount of $76.8 million and other movements affecting shareholders equity.

Assets and liabilities balances relating to operations have in general changed accordingly and as a result of the increase in operations (transactions volume and total value). During the year ended December 31, 2011, our GMV increased in 41.5%, successful items sold increased 34.6% and total volume payments increased 88.1%.

Assets and liabilities that changed for reasons other than as described above were:

Other non-current assets increased 651.3%, due to a Brazilian deposit in court of 5.1 million related to a City of São Paulo Tax Claim

Property and equipment, net increased 48.3% as a consequence of a Venezuelan office property acquisition for 6.2 million

Deferred Tax liabilities increased 67.8% due to property and equipment purchases in U.S. and Venezuelan subsidiaries.

Our prospects must be considered in light of the risks, uncertainties, expenses and difficulties frequently encountered by companies in new and rapidly evolving markets such as online commerce and emerging markets like Latin America. To address these risks and uncertainties, we must, among other things, maintain and increase the number of our confirmed registered users, items listed on our service and completed transactions, maintain and enhance our brand, implement and execute our business and marketing strategy successfully, continue to develop and upgrade our technology and information-processing systems, continue to enhance the MercadoLibre and MercadoPago services to meet the needs of a changing market, provide superior customer service, respond to competitive developments, and attract, integrate, retain and motivate qualified personnel. Accordingly, we intend to invest heavily in marketing and promotion, site development, technology and operating infrastructure development and personnel. We cannot, however, assure you that we will be successful in accomplishing all of these goals, and the failure to do so could have a material adverse effect on our business, results of operations and financial condition.

Although we have experienced significant revenue growth and significant growth in the number of our confirmed registered users and items listed by our users in recent periods, such growth rates are not sustainable and will decrease in the future. In view of the rapidly evolving nature of our business and our limited operating history, we believe that period-to-period comparisons of our operating results are not necessarily meaningful and should not be relied upon as indications of future performance.

Our operating results have varied on an annual basis during our short operating history and may fluctuate significantly as a result of a variety of factors, many of which are outside our control. The following list includes factors that may affect our operating results:

- continued growth of online commerce and Internet usage in Latin America;
- our ability to expand our operations and adapt to rapidly changing technologies;
- governmental regulation in the countries where we operate, including exchange controls;
- litigation, legal liability and intellectual property rights enforcement;
- system interruptions or failures;
- our ability to attract and retain qualified personnel;
- the announcement or introduction of new sites, services and products by us or our competitors, and price competition;
- reliance on third-party service providers;
- increasing consumer confidence in and acceptance of the Internet and other online services for commerce and, in particular, the trading of products such as those listed on our web site;
- security breaches and consumer confidence in the security of transactions over the Internet;
- consumer trends and popularity of certain categories of items;

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

seasonal fluctuations; and

political, social and economic conditions in Latin America, particularly Venezuela, including foreign exchange rate fluctuations.

Also see Item 1A Risk Factors for a discussion of material risks that could adversely affect our results of operations.

Liquidity and capital resources

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

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

At December 31, 2011, our principal source of liquidity was $142.3 million of cash and cash equivalents and short-term investments and $43.9 million of long-term investments provided by cash generated from operations.

The significant components of our working capital are cash and cash equivalents, short-term investments, accounts receivable, accounts payable and accrued expenses, funds receivable from and payable to MercadoPago users, and short-term debt. As long as we continue transferring credit card receivables to financial institutions in return for cash, as we have done since the last quarter of 2008, we will continue generating cash.

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

The following table presents our cash flows from operating activities, investing activities and financing activities for the three years ended December 31, 2011, 2010 and 2009:

	September 30,	September 30,	September 30,
	Year Ended December 31,		
(In millions)	**2011**	**2010**	**2009**
Net cash provided by (used in):			
Operating activities	$ 89.4	$ 67.9	$ 49.7
Investing activities	(66.9)	(58.8)	(3.1)
Financing activities	(10.6)	(3.0)	(15.3)
Effect of exchange rates on cash and cash equivalents	(1.4)	0.9	1.0
Net increase in cash and cash equivalents	$ 10.6	$ 7.0	$ 32.3

Net cash provided by operating activities

	September 30,	September 30,	September 30,	September 30,
	Year Ended December 31,		Change from 2010 to 2011 (*)	
	2011	2010	in Dollars	in %
	(in millions, except percentages)			
Net Cash provided by:				
Operating activities	$ 89.4	$ 67.9	$ 21.5	31.7%

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

The $21.5 million increase in net cash provided by operating activities during the year ended December 31, 2011 compared to the same period in 2010 was mainly attributable to a $20.8 million increase in net income. Additionally, net cash provided by operating activities was impacted by a $2.3 million increase in changes in accounts payable, accrued expenses and other liabilities related to our Brazilian and Argentine operations, a $7.8 million increase in non-cash charges primarily attributable to deferred tax assets related to the reversal of our Brazilian tax valuation allowance (See Income and Asset tax for more detail) and depreciation and amortization.

These increases in cash provided by operations were partially offset by a $3.1 million increase in other assets in the year ended December 31, 2011 versus the same period of 2010, a $2.2 million increase in changes in account receivables in the year ended December 31, 2011 versus the same period of 2010 and a $4.8 million decrease in working capital related to our payments solution, derived mostly from higher increases of credit card receivables than our funds payable to customers due to a higher amount of transactions in 2011.

	September 30,	September 30,	September 30,	September 30,
	Year Ended December 31,		Change from 2009 to 2010	
	2010	2009	in Dollars	in %

			(in millions, except percentages)	
			(*)	
Net Cash provided by:				
Operating activities	$ 67.9	$ 49.7	$ 18.2	36.6%

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

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The $18.2 million increase in net cash provided by operating activities during the year ended December 31, 2010 compared to the same period in 2009 was mainly attributable to a $22.8 million increase in net income. Additionally, net cash provided by operating activities was impacted by a $1.0 million increase in changes in accounts payable and other liabilities related to our Brazilian and Argentine operations and a $1.7 million increases in working capital related to our Payment solution, derived mostly from increases of funds payable to customers due to a higher amount of transactions in 2010.

These increases in cash provided by operations were partially offset by a $4.1 million increase in changes in account receivables in the year ended December 31, 2010 versus the same period of 2009, and a $3.4 million increase in non-cash gains such as deferred income tax charges related to the reversal of our Brazilian tax valuation allowance (See Income and Asset tax for more detail).

Net cash used in investing activities

	September 30, Year Ended December 31, 2011		September 30, 2010		September 30, Change from 2010 to 2011 (*) in Dollars	September 30, in %
	(in millions, except percentages)					
Net Cash used in:						
Investing activities	$	(66.9)	$	(58.8)	$ (8.0)	13.7%

(*) Percentages have been calculated using whole-dollar amounts rather than rounded amounts that appear in the table.
Net cash used in investing activities in the year ended December 31, 2011 resulted mainly from purchases of investments for $379.0 million; the increase in cash used in investment activities was partially offset by proceeds from the sale and maturity of $336.8 million of investments as part of our financial strategy. Additionally, we used $24.7 million to make capital expenditures related to (a) the purchase of a new office in Venezuela for approximately $6.6 million and (b) the purchase of the 60% ownerrship interests in Autoplaza.com for approximately $5.5 million, and (c) technological equipment, software licenses, new office space in Argentina and office equipment in Brazil, Colombia and Mexico.

	September 30,	September 30, Year Ended December 31, 2010		September 30, 2009		September 30, Change from 2009 to 2010 in Dollars	September 30, in %
		(in millions, except percentages)					
				(*)			
Net Cash used in:							
Investing activities		$	(58.8)	$	(3.1)	$ (55.7)	1806.3%

(*) Percentages have been calculated using whole-dollar amounts rather than rounded amounts that appear in the table.
Net cash used in investing activities in the year ended December 31, 2010 resulted mainly from purchases of investments for $121.3 million. Additionally, we used $13.6 million of cash in the year ended December 31, 2010 to make capital expenditures related to technological equipment, software licenses and new office space and office equipment in Argentina. During the year ended December 31, 2010, the increase in cash used in investment activities was partially offset by proceeds from the sale and maturity of $76.1 million of investments as part of our financial strategy.

As of December 31, 2009, net cash used in investing activities resulted primarily from purchases of investments for $80.1 million. Additionally, in the year ended December 31, 2009, we used $4.8 million of cash for capital expenditures related to technological equipment, software licenses and, to a lesser degree, office equipment. During the year ended December 31, 2009, the increase in cash used in investment activities was partially offset by proceeds from the sale and maturity of $81.7 million of investments as part of our financial strategy.

Net cash used in financing activities

	September 30, Year Ended December 31, 2011		September 30, 2010		September 30, Change from 2010 to 2011 (*) in Dollars	September 30, in %
	(in millions, except percentages)					
Net Cash used in:						
Financing activities	$	(10.6)	$	(3.0)	$ (7.6)	254.9%

(*) Percentages have been calculated using whole-dollar amounts rather than rounded amounts that appear in the table.
For the year ended December 31, 2011, our primary use of cash was to fund the $10.6 million quarterly cash dividends paid on April 15, July 15 and October 15, 2011 while during 2010 our primary use of cash for financing activities was a reduction in short term debt as we paid $3.0 million of notes outstanding which were issued in connection with the DeRemate acquisition.

September 30,	September 30, Year Ended December 31, 2010		September 30, 2009		September 30, Change from 2009 to 2010 in Dollars	September 30, in %
	(in millions, except percentages)					
					(*)	
Net Cash used in:						
Financing activities	$	(3.0)	$	(15.3)	$ 12.3	-80.5%

(*) Percentages have been calculated using whole-dollar amounts rather than rounded amounts that appear in the table.
For the year ended December 31, 2010, our primary use of cash for financing activities was a reduction in short term debt as we paid $3.2 million of notes outstanding which were issued in connection with the DeRemate acquisition. In the event that we decide to pursue strategic acquisitions in the future, we may fund them with available cash, third party debt financing, or by raising equity capital, as market conditions allow.

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

Debt

As of December 31, 2011, the Company recorded $3.5 million of dividends payable to its stockholders. In addition, as of December 31, 2011, our outstanding debt of $0.4 million is related to Argentine car lease contracts. See Contractual obligations below for more information.

As of December 31, 2010, our outstanding debt of $0.2 million is related to an Argentine car lease contract. See Contractual obligations for more detail.

Cash Dividends

In November 2011, our Board of Directors declared the fourth quarterly cash dividend in our history by approving an aggregate $3.5 million cash dividend on our outstanding shares of common stock (or $0.08 per share). The dividend was paid on January 17, 2012 to stockholders of record as of the close of business on December 31, 2011. During the fiscal year ended December 31, 2011, the Company approved cash dividends for a total amount of $14.1 million or $0.32 per share. On February, 17 2012, our Board of Directors approved a quarterly cash dividend of $4.8 million on our outstanding shares of common stock. The dividend is payable on April 16, 2012 to stockholders of record as of the close of business on March 30, 2012.

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

Capital expenditures

Our capital expenditures increased $11.1 million, to $24.7 million in 2011 as compared to $13.6 million in 2010, mainly due to the acquisition of a new office property located in Caracas, Venezuela for approximately $6.6 million, and due to a $5.5 million that we recorded as payment for the 60% of Autoplaza acquisition, as described above in the sections Liquidity and Capital resources and Net cash used in investing activities and due to information technology investments made during the year ended December 31, 2011. The Company increased the level of investment on hardware and software licenses necessary to improve and update the technology of our platform, cost of computer software developed internally and office equipment for new office space in Argentina, Brazil, Mexico and Venezuela. We anticipate continued investments in capital expenditures related to information technology in the future as we strive to maintain our position in the Latin American e-commerce market.

In 2008, our Argentine subsidiary invested in a real estate trust. The investment in this trust was approximately of $9.8 million and represented 5,340 square meters divided in five floors of an office building and 70 parking spots under construction in the City of Buenos Aires, Argentina. In February 2011, we moved our office headquarters.

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

Off-balance sheet arrangements

At December 31, 2011, we did not have any off-balance sheet arrangements or relationships with unconsolidated entities for the purpose of facilitating contractually narrow or limited purposes.

Contractual obligations

We have certain fixed contractual obligations and commitments that include future estimated payments. Changes in our business needs, cancellation provisions and other factors may result in actual payments differing materially from the estimates below. We cannot provide certainty regarding the timing and amount of payments. Below, the contractual obligations table is a summary of the most significant assumptions used in our determination of amounts presented in the table. Contractual obligations at December 31, 2011 are as follows:

	September 30,		September 30,		September 30,		September 30,		September 30,	
					Payment due by period					
(in millions)	**Total**		**Less than 1 year**		**1 to 3 Years**		**3 to 5 years**		**More than 5 years**	
Capital lease obligations (1)	$	0.3	$	0.2	$	0.1	$		$	
Operating lease obligations (2)		4.2		1.6		2.3		0.3		
Purchase obligations		7.4		6.8		0.6				
Total	$	11.9	$	8.6	$	3.0	$	0.3	$	

(1) On February 22, 2010, our Argentine subsidiary signed a Company car lease contract to buy 12 cars for certain employees of the Company. The total lease contract amounts to $0.2 million and matures in July 2013.

In addition, during September 2011, our Argentine subsidiary signed another car lease contract to buy 8 cars for certain employees of the Company. The total lease contract amounts to $0.2 and matures in September 2014.

(2) Includes leases of office space.

We have leases for office space in certain countries in which we operate and leases for Company cars in Argentina. These are our only operating leases. Purchase obligation amounts include minimum purchase commitments for advertising, capital expenditures (technological equipment and software licenses) and other goods and services that were entered into in the ordinary course of business. We have developed estimates to project payment obligations based upon historical trends, when available, and our anticipated future obligations. Given the significance of performance requirements within our advertising and other arrangements, actual payments could differ significantly from these estimates.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Foreign Currencies Risk

At December 31, 2011, we hold cash and cash equivalents in local currencies in our subsidiaries, and have receivables denominated in local currencies in all of our operations. Our subsidiaries generate revenues and incur most of their expenses in local currency. As a result, our subsidiaries use their local currency as their functional currency, except for our Venezuelan subsidiaries which functional currency is the US dollar due to a highly inflationary accounting. At December 31, 2011, the total cash and cash equivalents denominated in foreign currencies totaled $34.2 million, short-term investments denominated in foreign currencies totaled $72.3 million, and accounts receivable and funds receivable from customers in foreign currencies totaled $40.4 million. To manage exchange rate risk, our treasury policy is to transfer most cash and cash equivalents in excess of working capital requirements into dollar-denominated accounts in the United States. At December 31, 2011, our dollar-denominated cash and cash equivalents and short-term investments totaled $35.9 million and our dollar-denominated long-term investments totaled $43.9 million. For the year ended December 31, 2011, we obtained foreign currency gains in the amount of $2.4 million as the cash and investment balances of the subsidiaries held in US dollars appreciated in local current terms. (See Management Discussion and Analysis of Financial Condition and Results of Operations Results of operations for the Year ended December 31, 2011, compared to year ended December 31, 2010 Other income (expenses) for more detail).

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

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

As of December 31, 2011, the net assets of our Venezuelan subsidiaries (before intercompany eliminations) amount to approximately 9.3% of our consolidated net assets, and cash and investments of our Venezuelan subsidiaries held in local currency in Venezuela amount only to approximately 7.6% of our consolidated cash and investments.

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

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

The following table summarizes the percentages of consolidated net revenues by segment:

	September 30,	**September 30,**	**September 30,**
	Year ended December 31,		
(% of total consolidated net revenues)	**2011**	**2010**	**2009**
Brazil	55.5%	56.7%	53.9%
Argentina	19.0	18.4	15.5
Venezuela	11.6	9.6	15.8
Mexico	7.5	8.8	8.9
Other Countries	6.4	6.5	6.0

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

The table below shows the impact on the Company s Net Revenues, Expenses, Other income and Income tax, Net Income and Shareholders Equity for a positive or negative 10% fluctuation on all the foreign currencies against the US dollars to which we are exposed as of December 31, 2011 and for the year ended December 31, 2011:

Foreign Currency Sensitivity Analysis

Foreign Currency Sensitivity Analysis

(In millions)	September 30, -10% (1)	September 30, Actual	September 30, +10% (2)
Net revenues	332.0	298.9	271.9
Expenses	(221.1)	(199.2)	(181.2)
Income from operations	110.9	99.8	90.7
Other income (expenses) and income tax related to P&L items	(27.9)	(25.3)	(23.2)
Foreign Currency impact related to the remeasurement of our Net Asset position	(3.3)	2.4	7.0
Net income	79.7	76.8	74.5
Less: Net Income attributable to Noncontrolling Interest	0.02	0.02	0.01
Net income attributable to MercadoLibre, Inc.	79.7	76.8	74.5
Total Shareholders Equity	229.2	219.2	211.0

(1) Appreciation of the subsidiaries local currency against U.S. Dollar
(2) Depreciation of the subsidiaries local currency against U.S. Dollar
The table above may not total due to rounding

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

In the past we have entered into transactions to hedge portions of our foreign currency translation exposure but during 2011, 2010 and 2009 we did not enter into any such agreement.

Interest Rate Risk

Our earnings and cash flows are also affected by changes in interest rates. These changes can have an impact on our interest expenses derived from selling our MercadoPago receivables. At December 31, 2011, MercadoPago s funds receivable from customers totaled approximately $23.9 million. Interest fluctuations could also negatively affect certain of our fixed rate and floating rate investments comprised primarily of time deposits, money market funds, investment grade corporate debt securities, and sovereign debt securities. Investments in both fixed rate and floating rate interest earning products carry a degree of interest rate risk. Fixed rate securities may have their fair market value adversely impacted due to a rise in interest rates, while floating rate securities may produce less income than predicted if interest rates fall.

Under our current policies, we do not use interest rate derivative instruments to manage exposure to interest rate changes. As of December 31, 2011, the average duration of our available for sale securities, defined as the approximate percentage change in price for a 100-basis-point change in yield, is 3.04%. If interest rates were to instantaneously increase (decrease) by 100 basis points, the fair market value of our available for sale securities as of December 31, 2011 could decrease (increase) by approximately $1.4 million.

Our short-term and long-term investments, which are classified on our balance sheet as current assets in the amount of $74.9 million and as non-current assets in the amount of $43.9 million, respectively, can be readily converted at any time into cash or into securities with a shorter remaining time to maturity. We determine the appropriate classification of our investments at the time of purchase and re-evaluate such designations as of each balance sheet date.

Equity Price Risk

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

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

The 2009, 2010 and 2011 variable payment LTRP liability subjects us to equity price risk. At December 31, 2011, the total contractual obligation fair value of our 2009, 2010 and 2011 Variable Payment LTRP liability amounts to $12.6 million. As of December 31, 2011, the accrued liability related to the 2009, 2010 and 2011 Variable Payment portion of the LTRP included in Social security payable in our condensed consolidated balance sheet amounts to $5.8 million. The following table shows a sensitivity analysis of the risk associated with our total contractual obligation related to the 2009, 2010 and 2011 Variable Payment if our stock price were to increases or decreases by up to 40%.

	September 30,	**September 30,**
	As of December 31, 2011	
(In US dollars)	**MercadoLibre, Inc Equity Price**	**2009, 2010 and 2011 variable LTRP liability**
Change in equity price in percentage		
40%	108.88	17,700,811
30%	101.10	16,436,467
20%	93.33	15,172,123
10%	85.55	13,907,780
Static(*)	77.77	12,643,436
-10%	70.00	11,379,092
-20%	62.22	10,114,749
-30%	54.44	8,850,405
-40%	46.66	7,586,062

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The consolidated financial statements and accompanying notes listed in Part IV, Item 15(a)(1) of this report are included elsewhere in this report and incorporated herein by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Based on the evaluation of our disclosure control and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) as of the end of the period covered by this report, our Chief Executive Officer and our Chief Financial Officer have concluded that our disclosure controls and procedures are effective to provide reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms, and is accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There were no changes in our internal controls over financial reporting as defined in Exchange Act Rule 13a-15(f) that occurred during our most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management s Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

Our management, including our Chief Executive Officer and our Chief Financial Officer, conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management s assessment included evaluation of elements such as the design and operating effectiveness of key financial reporting controls, process documentation, accounting policies, and our overall control environment. Based on its evaluation under the framework in Internal Control Integrated Framework, our management concluded that our internal control over financial reporting was effective as of December 31, 2011 to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles. We reviewed the results of management s assessment with the Audit Committee of our Board of Directors.

The effectiveness of our internal control over financial reporting as of December 31, 2011 has been audited by Deloitte & Co. S.R.L., an independent registered public accounting firm, as stated in their report which appears in Item 15(a) of this Annual Report on Form 10-K.

Inherent Limitations on Effectiveness of Controls

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls or our internal control over financial reporting will prevent or detect all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system s objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of controls effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

ITEM 9B. OTHER INFORMATION

Not applicable.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this item is included in our Proxy Statement for our 2012 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the fiscal year ended December 31, 2011 (the 2012 Proxy Statement) and is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is included in the 2012 Proxy Statement and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDERS MATTERS

Except as set forth below, the information required by this item is included in the 2012 Proxy Statement and is incorporated herein by reference.

The following table represents information as of December 31, 2011 with respect to equity compensation plans under which shares of the Company s common stock are authorized for issuance:

	September 30,	September 30,	September 30,
	Equity Compensation Plan Information		
Plan Category	Number of securities to be issued upon exercise of outstanding options, Warrants and Rights (a)	Weighted-average exercise price of outstanding options, Warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders (1)			275,199
Equity compensation plans not approved by security holders(2)	5,813	1.50	
Total	5,813	1.50	275,199

(1) Represents our 2009 Equity Compensation which was approved by our stockholders on June 10, 2009
(2) Our Amended and Restated 1999 Stock Option and Restricted Stock Plan was entered into prior to our IPO.

Description of Amended and Restated 1999 Stock Option and Restricted Stock Plan

Our Amended and Restricted 1999 Stock Option and Restricted Stock Plan (the Stock Option Plan) was adopted by the Board on November 3, 1999. The Stock Option Plan provides for the grant of incentive stock options, within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended (the Internal Revenue Code), to our employees, and non-qualified stock options and restricted stock to our employees, directors, agents, advisors, independent consultants and contractors. Incentive stock options and non-qualified stock options are referred to as stock options, and together with restricted stock are referred to as awards . The Stock option Plan expired on November 3, 2009 and as a result, no new awards may be made under this plan. However, any outstanding awards at the expiration shall remain in effect until the earlier of the exercise, termination or expiration of such outstanding awards. At December 31, 2011, options to purchase a total of 5,813 shares of common stock were outstanding under the Stock Option Plan at a weighted average price of $1.50 per share.

Number of shares of common stock available under the stock option plan . A total of 4,732,400 shares of common stock were reserved for issuance pursuant to the Stock Option Plan. Shares covered by awards that are forfeited or terminated without exercise will be available for future awards. The shares of common stock issuable under the Stock Option Plan shall be (1) authorized but unissued shares, (2) shares of common stock held in our treasury, or (3) a combination of (1) and (2).

Administration of the stock option plan . The Stock Option Plan is administered by our Board or a committee appointed by the Board (the body in charge of administering the Stock Option Plan is referred to as the administrator). If the common stock is registered under Section 12(b) or 12(g) of the Exchange Act, the board shall consider in selecting the administrator and the membership of any committee acting as administrator the provisions of Section 162(m) of the Internal Revenue Code regarding outside directors and the provisions of Rule 16b-3 under the Exchange Act regarding non-employee directors. The administrator determines the recipients of awards, times at which awards are granted, number of shares subject to each type of award, the time for vesting of each award and the duration of the exercise period for options.

Price, exercise and termination of awards. The exercise price for each share of common stock subject to an option is determined by the administrator, and in the case of an incentive stock option the exercise price cannot be less than 100% of the fair market value of the shares of common stock on the date of the grant (or 110% in the case of employees who directly or indirectly own more than 10% of the total combined voting power of all classes of our stock).

Options are exercisable on their vesting date, which is determined by the administrator and set forth in the Award Agreement governing any particular option. Vesting dates can be accelerated on the occurrence of a specified event, as provided in an Award Agreement, or can be accelerated at the discretion of the administrator.

If a participant in the Stock Option Plan ceases to be employed or perform services for us, we have the right to repurchase any unvested shares at the exercise price paid per share. The terms and procedures of a repurchase are to be set forth in the Award Agreement that governs the relevant unvested shares.

If an option expires or is terminated or canceled without having been exercised it shall become null and void and of no further force and effect. The term of an option may not exceed beyond the tenth anniversary on which the option is granted (or the fifth anniversary in the case of incentive stock options granted to employees who directly or indirectly own 10% of the total combined voting power of all classes of our stock.) An option terminates 30 days after a participant ceases to be an employee or director as a result of a termination without cause, and after 10 days of termination in the case of a termination for cause. Cause includes the conviction of a crime involving fraud, theft, dishonesty or moral turpitude, the participant s continuous disregard of or willful misconduct in carrying lawful instructions of superiors, continued use of alcohol or drugs that interfered with the performance of the participant s duties, the conviction of participant for committing a felony or similar foreign crime, and any other cause for termination set forth in a participant s employment agreement. An option terminates 10 days after a participant ceases to be an independent consultant, contractor or advisor to us or agent of ours for any reason. It also terminates three months after the death or permanent disability of a participant, or, if the participant is a party to an employment agreement, the disability of such participant as defined in the employment agreement. Other reasons for termination may be set out in the Award Agreement.

An option will not be considered an incentive stock option to the extent that the aggregate fair market value (on the date of the grant of the incentive stock option) of all stock with respect to which incentive stock options are exercisable for the first time by a participant during any calendar year is greater than $100,000. No option shall be affected by a change of duties or position of a participant (including transfer to our subsidiaries) as long as the participant continues to be our employee or an employee of our subsidiaries.

Adjustments upon the occurrence of material transactions. In the event we undergo dissolution or liquidation, a reorganization, merger or consolidation in which we are not the surviving entity, or a sale of all or substantially all of our assets (each, a Material Transaction) holders of options will be given 10-day prior written notice and will decide within those 10 days whether to exercise their respective options. Any option that is not so exercised will terminate. However, such notice and exercise mechanism would not apply if provision is made in connection with a Material Transaction for assumption of outstanding options, or substitution of options for new options or equity securities, with any appropriate adjustments as to the number, kind and prices of shares subject to options.

Transferability. Unless the prior written consent of the administrator is obtained, no option can be assigned or otherwise transferred by any participant except by will or by the laws of descent and distribution. Except in the case of an approved transfer, an option may be exercised during the lifetime of a participant only by the participant or his/her legal representative if the participant is legally disabled.

Restricted stock. Restricted stock awards are awards of shares of common stock that vest according to the terms and conditions established by the administrator. The administrator may impose whatever restrictions on transferability, risk of forfeiture and other restrictions as it determines. A holder of restricted stock has the rights of a stockholder, including the right to vote the restricted stock. During the restricted period applicable to the restricted stock, it may not be sold, transferred, pledged, hypothecated, margined or otherwise encumbered. Except as otherwise determined by the administrator, restricted stock that is subject to restrictions is subject to forfeiture upon termination of a participant s employment.

Amendment. The Board may modify the Stock Option Plan at any time. The approval by a majority of our stockholders is necessary if required by law or necessary to comply with any applicable laws and regulations. No amendment will affect the terms of any award granted prior to the effectiveness of such amendment, except with the consent of the holder of the award.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information required by this item is included in the 2012 Proxy Statement and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this item is included in the 2012 Proxy Statement and is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) **Financial Statements and Schedules**. The following financial statements and schedules are included in this report:

(b) **Exhibits**. The exhibits required by Item 601 of Regulation S-K are listed below.

Exhibit Number	**Exhibit Title**
3.01	Registrant s Amended and Restated Certificate of Incorporation. (1)
3.02	Registrant s Amended and Restated Bylaws. (1)
4.01	Form of Specimen Certificate for Registrant s Common Stock (5)
4.02	Second Amended and Restated Registration Rights Agreement, dated September 24, 2001, by and among the Registrant and the investors named therein. (1)
10.01	Form of Indemnity Agreement entered into by Registrant with each of its directors and executive officers. (2)
10.02	Concession Contract, dated as February 7, 2007, between Border s Parking S.R.L. and MercadoLibre S.A. (1)
10.03	Management Incentive Bonus Plan of the Registrant. (2)
10.04	Amended and Restated 1999 Stock Option and Restricted Stock Plan (2)
10.05	Employment Agreements with Officers.(2)
10.06	Form of Restricted Stock Award for Outside directors. (3)
10.07	Employment Agreement with Osvaldo Gimenez, dated as of March 26, 2008* (5)
10.08	2009 Equity Compensation Plan* (7)
10.09	2008 Long-Term Retention Plan (6)
10.10	2009 Long-Term Retention Plan (6)
10.11	Property Lease Agreement, dated February 1, 2011, between MercadoLibre Colombia S.A and Mongiana Ltda* (9)
10.12	Property Lease Agreement, dated July 6, 2010 between MercadoLivre.com Atividades de Internet Ltda. and STM Sociedade Técnica de Montageus Ltda.* (9)
10.13	2010 Long-Term Retention Plan.(11)

10.14	2011 Long-Term Retention Plan.(12)
10.15	Agreement dated June 2, 2011 entered into by MercadoLibre Venezuela S.A. a subsidiary of MercadoLibre, Inc. with Inversiones 1182450 C.A., to acquire an office property in Caracas, Venezuela (10)

Exhibit Number	Exhibit Title
21.01	List of Subsidiaries*
23.01	Consent of Deloitte & Co. S.R.L., Independent Registered Public Accounting Firm*
23.02	Consent of Price Waterhouse & Co. S.R.L., Independent Registered Public Accounting Firm*
31.01	CEO Certification pursuant to Securities Exchange Act Rule 13a-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
31.02	CFO Certification pursuant to Securities Exchange Act Rule 13a-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
32.01	CEO Certification required by 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**
32.02	CFO Certification required by 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**
101.INS	XBRL Instance Document***
101.SCH	XBRL Taxonomy Extension Schema Document***
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document***
101.LAB	XBRL Taxonomy Extension Label Linkbase Document***
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document***
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document***

* Filed Herewith
** Furnished Herewith
*** Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.
(1) Incorporated by reference to the Registration Statement on Form S-1 of MercadoLibre, Inc. filed on May 11, 2007
(2) Incorporated by reference to Amendment No. 1 to the Registration Statement on Form S-1 of MercadoLibre, Inc. filed on July 13, 2007
(3) Incorporated by reference to the Registration Statement on Form S-1 of MercadoLibre, Inc. filed on January 25, 2008
(4) Incorporated by reference to the Current Report on Form 8-K filed on August 26, 2008
(5) Incorporated by reference to the Annual Report on Form 10-K for the year ended December 31, 2008 filed on February 27, 2009
(6) Incorporated by reference to the Current Report on Form 8-K filed on July 21, 2009
(7) Incorporated by reference to the Registration Statement on Form S-8 filed on June 11, 2009
(8) Incorporated by reference to the Annual Report on Form 10-K for the year ended December 31, 2009 filed on February 26, 2010
(9) Incorporated by reference to the Annual Report on Form 10-K for the year ended December 31, 2010 filed on February 25, 2011
(10) Incorporated by reference to the Quarterly report on Form 10Q for the quarter ended June 30, 2011 filed on August 9, 2011
(11) Incorporated by reference to the Current Report on Form 8-K filed on June 29, 2010
(12) Incorporated by reference to the Current Report on Form 8-K filed on August 5, 2011

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MERCADOLIBRE, INC.

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

Date: February 28, 2012

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Marcos Galperín	Chief Executive Officer and Director	February 28, 2012
Marcos Galperín	(Principal Executive Officer)	
/s/ Pedro Arnt	Chief Financial Officer (Principal	February 28, 2012
Pedro Arnt	Financial Officer and Principal Accounting Officer)	
/s/ Mario Vazquez	Director	February 28, 2012
Mario Vazquez		
/s/ Anton Levy	Director	February 28, 2012
Anton Levy		
/s/ Michael Spence	Director	February 28, 2012
Michael Spence		
/s/ Verónica Allende Serra	Director	February 28, 2012
Veronica Allende Serra		
/s/ Nicolás Galperín	Director	February 28, 2012
Nicolás Galperín		
/s/ Emiliano Calemzuk	Director	February 28, 2012
Emiliano Calemzuk		
/s/ Martin de los Santos	Director	February 28, 2012
Martin de los Santos		

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* Filed Herewith

** Furnished Herewith

*** Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

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MercadoLibre, Inc.

Consolidated Financial Statements

as of December 31, 2011 and 2010

and for the three years in the period

ended December 31, 2011

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and

Shareholders of MercadoLibre, Inc.

Buenos Aires city, Argentina

We have audited the accompanying consolidated balance sheet of MercadoLibre, Inc. and its subsidiaries (the Company) as of December 31, 2011 and 2010, and the related consolidated statement of income, shareholders equity, and cash flows for each of the two years in the period ended December 31, 2011. We also have audited the Company s internal control over financial reporting as of December 31, 2011, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s Management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *Management s Report on Internal Control over Financial Reporting* (Item 9A). Our responsibility is to express an opinion on these financial statements and an opinion on the Company s internal control over financial reporting based on our audit.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company s internal control over financial reporting is a process designed by, or under the supervision of, the company s principal executive and principal financial officers, or persons performing similar functions, and effected by the company s board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of MercadoLibre, Inc. and its subsidiaries as of December 31, 2011 and 2010, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2011, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Buenos Aires city, Argentina

February 28, 2012

DELOITTE & Co. S.R.L.

Alberto Lopez Carnabucci

Partner

Report of Independent Registered Public Accounting Firm

To the Board of Directors and

Shareholders of MercadoLibre, Inc.:

In our opinion, the consolidated statements of income, of changes in shareholders equity and of cash flows for year ended December 31, 2009 present fairly, in all material respects, the results of operations and cash flows of MercadoLibre, Inc. and its subsidiaries for the year ended December 31, 2009, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

Price Waterhouse & Co. S.R.L.

By________________ (Partner)

Carlos Martín Barbafina

Buenos Aires, Argentina

February 26, 2010, except for the change in the composition of reportable segments discussed in Note 7 to the consolidated financial statements, as to which the date is February 25, 2011

MercadoLibre Inc.

Consolidated Balance Sheets

As of December 31, 2011 and 2010

	September 30, December 31, 2011	September 30, December 31, 2010
Assets		
Current assets:		
Cash and cash equivalents	$ 67,381,677	$ 56,830,466
Short-term investments	74,928,620	5,342,766
Accounts receivable, net	16,815,087	12,618,173
Credits Cards Receivables	23,855,689	6,151,518
Prepaid expenses	1,269,594	913,262
Deferred tax assets	9,131,638	12,911,256
Other assets	6,863,250	6,867,767
Total current assets	200,245,555	101,635,208
Non-current assets:		
Long-term investments	43,933,316	78,846,281
Property and equipment, net	30,877,719	20,817,712
Goodwill, net	62,093,948	60,496,314
Intangible assets, net	6,494,857	4,141,167
Deferred tax assets	6,491,646	2,975,118
Other assets	5,794,395	771,223
Total non-current assets	155,685,881	168,047,815
Total assets	$ 355,931,436	$ 269,683,023
Liabilities and Equity		
Current liabilities:		
Accounts payable and accrued expenses	$ 20,251,313	$ 17,232,103
Funds payable to customers	69,216,185	48,788,225
Payroll and social security payable	13,525,293	10,786,534
Taxes payable	11,633,178	11,487,574
Loans payable and other financial liabilities	146,194	100,031
Dividends payable	3,531,362	
Total current liabilities	118,303,525	88,394,467
Non-current liabilities:		
Payroll and social security payable	3,844,172	2,562,343
Loans payable and other financial liabilities	136,227	188,846
Deferred tax liabilities	8,670,606	5,167,699
Other liabilities	1,797,890	1,651,398
Total non-current liabilities	14,448,895	9,570,286
Total liabilities	$ 132,752,420	$ 97,964,753

Commitments and contingencies (Note 15)				
Redeemable noncontrolling interest	$	4,000,000	$	
Equity:				
Common stock, $0.001 par value, 110,000,000 shares authorized, 44,142,020 and 44,131,376 shares issued and outstanding at December 31, 2011 and December 31, 2010, respectively	$	44,142	$	44,131
Additional paid-in capital		120,452,032		120,391,622
Retained earnings		135,726,188		73,681,556
Accumulated other comprehensive loss		(37,043,346)		(22,399,039)
Total Equity		219,179,016		171,718,270
Total liabilities, redeemable noncontrolling interest and equity	$	355,931,436	$	269,683,023

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

MercadoLibre Inc.

Consolidated Statement of Income

For the three years ended December 31, 2011

	September 30,	September 30,	September 30,
		Year Ended December 31,	
	2011	2010	2009
Net revenues	$ 298,931,625	$ 216,715,713	$ 172,843,621
Cost of net revenues	(72,055,835)	(46,549,845)	(35,958,050)
Gross profit	226,875,790	170,165,868	136,885,571
Operating expenses:			
Product and technology development	(23,349,787)	(15,855,992)	(12,140,521)
Sales and marketing	(64,968,755)	(48,883,167)	(42,861,735)
General and administrative	(38,785,083)	(30,828,146)	(25,849,596)
Total operating expenses	(127,103,625)	(95,567,305)	(80,851,852)
Income from operations	99,772,165	74,598,563	56,033,719
Other income (expenses):			
Interest income and other financial gains	9,905,829	4,931,215	2,695,109
Interest expense and other financial charges	(3,648,733)	(7,601,671)	(13,357,554)
Foreign currency gain / (loss)	2,353,005	(62,447)	(2,658,476)
Other income, net	73,894		
Net income before income / asset tax expense	108,456,160	71,865,660	42,712,798
Income / asset tax expense	(31,659,821)	(15,840,641)	(9,504,005)
Net income	$ 76,796,339	$ 56,025,019	$ 33,208,793
Less: Net Income attributable to Noncontrolling Interest	16,286		
Net income attributable to MercadoLibre, Inc.	$ 76,780,053	$ 56,025,019	$ 33,208,793

		Year Ended December 31,	
	2011	2010	2009
Basic EPS			
Basic net income attributable to MercadoLibre, Inc. per common share	$ 1.73	$ 1.27	$ 0.75
Weighted average shares	44,138,397	44,124,018	44,086,892
Diluted EPS			
Diluted net income attributable to MercadoLibre, Inc. per common share	$ 1.73	$ 1.27	$ 0.75

Weighted average shares	44,151,437	44,146,858	44,144,368

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

MercadoLibre Inc.

Consolidated Statement of Changes in Shareholders Equity

For the three years ended December 31, 2011

	September 30, Comprehensive income	September 30, Common stock Shares	September 30, Common stock Amount	September 30, Additional paid-in capital	September 30, Retained Earnings / (Acumulated Deficit)	September 30, Accumulated other comprehensive loss	September 30, Total Equity
Balance as of December 31, 2008		44,070,367	$ 44,071	$ 119,807,007	$ (15,552,256)	$ (10,874,841)	$ 93,423,981
Stock options exercised		35,031	35	28,319			28,354
Stock-based compensation stock options				1,752			1,752
Stock-based compensation restricted shares				74,382			74,382
Stock-based compensation LTRP				175,453			175,453
Restricted shares Issued		10,655	10	171,089			171,099
LTRP shares issued		3,600	3	(3)			
Shares issued		616	1	(1)			
Net income	$ 33,208,793				33,208,793		33,208,793
Currency translation adjustment	(12,914,565)					(12,914,565)	(12,914,565)
Unrealized net gain on investments	27,630					27,630	27,630
Realized net gain on investments	(3,642)					(3,642)	(3,642)
Comprehensive income	$ 20,318,216						
Balance as of December 31, 2009		44,120,269	$ 44,120	$ 120,257,998	$ 17,656,537	$ (23,765,418)	$ 114,193,237
Stock options exercised		7,126	7	18,192			18,199
Stock-based compensation stock options				244			244
Stock-based compensation restricted shares				37,696			37,696
Stock-based compensation LTRP				77,496			77,496
LTRP shares issued		3,981	4	(4)			
Net income	$ 56,025,019				56,025,019		56,025,019
Currency translation adjustment	1,348,482					1,348,482	1,348,482

Unrealized net gains on investments	45,527					45,527	45,527
Realized net gains on investments	(27,630)					(27,630)	(27,630)
Comprehensive income	$ 57,391,398						
Balance as of December 31, 2010		44,131,376	$ 44,131	$ 120,391,622	$ 73,681,556	$ (22,399,039)	$ 171,718,270

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

MercadoLibre Inc.

Consolidated Statement of Changes in Shareholders Equity

For the three years ended December 31, 2011

	September 30, Comprehensive income	September 30, Common stock Shares	September 30, Common stock Amount	September 30, Additional paid-in capital	September 30, Retained Earnings	September 30, Accumulated other comprehensive loss	September 30, Total Equity
Balance as of December 31, 2010		44,131,376	$ 44,131	$ 120,391,622	$ 73,681,556	$ (22,399,039)	$ 171,718,270
Stock options exercised		5,950	6	11,169			11,175
Stock-based compensation LTRP				49,246			49,246
Dividend Distribution					(14,124,568)		(14,124,568)
LTRP shares issued		4,694	5	(5)			
Change in redeemable amount of noncontrolling interest					(610,853)		(610,853)
Net income	$ 76,780,053				76,780,053		76,780,053
Currency translation adjustment	(15,523,437)					(15,523,437)	(15,523,437)
Unrealized net gains on investments	924,657					924,657	924,657
Realized net gain on investments	(45,527)					(45,527)	(45,527)
Comprehensive income	$ 62,135,746						
Balance as of December 31, 2011		44,142,020	$ 44,142	$ 120,452,032	$ 135,726,188	$ (37,043,346)	$ 219,179,016

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

MercadoLibre Inc.

Consolidated Statement of Cash Flows

For the three years ended December 31, 2011

	September 30,	September 30,	September 30,
		Year Ended December 31,	
	2011	2010	2009
Cash flows from operations:			
Net income	$ 76,780,053	$ 56,025,019	$ 33,208,793
Adjustments to reconcile net income to net cash provided by operating activities:			
Net Income attributable to Noncontrolling Interest	16,286		
Depreciation and amortization	7,268,075	4,921,650	3,893,752
Interest expense			213,878
Accrued interest	(3,177,578)	(504,874)	90,339
Stock-based compensation expense - stock options		244	1,752
Stock-based compensation expense - restricted shares		37,696	74,382
LTRP accrued compensation	4,079,265	3,479,066	1,924,149
Deferred income taxes	1,022,797	(7,053,030)	(3,607,292)
Changes in assets and liabilities, net of the effect of the acquired business:			
Accounts receivable	(9,274,653)	(7,063,942)	(2,974,890)
Credit Card Receivables	(19,494,707)	(2,324,575)	(942,407)
Prepaid expenses	(436,310)	(333,755)	(287,836)
Other assets	(6,532,978)	(3,643,650)	(2,591,353)
Accounts payable and accrued expenses	10,808,788	9,051,139	8,686,334
Funds payable to customers	27,875,755	15,458,416	12,421,412
Provisions		(63,549)	302,987
Other liabilities	490,838	(89,402)	(713,014)
Net cash provided by operating activities	89,425,631	67,896,453	49,700,986
Cash flows from investing activities:			
Purchase of investments	(379,044,395)	(121,266,157)	(80,060,909)
Proceeds from sale and maturity of investments	336,835,026	76,062,629	81,728,485
Payment for acquired businesses, net of cash acquired	(5,468,180)		
Purchases of intangible assets	(280,706)	(416,450)	(955,679)
Purchases of property and equipment	(18,924,161)	(13,214,043)	(3,798,170)
Net cash used in investing activities	(66,882,416)	(58,834,021)	(3,086,273)
Cash flows from financing activities:			
Decrease in short term debt			(310,634)
Loans paid		(3,000,000)	(15,000,000)
Dividends distribution	(10,593,206)		
Stock options exercised	11,175	18,199	28,354
Net cash used in financing activities	(10,582,031)	(2,981,801)	(15,282,280)
Effect of exchange rate changes on cash and cash equivalents	(1,409,973)	946,433	996,857
Net increase in cash and cash equivalents	10,551,211	7,027,064	32,329,290
Cash and cash equivalents, beginning of the year	56,830,466	49,803,402	17,474,112
Cash and cash equivalents, end of the year	$ 67,381,677	$ 56,830,466	$ 49,803,402

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

MercadoLibre Inc.

Consolidated Statement of Cash Flows

For the three years ended December 31, 2011

	September 30,	September 30, Year Ended December 31,	September 30,
	2011	**2010**	**2009**
Supplemental cash flow information:			
Cash paid for interest	$ 58,559	$ 5,781,058	$ 12,332,592
Cash paid for income and asset taxes	$ 31,050,206	22,253,947	11,650,007
Acquisition of AutoPlaza.com			
Cash and cash equivalents	$ 3,876	$	$
Tax credits	49,951		
Non current assets	99,522		
Total assets acquired	153,349		
Total liabilities assumed			
Net assets acquired	153,349		
Goodwill and Identifiable Intangible Assets	8,966,744		
Non-controlling interest	(3,648,037)		
Total purchase price	5,472,056		
Cash and cash equivalents acquired	3,876		
Payment for acquired businesses, net of cash acquired	$ 5,468,180	$	$

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

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MercadoLibre Inc.

Notes to Consolidated Financial Statements

1. Nature of Business

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

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

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

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

As of December 31, 2011, the Company, through its wholly-owned subsidiaries, operated online commerce platforms directed towards Argentina, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Mexico, Panama, Peru, Portugal, Uruguay and Venezuela, and online payments solutions directed towards Argentina, Brazil, Mexico, Venezuela, Chile and Colombia. In addition, the Company operates a real estate classified platform that covers some areas of Florida, U.S.A.

2. Summary of Significant Accounting Policies

Principles of consolidation

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

MercadoLibre Inc.

Notes to Consolidated Financial Statements

2. Summary of Significant Accounting Policies (Continued)
Principles of consolidation (Continued)

Substantially all revenues, cost of revenues and operating expenses, are generated in the Company s foreign operations, amounting to approximately 99.7%, 99.6% and 99.3% of the consolidated amounts during 2011, 2010 and 2009, respectively. Long-lived assets located in the foreign operations totaled $93,489,980 and $81,834,266 as of December 31, 2011 and 2010, respectively. Cash and cash equivalents as well as short-term and long term investments, totaling $186,243,613 and $141,019,513 as of December 31, 2011 and 2010, respectively, are mainly located in the United States of America and Brazil.

Use of estimates

The preparation of 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, impairment of goodwill and other indefinite lived intangible assets, compensation cost related to cash and share-based compensation and restricted shares, recognition of current and deferred income taxes and contingencies. Actual results could differ from those estimates.

Cash and cash equivalents

The Company considers all highly liquid investments with an original maturity of three months or less at the date of purchase, consisting primarily of money market funds and certificates of deposit, to be cash equivalents. Cash equivalents are stated at amortized cost plus accrued interest.

Investments

Time deposits are valued at amortized cost plus accrued interest. Securities classified as available-for-sale are recorded at fair market value. Unrealized gains and losses on available-for-sale securities are recorded as accumulated other comprehensive income (loss) as a separate component of shareholders equity, net of tax.

Investments are classified as current or non-current depending on their maturity dates and when it is expected to be realized in cash to fund operations.

MercadoLibre Inc.

Notes to Consolidated Financial Statements

2. Summary of Significant Accounting Policies (Continued)

Fair Value Measurements

Cash, money market funds, corporate debt securities, sovereign debt securities and assets backed securities are valued at fair value. Deposits, accounts receivables, funds receivables from customers, other receivables, other assets, accounts payables, payroll and social security payables, taxes payables, loans and provisions and other liabilities are valued at cost which approximates their fair value because of its short term maturity. See Note 8 Fair Value Measurement of Assets and Liabilities for further details.

Concentration of credit risk

Cash, cash equivalents, investments and accounts receivable are potentially subject to concentration of credit risk. Cash and cash equivalents and investments are placed with financial institutions that management believes are of high credit quality. Accounts receivable are derived from revenue earned from customers located internationally. Accounts receivable balances are settled through customer credit cards, debit cards, and MercadoPago accounts, with the majority of accounts receivable collected upon processing of credit card transactions. The Company maintains an allowance for doubtful accounts receivable and credits cards receivables based upon its historical experience and current aging of customers. Historically, such charges have been within management expectations. However, unexpected or significant future changes in trends could result in a material impact to future statements of income or cash flows. Due to the relatively small dollar amount of individual accounts receivable, the Company generally does not require collateral on these balances. The allowance for doubtful accounts is recorded as a charge to operating expense.

During the years ended December 31, 2011, 2010 and 2009, no customers accounted for more than 5% of net revenues. As of December 31, 2011 and 2010, no customers accounted for more than 5% of accounts receivables, net.

Allowance for doubtful accounts

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

Credit Cards Receivables and funds payable to customers

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

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

MercadoLibre Inc.

Notes to Consolidated Financial Statements

2. Summary of Significant Accounting Policies (Continued)
Credit Cards Receivables and funds payable to customers (Continued)

As of December 31, 2011, there are no past due credit cards receivables.

Funds payable relate also to the Company s payments solution and are originated by the amounts due to sellers held by the Company until the transaction is completed. Funds, net of any amount due to the Company, are maintained in the seller current account until collection is requested by the customer.

Transfer of Financial Assets

The Company sells funds receivable from customers comprised by credit cards coupons to financial institutions. These transactions are accounted for as a true sale. Accounting guidance on transfer of financial assets establishes that the transferor has surrendered control over transferred assets if and only if all of the following conditions are met: (1) the transferred assets have been isolated from the transferor, (2) each transferee has the right to pledge or exchange the assets it received (3) the transferor does not maintain effective control over the transferred assets. When all the conditions are met, the Company derecognizes the financial assets from its balance sheet. As of December 31, 2011 and 2010, there is no continuing involvement with transferred assets. The aggregate amount of pre-tax gain recognized on sale of funds receivable from customers is $32,566,802, $19,195,987 and $7,795,447, for the fiscal years ended December 31, 2011, 2010 and 2009, respectively.

Property and equipment, net

Property and equipment are recorded at cost and depreciated over their estimated useful lives using the straight-line method. Repairs and maintenance costs are expensed as incurred.

Costs related to the planning and post implementation phases of website development efforts are recorded as an operating expense. Direct costs incurred in the development phase are capitalized and amortized over an estimated useful life of three years. During the years ended December 31, 2011 and 2010, the Company capitalized $1,231,971 and $926,619, respectively.

On February 14, 2011, the Company s Argentine subsidiary moved its headquarters and Argentine operation offices to a new office building located in the City of Buenos Aires, with 5,340 square meters divided into 5 floors and 70 parking spaces. The building cost amounted to $8,854,879. On June 2, 2011, MercadoLibre Venezuela S.A. a subsidiary of MercadoLibre, Inc. entered into an agreement with Inversiones 1182450, C.A. to acquire an office property of 992 square meters in a building named Torre La Castellana, located in Avenida Eugenio Mendoza, La Castellana, Municipality of Chacao, State of Miranda, Caracas, Venezuela for approximately $6,626,433.

Those buildings, excluding lands, are depreciated from the date when they were ready to be used, using the straight-line depreciation method over a 50-year depreciable life.

MercadoLibre Inc.

Notes to Consolidated Financial Statements

2. Summary of Significant Accounting Policies (Continued)

Goodwill, net

Goodwill represents the excess of the purchase price over the fair value of the net tangible and intangible assets acquired in a business combination. Goodwill is not subject to amortization, but is subject to at least an annual assessment for impairment. The Company performs a qualitative assessment before calculating the fair value of the reporting unit. If the Company determines, on the basis of qualitative factors, that the fair value of the reporting unit is more likely than not less than the carrying amount, the fair-value based test is applied (see Recent Accounting Pronouncements)

Intangible assets, net

Intangible assets resulting from the acquisitions of entities accounted for using the purchase method of accounting are estimated by management based on the fair value of assets received. Identifiable intangible assets are comprised of purchased customer lists, trademarks, licenses and non-compete agreements. Identifiable intangible assets with definite useful life, are being amortized over the period of estimated benefit using the straight-line method and estimated useful lives ranging from three to five years. Trademarks with indefinite useful life are not subject to amortization, but are subject to at least an annual assessment for impairment, applying a fair-value based test.

Impairment of Long-Lived Assets

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

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

MercadoLibre Inc.

Notes to Consolidated Financial Statements

2. Summary of Significant Accounting Policies (Continued)
Impairment of Long-Lived Assets (Continued)

For the year ended December 31, 2010, the fair values of the reporting units were estimated using a combination of the income or discounted cash flows approach and the market approach, which utilizes comparable companies data. Cash flow projections used were based on financial budgets approved by management. The growth rates applied do not exceed the long-term average growth rate for the business in which the reporting unit operates. The average discount rate used for 2010 was 18.9%. That rate reflected the Company s real weighted average cost of capital. Key drivers in the analysis include Confirmed Registered Users (CRUs), Gross Merchandise Volume (GMV) which represents a measure of the total U.S. dollar amount of all transactions completed through the MercadoLibre marketplace, excluding motor vehicles, vessels, aircraft, real estate, and services and take rate defined as marketplace revenues as a percentage of gross merchandise volume. In addition, the analysis include a business to e-commerce rate, which represents growth of e-commerce as a percentage of GDP, internet penetration rates as well as trends in the Company s market share.

If the carrying amount of the reporting unit exceeds its fair value, goodwill or indefinite useful life intangible assets are considered impaired and a second step is performed to measure the amount of impairment loss, if any. No impairments were recognized during 2011 and 2010 and management s assessment of each reporting unit fair value materially exceeds its carrying value.

Revenue Recognition

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

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

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

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

MercadoLibre Inc.

Notes to Consolidated Financial Statements

2. Summary of Significant Accounting Policies (Continued)

Revenue Recognition (Continued)

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

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

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

Derivative Financial Instruments

In 2008 and 2009, the Company entered into written put options of its own stock. Those derivative financial instruments were not accounted for as hedges and, therefore, changes in the fair value of these instruments were recorded in the statement of income as interest income and other financial gains. As of December 31, 2011 and 2010 there is no written put option transaction outstanding. See Note 17 Share Repurchase Plan for a full description of derivative financial instrument activities and related accounting policies.

Share-based payments

Stock options, restricted and additional shares and shares granted under the 2008 long term retention plan (the 2008 LTRP) are accounted for at their grant date fair value.

Fair value of stock options is calculated using the Black-Scholes option pricing model. This calculation is affected by the Company s stock price as well as assumptions regarding a number of highly complex and subjective variables. The use of a Black-Scholes model requires extensive actual employee exercise behavior data and a number of complex assumptions including expected life, expected volatility, risk-free interest rate and dividend yield. As a result, the future stock-based compensation expense may differ from historical amounts.

Fair value of restricted and additional shares and shares granted under the 2008 LTRP is calculated using the grant date price of the Company s shares.

MercadoLibre Inc.

Notes to Consolidated Financial Statements

2. Summary of Significant Accounting Policies (Continued)

Share-based payments (Continued)

Compensation cost is recognized on a straight-line basis over the requisite service period. For awards that have a graded vesting schedule, compensation cost is recognized on a straight-line basis over the requisite service period for each separate vesting portion of the award as if the award was in-substance multiple awards.

The liability related to the variable portion of 2011, 2010 and 2009 long term retention plan is remeasured at fair value using the last 60 days average stock price at December 31, 2011 (See Note 16 Long Term Retention Plan for more details).

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 net revenues and totaled \$21,387,561, \$15,049,821, and \$10,754,724 for the years ended December 31, 2011, 2010 and 2009, respectively.

Advertising Costs

Advertising costs are expensed as incurred and totaled \$19,914,755, \$20,173,078 and \$21,967,844 for the years ended December 31, 2011, 2010 and 2009, respectively.

Comprehensive Income

Comprehensive income is comprised of two components, net income and other comprehensive income (loss), and defined as all other changes in equity of the Company that result from transactions other than with shareholders. Other comprehensive income (loss) includes the cumulative translation adjustment relating to the translation of the financial statements of the Company s foreign subsidiaries (except Venezuela since January 1, 2010, see Foreign Currency Translation) and unrealized gains on investments classified as available-for-sale securities. Total comprehensive income for the years ended December 31, 2011, 2010 and 2009 amounted to \$62,135,746, \$57,391,398 and \$20,318,216, respectively.

Redeemable Noncontrolling Interest

In September 2011, the Company acquired the 60% of the shares of AP Clasificados S.R.L. de C.V. (AP Clasificados), as well as signed a call and put option agreement to acquire the remaining 40% of those shares (See note 6 Business Combinations, Goodwill and Intangible Assets for more detail). According to the signed agreement, the price for the remaining 40% call or put options will be determined by greater of (i) \$4,000,000 and (ii) the amount resulting from multiplying (A) the percentage of the seller s interests as of the exercise date of the Call/Put option by (B) an amount equal to 3.5 times the amount of invoiced sales of the Business for the twelve months period ending on the exercise date.

MercadoLibre Inc.

Notes to Consolidated Financial Statements

2. Summary of Significant Accounting Policies (Continued)

Redeemable Noncontrolling Interest (Continued)

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

Redeemable noncontrolling interest is not considered to be permanent equity and is reported in the mezzanine section between liabilities and equity in the consolidated balance sheet for a total amount of $4,000,000 at December 31, 2011. The noncontrolling interest was measured at its estimated redemption value according to the abovementioned agreed conditions. Changes in the estimated redemption value as of the year-end were recorded in retained earnings.

Foreign Currency Translation

All of the Company s foreign operations have determined the local currency to be their functional currency, except for Venezuela since the year ended December 31, 2010, as described below. Accordingly, these foreign subsidiaries translate assets and liabilities from their local currencies to U.S. dollars using yearend exchange rates while income and expense accounts are translated at the average rates in effect during the year. The resulting translation adjustment is recorded as part of other comprehensive income (loss), a component of MercadoLibre equity. Gains and losses resulting from transactions denominated in non-functional currencies are recognized in earnings. Net foreign currency transaction losses are included in the consolidated statements of income under the caption Foreign currency gain/(loss) and amounted to $2,353,005, $(62,447) and $(2,658,476) for the years ended December 31, 2011, 2010 and 2009, respectively.

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

Starting in the fourth quarter of 2009, as a result of the changes in facts and circumstances that affected the Company s ability to convert currency for dividends remittances using the official exchange rate in Venezuela, the Venezuelan subsidiaries assets, liabilities, income and expense accounts were translated using the parallel exchange rate resulting in the recognition in that quarter of a currency translation adjustment of $16,977,276 recorded in other comprehensive income. The average exchange rate used for translating the fourth quarter results was 5.67 Bolivares Fuertes per US dollar and the year-end exchange rate used for translating assets and liabilities was 6.05 Bolivares Fuertes per US dollar. The Company did not buy US dollars at the official rate. As of the date of these consolidated financial statements the Company did not buy US dollars at the official rate of 2.15 Bolivares Fuertes per US dollar.

MercadoLibre Inc.

Notes to Consolidated Financial Statements

2. Summary of Significant Accounting Policies (Continued)

Foreign Currency Translation (Continued)

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

Therefore, no translation effect was accounted for in other comprehensive income during the years ended December 31, 2011 and 2010 related to the Venezuelan operations.

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

However, on May 14, 2010, the Venezuelan government enacted reforms to its exchange regulations and closed-down such parallel market by declaring that foreign-currency-denominated securities issued by Venezuelan entities were included in the definition of foreign currency, thus making the Venezuelan Central Bank (BCV) the only institution that could legally authorize the purchase or sale of foreign currency bonds, thereby excluding non-authorized brokers from the foreign exchange market.

Trading of foreign currencies was re-opened as a regulated market on June 9, 2010 with the Venezuelan Central Bank as the only institution through which foreign currency-denominated transactions can be brokered. Under the new system, known as the Foreign Currency Securities Transactions System (SITME), entities domiciled in Venezuela can buy U.S. dollar denominated securities only through banks authorized by the BCV to import goods, services or capital inputs. Additionally, the SITME imposes volume restrictions on an entity s trading activity, limiting such activity to a maximum equivalent of $50,000 per day, not to exceed $350,000 in a calendar month. This limitation is non-cumulative, meaning that an entity cannot carry over unused volume from one month to the next.

As a consequence of this new system, commencing on June 9, 2010, the Company transitioned from the parallel exchange rate to the SITME rate and started re-measuring foreign currency transactions using the SITME rate published by BCV, which was 5.27 Bolivares Fuertes per U.S. dollar as of June 9, 2010.

MercadoLibre Inc.

Notes to Consolidated Financial Statements

2. Summary of Significant Accounting Policies (Continued)

Foreign Currency Translation (Continued)

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

Accordingly, the June 9, 2010 exchange rate published by the Venezuelan Central Bank has been used to re-measure transactions during the abovementioned period. As of December 31, 2011, the exchange rate used to re-measure transactions is 5.30 Bolivares Fuertes per US dollar.

The following table sets forth net revenues, assets, liabilities and net assets of the Company s Venezuelan subsidiaries, before intercompany eliminations, as of December 31, 2011, 2010 and 2009:

	September 30, 2011	September 30, December 31, 2010	September 30, 2009
Venezuelan operations			
Net Revenues	$ 34,828,878	$ 20,885,541	$ 27,331,095
Assets	31,074,871	21,928,340	15,471,344
Liabilities	(10,414,881)	(8,212,581)	(6,557,337)
Net Assets	$ 20,659,990	$ 13,715,759	$ 8,914,007

As of December 31, 2011, net assets of the Venezuelan subsidiaries (before intercompany eliminations) amount to approximately 9.3% of our consolidated net assets, and cash and investments of the Venezuelan subsidiaries held in local currency in Venezuela amount to approximately 7.6% of our consolidated cash and investments.

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

Highly inflationary status in Venezuela

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

MercadoLibre Inc.

Notes to Consolidated Financial Statements

2. Summary of Significant Accounting Policies (Continued)

Foreign Currency Translation (Continued)

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

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

Income and Asset Taxes

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

From fiscal year 2008 to fiscal year 2014, the Company s Argentine subsidiary is a beneficiary of a software development law. Part of the benefits obtained from being a beneficiary of the aforementioned law is a relief of 60% of total income tax determined in each year, until fiscal year 2014. Aggregate tax relief totaled $6,140,713, $4,533,039 and 2,772,569 for the years ended December 31, 2011, 2010 and 2009, respectively. Aggregate per share effect of the Argentine tax holiday amounts to $0.14, $0.10 and $0.06 for the years ended December 31, 2011, 2010 and 2009, respectively. If the Company had not been granted the Argentine tax holiday, the Company would have pursued an alternative tax planning strategy and, therefore, the impact of not having this particular benefit would not necessarily be the abovementioned dollar and per share effect.

MercadoLibre Inc.

Notes to Consolidated Financial Statements

2. Summary of Significant Accounting Policies (Continued)

Income and Asset Taxes (Continued)

As of December 31, 2011 and 2010, MercadoLibre, Inc has included in the non-current deferred tax assets line the foreign tax credits related to the dividend distributions received from its subsidiaries for a total amount of $2,965,668 and $2,436,224, respectively. Those foreign tax credits will be used to offset the future domestic income tax payable.

Uncertainty in Income Taxes

On January 1, 2007 the Company adopted the accounting guidance on the accounting for uncertainty in income taxes. This guidance prescribes a more likely than not recognition threshold and measurement attribute for the financial statement recognition and measurement of an income tax position taken or expected to be taken in a tax return. It also provides guidance on de-recognition, classification of a liability for unrecognized tax benefits, accounting for interest and penalties, accounting in interim periods, and expanded income tax disclosures. The adoption of the new accounting guidance had no significant impact on the Company s consolidated financial statements.

The Company is subject to taxation in the U.S. and various foreign jurisdictions. The material jurisdictions that are subject to examination by tax authorities for tax years after 2005 primarily include the U.S., Argentina, Brazil, Mexico and Venezuela.

Recent Accounting Pronouncements

Goodwill Impairment Test

On September 15, 2011, the Financial Accounting Standards Board (FASB) issued an amendment to the guidance on testing goodwill for impairment. Under the revised guidance, entities testing goodwill for impairment have the option of performing a qualitative assessment before calculating the fair value of the reporting unit (i.e., step 1 of the goodwill impairment test). If entities determine, on the basis of qualitative factors, that the fair value of the reporting unit is more likely than not less than the carrying amount, the two-step impairment test would be required. The accounting standard update does not change how goodwill is calculated or assigned to reporting units, nor does it revise the requirement to test goodwill annually for impairment. In addition, it does not amend the requirement to test goodwill for impairment between annual tests if events or circumstances warrant; however, it does revise the examples of events and circumstances that an entity should consider. The amendments are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011 and early adoption is permitted. The Company decided to early adopt this new guidance for its financial statements related to the fiscal year ending December 31, 2011.

Presentation of Comprehensive Income

On June 16, 2011 the Financial Accounting Standards Board (FASB) issued an amendment to disclosures about the presentation of the comprehensive income in the

MercadoLibre Inc.

Notes to Consolidated Financial Statements

2. Summary of Significant Accounting Policies (Continued)

Presentation of Comprehensive Income (Continued)

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

Fair value measurement and disclosure

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

3. Net income per share

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

The Company s restricted shares granted to its outside directors were participating securities. Accordingly, net income available to common stockholders for the years ended December 31, 2010 and 2009, was allocated between unvested restricted shares and common stock under the two class method for purposes of computing basic and diluted earnings per share.

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

The following table shows how net income is allocated using the two-class method for earnings per common share for the years ended December 31, 2011, 2010 and 2009:

MercadoLibre Inc.

Notes to Consolidated Financial Statements

3. Net income per share (Continued)

	September 30,	September 30,	September 30,	September 30,	September 30,	September 30,
	Year Ended December 31,					
	2011		2010		2009	
	Basic	Diluted	Basic	Diluted	Basic	Diluted
Net income	$ 76,796,339	$ 76,796,339	$ 56,025,019	$ 56,025,019	$ 33,208,793	$ 33,208,793
Net income attributable to MercadoLibre, Inc. corresponding to unvested restricted shares			4,679	4,679	3,515	3,515
Net income attributable to Noncontrolling interests	(16,286)	(16,286)				
Change in redeemable amount of noncontrolling interest	(610,853)	(610,853)				
Net income attributable to MercadoLibre, Inc. corresponding to common stock	$ 76,169,200	$ 76,169,200	$ 56,020,340	$ 56,020,340	$ 33,205,278	$ 33,205,278

Net income per share of common stock is as follows for the years ended December 31, 2011, 2010 and 2009:

	September 30,	September 30,	September 30,	September 30,	September 30,	September 30,
	Year Ended December 31,					
	2011		2010		2009	
	Basic	Diluted	Basic	Diluted	Basic	Diluted
Net income attributable to MercadoLibre, Inc. per common share	$ 1.73	$ 1.73	$ 1.27	$ 1.27	$ 0.75	$ 0.75
Numerator:						
Net income attributable to MercadoLibre, Inc.	$ 76,169,200	$ 76,169,200	$ 56,020,340	$ 56,020,340	$ 33,205,278	$ 33,205,278

Denominator:						
Weighted average of common stock outstanding for Basic earnings per share	44,138,397	44,138,397	44,124,018	44,124,018	44,086,892	44,086,892
Adjustment for stock options		8,089		13,982		46,413
Adjustment for additional shares						3,366
Adjustment for shares granted under LTRP		4,951		8,858		7,697
Adjusted weighted average of common stock outstanding for Diluted earnings per share	44,138,397	44,151,437	44,124,018	44,146,858	44,086,892	44,144,368

The calculation of diluted net income per common share excludes all anti-dilutive shares. For the years ended December 31, 2011, 2010 and 2009, there were no anti-dilutive shares.

4. Short-term and long-term investments

The composition of short-term and long-term investments is as follows:

MercadoLibre Inc.

Notes to Consolidated Financial Statements

4. Short-term and long-term investments (Continued)

	September 30, December 31, 2011		September 30, December 31, 2010	
Short-term investments				
Time Deposits	$	72,019,726	$	4,944,761
Sovereign Debt Securities		1,554,770		
Corporate Debt Securities		1,354,124		398,005
Total	$	74,928,620	$	5,342,766
Long-term investments				
Time Deposits	$		$	40,396,183
Sovereign Debt Securities		9,153,793		13,147,239
Corporate Debt Securities		16,470,207		10,983,756
Asset Backed Securities		18,309,316		14,319,103
Total	$	43,933,316	$	78,846,281

Unrealized gains of available-for-sale securities, net of tax, were $924,657, $45,527, and $27,630 for the years ended December 31, 2011, 2010 and 2009, respectively.

As of December 31, 2011 and 2010, the Company has no security considered held-to-maturity securities.

Interest income on time deposits and held to maturity securities were $4,128,624, $1,749,562 and $1,296,762 for the years ended December 31, 2011, 2010 and 2009.

5. Balance sheet components

	September 30, December 31, 2011		September 30, December 31, 2010	
Accounts receivable, net:				
Users	$	29,736,666	$	21,722,252
Credit cards and other means of payments		1,113,537		861,082
Advertising		1,873,849		1,591,855
Others debtors		42,532		3,552
		32,766,584		24,178,741
Allowance for doubtful accounts		(15,951,497)		(11,560,568)
	$	16,815,087	$	12,618,173

MercadoLibre Inc.

Notes to Consolidated Financial Statements

5. Balance sheet components (Continued)

	September 30, December 31, 2011	September 30, December 31, 2010
Credit Cards Receivables		
Credit cards and other means of payments	$ 24,060,796	$ 6,285,150
Allowance for chargebacks	(205,107)	(133,632)
	$ 23,855,689	$ 6,151,518

	September 30, December 31, 2011	September 30, December 31, 2010
Other current assets:		
VAT credits	$ 681,247	$ 1,299,578
Other taxes	5,077,329	4,377,870
Other	1,104,674	1,190,319
	$ 6,863,250	$ 6,867,767

	September 30, December 31, 2011	September 30, December 31, 2010
Other non current assets:		
Legal Deposits	$ 284,476	$ 428,926
Deposit in Court (Note 15)	5,184,940	
Other	324,979	342,297
	$ 5,794,395	$ 771,223

	September 30, Estimated useful life (years)	September 30, December 31, 2011	September 30, December 31, 2010
Property and equipment, net:			
Equipment	3-5	$ 18,725,090	$ 12,930,592
Land & Building	50	16,204,946	8,854,879
Furniture and fixtures	3-5	6,956,006	6,697,246
Software	3	5,265,323	3,447,549
Cars	3	435,790	362,962
		47,587,155	32,293,228

Accumulated depreciation	(16,709,436)	(11,475,516)
	$ 30,877,719	$ 20,817,712

MercadoLibre Inc.

Notes to Consolidated Financial Statements

5. Balance sheet components (Continued)

	September 30,	September 30,	September 30,
		Year Ended December 31,	
	2011	2010	2009
Depreciation and amortization:			
Cost of net revenues	$ 833,898	$ 384,635	$ 308,260
Product and technology development	5,013,799	3,327,350	2,552,921
Sales and marketing	151,860	42,175	38,567
General and administrative	1,268,518	1,167,490	994,004
	$ 7,268,075	$ 4,921,650	$ 3,893,752

	September 30, December 31, 2011	September 30, December 31, 2010
Accounts payable and accrued expenses:		
Accounts payable	$ 12,154,539	$ 11,527,279
Accrued expenses		
Advertising	3,857,126	2,592,734
Professional fees	1,038,516	598,830
Other expense provisions	3,140,983	2,407,873
Other current liabilities	60,149	105,387
	$ 20,251,313	$ 17,232,103

	September 30, December 31, 2011	September 30, December 31, 2010
Current loans payable and other financial liabilities:		
Car leasing financing (1)	146,194	100,031
	$ 146,194	$ 100,031

	September 30, December 31, 2011	September 30, December 31, 2010
Non current loans payable and other financial liabilities:		
Car leasing financing (1)	$ 136,227	$ 188,846
	$ 136,227	$ 188,846

(1) See note 15 Capital Leases

MercadoLibre Inc.

Notes to Consolidated Financial Statements

5. Balance sheet components (Continued)

	September 30, December 31, 2011	September 30, December 31, 2010
Non current other liabilities:		
Provisions and contingencies	$ 1,765,242	$ 1,651,140
Other	32,648	258
	$ 1,797,890	$ 1,651,398

	September 30, December 31, 2011	September 30, December 31, 2010	September 30, December 31, 2009
Accumulated other comprehensive income:			
Foreign currency translation	$ (37,968,003)	$ (22,444,566)	$ (23,793,048)
Unrealized gains on investments	1,394,887	71,733	41,466
Estimated tax loss on unrealized gains on investments	(470,230)	(26,206)	(13,836)
	$ (37,043,346)	$ (22,399,039)	$ (23,765,418)

6. Business Combinations, Goodwill and Intangible Assets
Business Combinations

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

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

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

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

MercadoLibre Inc.

Notes to Consolidated Financial Statements

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

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

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

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

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

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

		September 30,
Net Tangible Assets	$	153,349
Identifiable Intangible Assets		3,290,998
Deferred Tax Liabilities		(987,299)
Goodwill		6,663,045
Noncontrolling interest		(3,648,037)
Aggregate Purchase Price	$	5,472,056

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

MercadoLibre Inc.

Notes to Consolidated Financial Statements

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

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

Goodwill is not expected to be deductible for tax purposes.

The results of operations for periods prior to the acquisition, individually and in the aggregate, were not material to the 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:

	September 30, December 31, 2011	September 30, December 31, 2010
Goodwill	$ 62,093,948	$ 60,496,314
Intangible assets with indefinite lives		
- Trademarks	5,068,147	2,460,952
Amortizable intangible assets		
- Licenses and others	2,798,112	2,606,402
- Non-compete agreement	1,270,807	1,241,357
- Customer list	1,742,087	1,607,097
Total intangible assets	$ 10,879,153	$ 7,915,808
Accumulated amortization	(4,384,296)	(3,774,641)
Total intangible assets, net	$ 6,494,857	$ 4,141,167

Goodwill

The changes in the carrying amount of goodwill for the years ended December 31, 2011 and 2010 are as follows:

MercadoLibre Inc.

Notes to Consolidated Financial Statements

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

Business Combinations (Continued)

	September 30,	September 30,	September 30,	September 30,	September 30,	September 30,	September 30,	September 30,
				Year Ended December 31, 2011				
	Brazil	Argentina	Chile	Mexico	Venezuela	Colombia	Other Countries	Total
Balance, beginning of year	$ 13,130,649	$ 23,364,326	$ 7,296,888	$ 5,025,623	$ 4,846,030	$ 5,448,068	$ 1,384,730	$ 60,496,314
- Purchase of Autoplaza.com				6,663,045				6,663,045
- Effect of exchange rates changes	(1,467,206)	(1,780,552)	(719,429)	(1,066,829)		(80,542)	49,147	(5,065,411)
Balance, end of the year	$ 11,663,443	$ 21,583,774	$ 6,577,459	$ 10,621,839	$ 4,846,030	$ 5,367,526	$ 1,433,877	$ 62,093,948

				Year Ended December 31, 2010				
	Brazil	Argentina	Chile	Mexico	Venezuela	Colombia	Other Countries	Total
Balance, beginning of year	$ 12,565,062	$ 24,446,463	$ 6,734,405	$ 4,770,560	$ 4,846,030	$ 5,100,939	$ 1,359,287	$ 59,822,746
- Effect of exchange rates changes	565,587	(1,082,137)	562,483	255,063		347,129	25,443	673,568
Balance, end of the year	$ 13,130,649	$ 23,364,326	$ 7,296,888	$ 5,025,623	$ 4,846,030	$ 5,448,068	$ 1,384,730	$ 60,496,314

Amortizable intangible assets

Amortizable intangible assets are comprised of customer lists and user base, trademarks and trade names, non-compete agreements, acquired software licenses and other acquired intangible assets including developed technologies. Aggregate amortization expense for intangible assets totaled $1,038,096, $841,774 and $590,793 for the years ended December 31, 2011, 2010 and 2009, respectively.

Expected future intangible asset amortization from acquisitions completed as of December 31, 2011 is as follows:

	September 30,
For year ended 12/31/2012	$ 816,656
For year ended 12/31/2013	307,755
For year ended 12/31/2014	160,579
For year ended 12/31/2015	85,040
For year ended 12/31/2016	56,680
Thereafter	

$	1,426,710

7. Segments

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

MercadoLibre Inc.

Notes to Consolidated Financial Statements

7. Segments (Continued)

Until the end of the second quarter of 2010, the Company had two reportable business segments: marketplace and payments. The payments segment included charges for the use of the payments platform that allowed buyers to use credit cards for payments, and a financial charge when payments in installments were chosen. Since the third quarter of 2010, the Company has redefined its segment reporting eliminating the business segmentation between marketplace and payments segments because management has decided to cease charging to buyers a separate fee for using the payments platform in Brazil and Argentina, and rather allow all buyers to pay either directly to sellers or through the Company s platform without a special charge. The former payment fees are now embedded in the MercadoLibre Marketplace fees. As a result, most of the revenue that used to be derived from the payments segment is no longer billed to buyers, and so management ceased the monitoring of the payment platform activity as a separate segment. Consequently, since the third quarter of 2010, the Company segment reporting is based on geographic areas, being this the new criteria used by management to evaluate the Company s performance. MercadoPago continues charging a specific fee to its users when their payments are not related to a Mercadolibre marketplace transactions and a financing charge when the installment-payment option is chosen by marketplace and non-marketplace users. The Company s segments are five including Brazil, Argentina, Mexico, Venezuela and Other Countries (such as Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Panama, Peru, Portugal and Uruguay). 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.

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

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

The following tables summarize the financial performance of the Company s reporting segments (the table related to the year ended December 31, 2009 has been restated accordingly):

MercadoLibre Inc.

Notes to Consolidated Financial Statements

7. Segments (Continued)

	September 30,	September 30,	September 30,	September 30,	September 30,	September 30,
			Year Ended December 31, 2011			
	Brazil	Argentina	Mexico	Venezuela	Other Countries	Total
Net revenues	$ 165,905,789	$ 56,714,941	$ 22,275,213	$ 34,828,878	$ 19,206,804	$ 298,931,625
Direct costs	(96,910,310)	(23,463,871)	(12,472,204)	(13,287,279)	(10,062,446)	(156,196,110)
Direct contribution	68,995,479	33,251,070	9,803,009	21,541,599	9,144,358	142,735,515
Operating expenses and indirect costs of net revenues						(42,963,350)
Income from operations						99,772,165
Other income (expenses):						
Interest income and other financial gains						9,905,829
Interest expense and other financial results						(3,648,733)
Foreign currency gains						2,353,005
Other income, net						73,894
Net income before income / asset tax expense						$ 108,456,160

			Year Ended December 31, 2010			
	Brazil	Argentina	Mexico	Venezuela	Other Countries	Total
Net revenues	$ 122,825,076	$ 39,892,763	$ 18,950,450	$ 20,885,541	$ 14,161,883	$ 216,715,713
Direct costs	(73,393,467)	(19,649,506)	(11,723,168)	(9,875,510)	(7,785,914)	$ (122,427,565)
Direct contribution	49,431,609	20,243,257	7,227,282	11,010,031	6,375,969	94,288,148
Operating expenses and indirect costs of net revenues						(19,689,585)
Income from operations						74,598,563
Other income (expenses):						
Interest income and other financial gains						4,931,215
Interest expense and other financial results						(7,601,671)
Foreign currency loss						(62,447)

Net income before income / asset tax expense	$ 71,865,660

	Year Ended December 31, 2009					
	Brazil	Argentina	Mexico	Venezuela	Other Countries	Total
Net revenues	$ 93,087,758	$ 26,737,937	$ 15,314,982	$ 27,331,095	$ 10,371,849	$ 172,843,621
Direct costs	(50,230,893)	(12,506,604)	(9,655,783)	(13,717,899)	(5,978,443)	$ (92,089,622)
Direct contribution	42,856,865	14,231,333	5,659,199	13,613,196	4,393,406	80,753,999
Operating expenses and indirect costs of net revenues						(24,720,280)
Income from operations						56,033,719
Other income (expenses):						
Interest income and other financial gains						2,695,109
Interest expense and other financial results						(13,357,554)
Foreign currency loss						(2,658,476)
Other expenses, net						
Net income before income / asset tax expense						$ 42,712,798

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

MercadoLibre Inc.

Notes to Consolidated Financial Statements

7. Segments (Continued)

	September 30, December 31, 2011	September 30, December 31, 2010
US long-lived tangible assets	$ 5,976,544	$ 3,617,420
Other countries long-lived tangible assets		
Argentina	14,316,612	13,580,175
Brazil	2,528,378	3,264,625
Mexico	409,707	68,878
Venezuela (*)	7,192,073	206,815
Other countries	454,405	79,799
	$ 24,901,175	$ 17,200,292
Total long-lived tangible assets	**$ 30,877,719**	**$ 20,817,712**

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

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

	September 30, December 31, 2011	September 30, December 31, 2010
US intangible assets	$	$ 3,507
Other countries goodwill and intangible assets		
Argentina	22,407,558	24,825,718
Brazil	11,686,315	13,137,658
Mexico	13,709,353	5,043,335
Venezuela	6,599,584	6,595,866
Other countries	14,185,995	15,031,397
	$ 68,588,805	$ 64,633,974
Total goodwill and intangible assets	**$ 68,588,805**	**$ 64,637,481**

8. Fair Value Measurement of Assets and Liabilities

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

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MercadoLibre Inc.

Notes to Consolidated Financial Statements

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

Description	September 30, Balances as of December 31, 2011	September 30, Quoted Prices in active markets for identical Assets (Level 1)	September 30, Balances as of December 31, 2010	September 30, Quoted Prices in active markets for identical Assets (Level 1)
Assets				
Cash and Cash Equivalents:				
Money Market Funds	$ 20,836,617	$ 20,836,617	$ 14,578,477	$ 14,578,477
Investments:				
Asset backed securities	18,309,316	18,309,316	14,319,103	14,319,103
Sovereign Debt Securities	10,708,563	10,708,563	13,147,239	13,147,239
Corporate Debt Securities	17,824,331	17,824,331	11,381,761	11,381,761
Total financial Assets	$ 67,678,827	$ 67,678,827	$ 53,426,580	$ 53,426,580

The Company s financial assets are valued using market prices on active markets (level 1). Level 1 instrument valuations are obtained from real-time quotes for transactions in active exchange markets involving identical assets. As of December 31, 2011 and 2010, the Company did not have any assets obtained from readily-available pricing sources for comparable instruments (level 2) or without observable market values that would require a high level of judgment to determine fair value (level 3).

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

In addition, as of December 31, 2011, the Company had $72,019,726 of short-term investments, which consisted of time deposits. As of December 31, 2010, the Company had $45,340,944 of short-term and long-term investments, which consisted of time deposits. Those investments are accounted for at amortized cost which, as of December 31, 2011 and 2010, approximates their fair values.

As of December 31, 2011 and 2010, the carrying value of the Company s cash and cash equivalents approximated their fair value which was held primarily in money market funds and bank deposits. In addition, the carrying value of accounts receivables, credit cards receivables, other receivables, other assets, accounts payables, social security payables, taxes payables, loans and provisions and other liabilities approximates their fair values because of its short term maturity.

MercadoLibre Inc.

Notes to Consolidated Financial Statements

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

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

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

	September 30,	September 30, December 31, 2011	September 30,	September 30,
	Gross Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses (1)	Estimated Fair Value
Short-term investments				
Sovereign Debt Securities	$ 1,554,448	$ 322	$	$ 1,554,770
Corporate Debt Securities	1,375,006		(20,882)	1,354,124
Total Short-term investments	**$ 2,929,454**	**$ 322**	**$ (20,882)**	**$ 2,908,894**
Long-term investments				
Sovereign Debt Securities	$ 8,483,883	$ 669,910	$	$ 9,153,793
Corporate Debt Securities	16,386,974	187,946	(104,713)	16,470,207
Asset Backed Securities (2)	17,647,012	715,749	(53,445)	18,309,316
Total Long-term investments	**$ 42,517,869**	**$ 1,573,605**	**$ (158,158)**	**$ 43,933,316**
Total	**$ 45,447,323**	**$ 1,573,927**	**$ (179,040)**	**$ 46,842,210**

	September 30,	September 30, December 31, 2010	September 30,	September 30,
	Gross Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses (1)	Estimated Fair Value
Short-term investments				
Corporate Debt Securities	$ 398,752	$ 26	$ (773)	$ 398,005
Total short-term investments	**$ 398,752**	**$ 26**	**$ (773)**	**$ 398,005**
Long-term investments				
Sovereign Debt Securities	$ 13,282,207	$ 98,958	$ (233,926)	$ 13,147,239
Corporate Debt Securities	10,987,910	110,521	(114,675)	10,983,756

Asset Backed Securities (2)		14,107,501		439,239		(227,637)		14,319,103
Total long-term investments	**$**	**38,377,618**	**$**	**648,718**	**$**	**(576,238)**	**$**	**38,450,098**
Total	**$**	**38,776,370**	**$**	**648,744**	**$**	**(577,011)**	**$**	**38,848,103**

(1) Unrealized losses from securities are primarily attributable to market price movements. Management does not believe any remaining unrealized losses represent other-than-temporary impairments based on our evaluation of available evidence including the credit rating of the investments, as of December 31, 2011 and 2010.

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

MercadoLibre Inc.

Notes to Consolidated Financial Statements

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

As of December 31, 2011, the estimated fair values of short-term and long-term investments classified by its effective maturities are as follows:

	September 30,
One year or less	$ 2,908,893
One year to two years	4,649,868
Two years to three years	9,450,793
Three years to four years	16,858,312
Four years to five years	2,713,862
More than five years	10,260,482
Total	$ 46,842,210

9. Common Stock

Authorized, issued and outstanding shares

As of December 31, 2011, 2010 and 2009, as stated in the Company s Fourth Amended and Restated Certificate of Incorporation (the Fourth Amended Certificate of Incorporation), the Company has authorized 110,000,000 shares of Common Stock, par value $0.001 per share (Common Stock).

As of December 31, 2011 and 2010, there were 44,142,020 and 44,131,376 shares of Common Stock issued and outstanding with a par value of $0.001 per share, respectively.

Voting rights

Each outstanding share of common stock, is entitled to one vote on all matters submitted to a vote of holders of common stock, except for stockholders that beneficially own more than 20% of the shares of the outstanding common stock, in which case the Board of Directors (the Board) may declare that any shares of stock above such 20% do not have voting rights. The holders of common stock do not have cumulative voting rights in the election of directors.

10. Mandatorily Redeemable Convertible Preferred Stock

As of December 31, 2011, 2010 and 2009, pursuant to the Fourth Amended Certificate of Incorporation, the Company authorized preferred stock consisting of 40,000,000 shares of preferred stock, par value $0.001 per share. As of December 31, 2011, 2010 and 2009, the Company has no preferred stock subscribed and nor issued.

11. Compensation Plan for Outside Directors

The Company compensated its outside directors through the payment of cash fees and, from time to time, through the issuance of equity awards. In 2009 and through June 10, 2010, each director was entitled to receive an annual cash retainer of $30,000. Additionally, the Chair of the Company s Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee and the lead independent director of the Company were entitled to receive additional annual cash retainers of $15,000, $12,000, $5,000 and $10,000, respectively.

MercadoLibre Inc.

Notes to Consolidated Financial Statements

11. Compensation Plan for Outside Directors (Continued)

On June 10, 2009, the Company issued an aggregate of 2,305 shares of common stock and 8,350 restricted shares of common stock (the Restricted Shares) to the outside directors. The Restricted Shares vested in full in June 2010. Restricted Shares awarded to employees and directors were measured at their fair market value using the grant-date price of the Company s shares. For the years ended December 31, 2011, 2010 and 2009, the Company recognized nil, $37,696 and $85,689, respectively, of compensation expense related to these awards, which are included in operating expenses in the accompanying consolidated statement of income.

For the years ended December 31, 2011, 2010 and 2009, the Company also recognized nil, nil and $27,944, respectively, of compensation expense related to prior awards of restricted shares to the outside directors, which amounts are included in operating expenses in the accompanying consolidated statement of income.

On June 25, 2010, the Board of Directors of the Company (the Board), upon the recommendation of the Compensation Committee of the Board, adopted The MercadoLibre, Inc. 2010 Director Compensation Program (the Plan) for outside directors which is effective as of June 10, 2010. Under the terms of the plan, each outside director will receive an annual fee for services provided to the Company from June 10, 2010 to June 9, 2011 payable as follows: (a) a Non-Adjustable Board Service Award which means a fixed cash payment of $32,436 and (b) an Adjustable Award which means a fixed cash amount of $43,248 multiplied by the average closing sale price of the Company s share during the last 30-trading day period as of the date of the next Annual Meeting divided by the average closing sale price of the Company s share during the last 30-trading day period as of the date of the prior year s Annual Meeting. The plan also included a Non-Adjustable Chair Service Award for services provided to the Company from June 10, 2010 to June 9, 2011. Under the terms of the plan, the Chair of the Company s Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee and the lead independent director of the Company are entitled to receive annual cash compensation in addition to existing director compensation in the amount of $16,218, $12,974, $5,406 and $10,812, respectively. The total accrued compensation cost for the years ended December 31, 2011 and 2010 amounted to $294,582 and $280,247, respectively, and were included in operating expenses in the accompanying consolidated statement of income.

On June 14, 2011, the Board of Directors of the Company (the Board), upon the recommendation of the Compensation Committee of the Board, adopted The MercadoLibre, Inc. 2011 Director Compensation Program (the Plan) for outside directors which is effective as of June 14, 2011. Under the terms of the plan, each outside director will receive an annual fee for services provided to the Company from June 10, 2011 to June 9, 2012 payable as follows: (a) a Non-Adjustable Board Service Award which means a fixed cash payment of $37,703 and (b) an Adjustable Award which means a fixed cash amount of $50,271 multiplied by the average closing sale price of the Company s share during the last

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Notes to Consolidated Financial Statements

11. Compensation Plan for Outside Directors (Continued)

30-trading day period as of the date of the next Annual Meeting divided by the average closing sale price of the Company s share during the last 30-trading day period as of the date of the prior year s Annual Meeting. The plan also included a Non-Adjustable Chair Service Award for services provided to the Company from June 10, 2011 to June 9, 2012. Under the terms of the plan, the Chair of the Company s Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee and the lead independent director of the Company are entitled to receive annual cash compensation in addition to existing director compensation in the amount of $18,852, $15,081, $6,284 and $12,568, respectively. The total accrued compensation cost for the year ended December 31, 2011 amounted to $276,368, and is included in operating expenses in the accompanying consolidated statement of income.

The total accrued compensation cost related to outside Directors for the years ended December 31, 2011, 2010 and 2009 in cash and equity awards amounts to $570,950, $402,107 and $305,632, respectively which were included in operating expenses.

12. Stock Option Plan and Restricted Shares

Pursuant to the Amended and Restated 1999 Stock Option and Restricted Stock Plan , (the Plan) the Company has reserved 4,732,400 shares of Common Stock for issuance under the Plan.

On June 10, 2009, the Annual Shareholders Meeting approved the adoption of the 2009 Equity Compensation Plan, which contains terms substantially similar to the terms of the 1999 Stock Option and Restricted Stock Plan scheduled to expire in November 2009. The 2009 plan has reserved for issuance 294,529 shares of the Company s common stock under the 1999 plan. As of December 31, 2011, there are 275,199 shares available for grant under the 1999 plan.

Stock Options

Stock option awards granted under the Plan are at the discretion of the Company s Board of Directors and may be in the form of either incentive or nonqualified stock options. Outstanding options granted under the Plan are fully vested and expire ten years after the date of grant.

Stock-based compensation expense related to stock options for the years ended December 31, 2011, 2010 and 2009 was nil, $244 and $1,752, respectively.

Stock-based compensation expense was based on the estimated portion of the awards that are expected to vest. As of December 31, 2011, total stock-based compensation is vested.

There was no granting during the period from January 1, 2007 to December 31, 2011.

Stock option activity is as follows:

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Notes to Consolidated Financial Statements

12. Stock Option Plan and Restricted Shares (Continued)

Stock Options (Continued)

	September 30, 2011 Number of options	September 30, 2011 Weighted-average exercise price	September 30, 2010 Number of options	September 30, 2010 Weighted-average exercise price
Outstanding, beginning of year	11,763	$ 1.69	18,889	$ 2.02
Exercised	(5,950)	1.88	(7,126)	2.55
Outstanding, end of the year	5,813	1.50	11,763	1.69
Exercisable, end of the year	5,813	$ 1.50	11,763	1.69

The following details the outstanding options at December 31, 2011 and 2010:

December 31, 2011 Outstanding Exercise price	December 31, 2011 Outstanding Number of options	December 31, 2011 Outstanding Weighted-average remaining contractual life (years)	December 31, 2011 Exercisable Number of options	December 31, 2010 Outstanding Exercise price	December 31, 2010 Outstanding Number of options	December 31, 2010 Outstanding Weighted-average remaining contractual life (years)	December 31, 2010 Exercisable Number of options
$1.50	5,813	2.63	5,813	$1.50	11,263	4.21	11,263
$6.00	-	-	-	$6.00	500	5.75	500
	5,813	2.63	5,813		11,763	4.28	11,763

Weighted average Exercise Price		Weighted average Exercise Price	
- Options outstanding	$ 1.50	- Options outstanding	$ 1.69
- Options exercisable	$ 1.50	- Options exercisable	$ 1.69

	September 30, December 31, 2011	September 30, December 31, 2010
Aggregate intrinsic value		
- Options outstanding	$ 453,647	$ 764,051
- Options exercisable	$ 453,647	$ 764,051

The aggregate intrinsic value represents the difference between the Company s closing stock price of $79.54 and $66.65 as of December 31, 2011 and 2010, respectively, and the exercise price multiplied by the number of options (outstanding and exercisable) as of December 31, 2011 and 2010.

Restricted Shares

On September 17, 2007, the Company awarded each of the two outside directors 1,000 Restricted Shares for their original grants. On January 24, 2008, the Company awarded a new outside director 600 Restricted Shares for his original grant. On May 6, 2008, the Board also designated a new director and a current director as outside directors, determining to extend the Company s outside director compensation program to these two directors. On June 9, 2008, the Company awarded each of the two new outside directors 674 Restricted Shares for their original grants. As of December 31, 2011 and 2010, these shares are fully vested and are not restricted anymore.

MercadoLibre Inc.

Notes to Consolidated Financial Statements

12. Stock Option Plan and Restricted Shares (Continued)
Restricted Shares (Continued)

However, as described in Note 11, the 8,350 shares related to the second year of board service were restricted shares for the year ended December 31, 2009 and vested in the 2010 annual stockholder s meeting. As of December 31, 2011, there are no unvested shares awarded to outside directors.

Based on the fair market value of the Company s share at the grant date, total compensation cost for the 3,948 Restricted Shares awarded amounted to $149,470. For the year ended December 31, 2009, the Company recognized $27,944 of compensation expense related to these awards, which were included in operating expenses in the accompanying consolidated statement of income. No compensation expense related to these awards was recorded for the years ended December 31, 2011 and 2010.

The additional grants of shares for fixed amounts of US dollars were classified as liabilities in the accompanying consolidated balance sheet up to June 10, 2009, the issuance date. As from the issuance date, the outstanding liabilities amounting to $171,099 as well as all future compensation cost is classified as equity. For the years ended December 31, 2011, 2010 and 2009, the Company recognized $nil, $37,696 and $85,689, respectively, of compensation expense related to these awards, which are included in operating expenses in the accompanying consolidated statement of income.

13. Management incentive bonus plan

In September 2001, the Company implemented the 2001 Management Incentive Bonus Plan (the Incentive Plan) to provide incentives to, and align the interests of, senior management with the Company s shareholders. As established in the Incentive Plan, the Company s Chief Executive Officer, with the consent of the Board of Directors, made the initial determination as to the executives entitled to the benefits under the plan (the Participants) and the amounts of participation (the Participation Percentages). The Board of Directors administers the Incentive Plan.

Pursuant to the Incentive Plan, if the Company is sold, the Participants are entitled to receive a sale bonus and a stay bonus as follows:

> If the purchase price is equal or greater than $20,000,000, then Participants shall be entitled to receive i) a sale bonus equal to 5.5% of the purchase price and ii) a stay bonus equal to 7.1% of the purchase price; provided, however, that in no event shall the amount paid or payable by the purchaser considered for the Incentive Plan calculation exceed $78,335,000. Each Participant shall participate on these bonuses based on its Participation Percentage.

MercadoLibre Inc.

Notes to Consolidated Financial Statements

13. Management incentive bonus plan (Continued)

If the purchase price is less than $20,000,000, then Participants shall be entitled to receive a stay bonus equal to 7.1% of the purchase price. Each Participant shall participate on this stay bonus based on its Participation Percentage.

As the consummation of the sale is not considered probable, no provision has been recognized at December 31, 2011.

14. Income Taxes

The components of pretax income in consolidated companies for the years ended December 31, 2011, 2010 and 2009 are as follows:

	September 30,	September 30,	September 30,
		Year Ended December 31,	
	2011	2010	2009
United States	$ (680,845)	$ (757,843)	$ (842,576)
Brazil	52,457,909	38,264,509	17,516,520
Argentina	23,855,329	17,131,466	11,462,508
Venezuela	16,839,295	9,272,804	7,838,746
Mexico	6,554,066	4,485,169	2,605,974
Other Countries	9,430,406	3,469,555	4,131,626
	$ 108,456,160	**$ 71,865,660**	**$ 42,712,798**

Income / Asset tax is composed of the following:

	September 30,	September 30,	September 30,
		Year Ended December 31,	
	2011	2010	2009
Current:			
Federal	$	$	$
Foreign	29,848,193	22,170,007	11,489,043
	29,848,193	**22,170,007**	**11,489,043**
Deferred:			
Federal	2,114,486	416,098	
Foreign	(340,950)	(6,785,532)	(2,512,958)
	1,773,536	(6,369,434)	(2,512,958)
	31,621,729	**15,800,573**	**8,976,085**
Asset Tax:			
Federal			

Foreign	38,092	40,068	527,920
	38,092	**40,068**	**527,920**
Income / asset tax expense	**$ 31,659,821**	**$ 15,840,641**	**$ 9,504,005**

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Notes to Consolidated Financial Statements

14. Income Taxes (Continued)

The following is a reconciliation of the difference between the actual provision for income taxes and the provision computed by applying the blended income tax rate for 2011, 2010 and 2009 to income before taxes:

	September 30, Year Ended December 31, 2011	September 30, 2010	September 30, 2009
Net income before income tax	$ 108,456,160	$ 71,865,660	$ 42,712,798
Weighted average income tax rate	33%	34%	33%
Provision at blended tax rate	$ 35,727,808	$ 24,540,595	$ 14,083,389
Permanent differences:			
Non-deductible expenses	2,528,463	1,286,090	338,873
Dividend distributions	2,132,063	622,334	1,246,218
Non-taxable income	(6,497,097)	(4,984,027)	(3,025,270)
Currency translation	(916,166)	(686,151)	(269,553)
Change in valuation allowance	(1,604,230)	(4,535,603)	(3,430,348)
True up	250,888	(442,665)	32,776
Income tax expense	**$ 31,621,729**	**$ 15,800,573**	**$ 8,976,085**

Deferred tax assets and liabilities are recognized for the future tax consequences of differences between the carrying amounts of assets and liabilities and their respective tax bases using enacted tax rates in effect for the year in which the differences are expected to reverse. The following table summarizes the composition of deferred tax assets and liabilities for the years ended December 31, 2011 and 2010:

	September 30, December 31, 2011	September 30, December 31, 2010
Deferred tax assets		
Allowance for doubtful accounts	$ 5,356,384	$ 4,034,439
Property and equipment, net	86,934	70,734
Accounts payable and accrued expenses	83,218	144,606
Payroll and social security payable	1,994,873	1,388,920
Other liabilities	308,764	270,746
Customer lists	61,957	72,478
Taxes payable	644,990	770,632
Provisions	2,640,679	2,308,378
Foreign tax credit	2,965,668	2,436,224
Tax loss carryforwards	4,365,413	9,207,470
Total deferred tax assets	18,508,880	20,704,627
Valuation allowance	(2,885,596)	(4,818,253)

Net deferred tax assets	**15,623,284**	**15,886,374**
Deferred tax liabilities		
Unrealized net gains on investments	(470,230)	(26,206)
Property and equipment, net	(2,334,316)	(587,209)
Customer lists	(185,123)	(189,906)
Non compete agreement	(92,828)	(86,639)
Outside basis dividends	(3,794,007)	(2,806,200)
Trademarks	(1,643,205)	(861,333)
Foreign exchange effect	(150,897)	(610,206)
Total deferred tax liabilities	**(8,670,606)**	**(5,167,699)**
	$ 6,952,678	**$ 10,718,675**

MercadoLibre Inc.

Notes to Consolidated Financial Statements

14. Income Taxes (Continued)

The total amount of $6,952,678 for the year ended December 31, 2011, is disclosed in the consolidated balance sheet as current asset, non-current asset and non-current liability amounting to $9,131,638, $6,491,646 and $8,670,606, respectively.

The total amount of $10,718,675 for the year ended December 31, 2010, is disclosed in the consolidated balance sheet as current asset, non-current asset and non-current liability amounting to $12,911,256, $2,975,118 and $5,167,699, respectively.

As of December 31, 2011, consolidated loss carryforwards for income tax purposes were $14,681,274. If not utilized, tax loss carryforwards will begin to expire as follows:

	September 30,
2012	$ 114
2013	814,860
2014	1,474,698
2015	274,653
Thereafter	12,116,949
Total	$ 14,681,274

In addition, as of December 31, 2011 we had $3,794,007 of tax credit carryforwards that we estimate will be fully used in 2013. These tax credit carryforwards expire in 2021.

During the years ended December 31, 2011 and 2010, the Company has reversed $1,955,723 and $4,648,574, respectively related to certain foreign and domestic valuation allowances based on the assessment that it is more likely than not that the deferred tax asset will be realized.

We have not considered $64.3 million of the non-U.S. subsidiaries undistributed earnings as of December 31, 2011 for U.S. federal income tax purposes because such earnings are intended to be indefinitely reinvested in our international operations and potential acquisitions related to those operations. Upon distribution of those earnings in the form of dividends or otherwise, we would be subject to U.S. income taxes if such distribution exceeds available foreign tax credits. It is not practicable to determine the income tax liability that might be incurred if these earnings were to be distributed. We do not expect a material impact in any repatriation of undistributed earnings of foreign subsidiaries on our operations since the taxable domestic gains generated by any dividend distributions will be mostly offset with foreign tax credits that arise from income tax paid in our foreign operations, which we are allowed to compute for domestic income tax purposes.

MercadoLibre Inc.

Notes to Consolidated Financial Statements

15. Commitments and Contingencies
Litigation and Other Legal Matters

The Company is subject to certain contingent liabilities with respect to existing or potential claims, lawsuits and other proceedings. The Company accrues liabilities when it considers probable that future costs will be incurred and such costs can be reasonably estimated. The proceeding-related reserve is based on developments to date and historical information related to actions filed against the Company. As of December 31, 2011, the Company had established reserves for proceeding-related contingencies of $1,765,242 to cover legal actions against the Company. In addition, as of December 31, 2011 the Company and its subsidiaries are subject to certain legal actions considered by the Company s management and its legal counsels to be reasonably possible for an aggregate amount up to $2,359,960.

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

As of December 31, 2011, 398 legal actions were pending in the Brazilian ordinary courts, 8 of which were related to alleged intellectual property infringement. In addition, as of December 31, 2011, there were 1,983 cases still pending in Brazilian consumer courts. Filing and pursuing of an action before Brazilian consumer courts do not require the assistance of a lawyer. In most of the cases filed against the Company, the plaintiffs asserted that the Company was responsible for fraud committed against them, or responsible for damages suffered when purchasing an item on the Company s website, when using MercadoPago, or when the Company invoiced them.

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

MercadoLibre Inc.

Notes to Consolidated Financial Statements

15. Commitments and Contingencies (Continued)
Litigation and Other Legal Matters (Continued)

decision maintained the injunction until such ruling is non-appealable. The plaintiff appealed the judge s ruling regarding the subsidiary s non-responsibility and the Company appealed the decision that maintained the preliminary injunction. On July 26, 2011 the State Court of Appeals of the State of São Paulo confirmed the judge s ruling regarding our subsidiary s non-responsibility. The decision on the appeal regarding the decision that maintained the preliminary injunction is still pending. In the opinion of the Company s legal counsel, as of December 31, 2011, the amount of $213,242 was not reserved since it was considered reasonably possible but not probable.

State of São Paulo Fraud Claim

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

City of São Paulo Tax Claim

In 2007 São Paulo tax authorities have asserted taxes and fines against our Brazilian subsidiary relating to the period from 2005 to 2007 in an approximate amount of $5.9 million according to the exchange rate at that moment. In 2007 the Company presented administrative defenses against the authorities claim and the tax authorities ruled against the Brazilian subsidiary. In 2009 the Company presented an appeal to the Conselho Municipal de Tributos or São Paulo Municipal Council of Taxes which reduced the fine. On February 11, 2011, the Company appealed this decision to the Câmaras Reunidas do Egrégio Conselho Municipal de Tributos or Superior Chamber of the São Paulo Municipal Council of Taxes which maintained the reduction of the Infraction. As of the date of these financial statements, the total amount of the claim is approximately $ 5.8 million including surcharges and interest. With this decision the administrative stage is finished. On August 15, 2011, the

MercadoLibre Inc.

Notes to Consolidated Financial Statements

15. Commitments and Contingencies (Continued)
Litigation and Other Legal Matters (Continued)

City of São Paulo Tax Claim (Continued)

Company made a deposit in court of approximately R$ 9.5 million or $ 5.2 million, according to the exchange rate at December 31, 2011, and filed a lawsuit in 8th Public Treasury Court of the County of São Paulo, State of São Paulo, Brazil order to contest the taxes and fines asserted by the Tax Authorities. The Company s management and its legal counsel believe that the risk of loss is remote, and as a result, has not reserved any provisions for this claim.

Brazilian Federal Tax Claims

On September 2, 2011, the Brazilian Federal tax authority has asserted taxes and fines against our Brazilian subsidiary relating to the Income Tax for the 2006 period in an approximate amount of R$ 5.2 million or $2.8 million, according to the exchange rate at December 31, 2011. On September 30, 2011 the Company presented administrative defenses against the tax authorities claim. The Company s management and its legal counsel believe that the risk of loss is remote, and as a result, the Company has not reserved any provisions for this claim.

State of São Paulo Customer Service Level Claim

On September 1, 2010, a state prosecutor of the State of São Paulo, Brazil presented a claim against the Company s Brazilian subsidiary. The state prosecutor alleges that the Brazilian subsidiary should improve its customer service level and provide (among other things) a telephone number for customer support. On November 17, 2010, the Judge of the first instance court granted an injunction against the Brazilian subsidiary imposing the obligation to provide customer service over telephone means within 60 days with a penalty of approximately $65,000 per day of non-compliance. On April 08, 2011, the Company was summoned of the lawsuit and the injunction. On April 14, 2011, the Company presented recourse to the lower court; even though, the injunction was not lifted, an extension of 30 days was granted, and the non-compliance fine would start running as of July 11, 2011. On April 20, 2011 the Company presented an appeal and requested to suspend the effects of the injunction issued by the lower court until the appeal is decided by State Court of Appeals which was granted on May 4, 2011. On November 29, 2011, the state prosecutor signed an agreement with the Brazilian subsidiary and presented a motion for dismissal of the case. On January 16, 2012, Instituto Barão de Mauá de Defesa de Vítimas e Consumidores contra Entes Poluidores e Maus Fornecedoreas, a consumer protection entity which had joined the case as a co-plaintiff, presented a petition manifesting its partial disagreement with the commitments assumed by the Company. A judge s decision is pending. In the opinion of the Company s management and its legal counsel the risk associated with this claim is considered remote.

MercadoLibre Inc.

Notes to Consolidated Financial Statements

15. Commitments and Contingencies (Continued)
Litigation and Other Legal Matters (Continued)

State of Rio de Janeiro Customer Service Level Claim

On August 19, 2011, a state prosecutor of the State of Rio de Janeiro, Brazil presented a claim against the Company s Brazilian subsidiary. The state prosecutor alleges that the Brazilian subsidiary should improve our customer service level and provide (among other things) a telephone number for customer support and requested an injunction against our Brazilian subsidiary. On August 23, 2011, the Judge of the first instance court denied the aforementioned injunction. On December 07, 2011, the Company was summoned of the lawsuit. In the opinion of the Company s management and its legal counsel the risk of loss is reasonably possible.

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

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

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

Operating leases

The Company has leases for office space in the various countries it operates in. Total rental expense amounted to approximately $2,275,171, $2,388,445, and $2,363,566 for the years ended December 31, 2011, 2010 and 2009, respectively.

Minimum remaining annual commitments under the non-cancelable operating leases are as follows:

	September 30,
For the year ended December 31, 2012	$ 1,568,217
For the year ended December 31, 2013	1,368,067
For the year ended December 31, 2014	908,134
For the year ended December 31, 2015	187,709
Thereafter	65,590
	$ 4,097,717

MercadoLibre Inc.

Notes to Consolidated Financial Statements

15. Commitments and Contingencies (Continued)

Capital leases

On February 22, 2010, our Argentina subsidiary signed a car lease contract to buy 12 cars for certain employees. The remaining liability related to this lease contract amounts to $128,944 and matures in July 2013.

In addition, during September of 2011, the Company signed another car lease contract to buy 8 cars for certain employees of the Company. The total lease contract amounts to $153,477 and matures in September 2014.

Employment Contracts

Each of the executive officers of the Company are a party to individual employment agreements that provide for annual base estimated salaries aggregating approximately $1,340,000 per year, a performance based estimated bonus aggregating to approximately $1,330,000 per year, and some fringe benefits. The employment agreements automatically renew annually, if not terminated by either party. Each agreement includes clauses that provide in the event of employment termination without cause, the Company must pay the employee 12 months of base salary.

Additionally, the executive officers of the Company are included in the Long Term Retention Plans mentioned in Note 16. Under the 2008 Plan the executive officers of the Company will receive approximately $156,740 and 2,986 shares in a period of 3 months. In addition, under the 2009 Plan the executive officers of the Company will receive approximately $2,021,757 in a period of 5 years and 3 months. Under the 2010 Plan the executive officers of the Company will receive approximately $4,338,173 in a period of 6 years and 3 months. At last, under the 2011 Plan the executive officers of the Company will receive approximately $4,881,174 in a period of 7 years and 3 months.

16. Long Term Retention Plan

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

Year 1 (2008): 17%

Year 2 (2009): 22%

Year 3 (2010): 27%

Year 4 (2011): 34%

In March 2009, the abovementioned 17% related to Year 1 was paid. In April 2010, the Company paid the 22% related to the Year 2, and in April 2011, the Company paid the 27% related to the Year 3.

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Notes to Consolidated Financial Statements

16. Long Term Retention Plan (Continued)

In addition, the 2008 Long Term Retention Plan (the 2008 LTRP) has a performance condition which has been achieved at the date of these financial statements and also requires the employee to stay in the Company at the payment date. The compensation cost is recognized in accordance with the graded-vesting attribution method and is accrued up to each payment date.

The total compensation cost of the 2008 LTRP amounts to approximately $1.6 million including cash and shares. The 21,591 shares granted were valued at the grant-date fair market value of $36.8 per share. For the year ended December 31, 2011, the related accrued compensation expense was $98,451 corresponding $49,246 to the share portion of the award credited to Additional Paid-in Capital and $49,205 to the cash portion included in the Balance Sheet as Payroll and social security payable. For the year ended December 31, 2010, the related accrued compensation expense was $246,357 corresponding $103,720 to the share portion of the award credited to Additional Paid-in Capital and $142,637 to the cash portion included in the Balance Sheet as Payroll and social security payable. As of December 31, 2009, the related accrued compensation expense was $398,175 corresponding $155,470 to the share portion of the award credited to Additional Paid-in Capital and $242,705 to the cash portion which includes the Social security payable.

The following table summarizes the number of shares for each of the following groups:

Number of Shares	September 30, December 31, 2011	September 30, December 31, 2010	September 30, December 31, 2009
Granted	21,591	21,591	21,591
Non-vested at the beginning of the year	10,163	15,015	21,591
Non-vested at the end of the year	5,098	10,163	15,015
Forfeited	4,220	3,847	2,976
Vested and paid to the employees	12,273	7,581	3,600
Outstanding	5,098	10,163	15,015

The following table details the aggregate intrinsic value and weight-average remaining contractual life of the shares at December 31, 2011:

	September 30, December 31, 2011	September 30, Outstanding December 31, 2010	September 30, December 31, 2009
Shares Outstanding	5,098	10,163	15,015
Closing price of share	79.54	66.65	51.87
Weighted average exercise price			
Intrinsic value	79.54	66.65	51.87
Aggregate intrinsic value	405,495	677,313	778,828

MercadoLibre Inc.

Notes to Consolidated Financial Statements

16. Long Term Retention Plan (Continued)

The following table summarizes the aggregate intrinsic value and the weighted average remaining contractual life of the shares paid at the end of December 31, 2011, under the 2008 LTRP:

	September 30, December 31, 2011	September 30, December 31, 2010	September 30, December 31, 2009
Aggregate intrinsic value			
- Shares outstanding	405,495	677,313	$ 778,828
- Shares paid	389,367	191,920	61,740
Weighted-average remaining contractual life (years)	0.25	0.81	1.39

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

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

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

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

	September 30, December 31, 2011		September 30, December 31, 2010		September 30, December 31, 2009	
	Aggregate Intrinsic value	Weighted-average remaining contractual life (years)	Aggregate Intrinsic value	Weighted-average remaining contractual life (years)	Aggregate Intrinsic value	Weighted-average remaining contractual life (years)
Outstanding LTRP 2009	5,070,581	2.75	5,095,701	3.25	4,457,346	3.75
Outstanding LTRP 2010	3,818,221	3.25	4,283,526	3.75		
Outstanding LTRP 2011	3,754,634	3.72				

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

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

MercadoLibre Inc.

Notes to Consolidated Financial Statements

16. Long Term Retention Plan (Continued)

The following tables summarize the LTRP accrued compensation expense for the years ended December 31, 2011, 2010 and 2009:

	September 30,	September 30, Year ended December 31,	September 30,
	2011	2010	2009
LTRP 2008	$ 98,451	$ 246,357	$ 398,175
LTRP 2009	1,457,838	1,675,185	1,503,773
LTRP 2010	1,330,238	1,657,952	
LTRP 2011	1,519,760		
	$ 4,406,287	$ 3,579,494	$ 1,901,948

17. Share Repurchase Plan

On November 14, 2008, the Company announced that its board of directors approved a share repurchase plan authorizing the Company to repurchase, from available capital, up to $20 million of the Company s outstanding common stock from time to time through November 13, 2009. The timing and amount of any share repurchase under the share repurchase plan were determined by management of the Company based on market conditions and other considerations, and repurchases may be effected in the open market, through derivative, accelerated repurchase and other privately negotiated transactions and through plans designed to comply with Rules 10b-18 or 10b5-1(c) under the Securities Exchange Act of 1934, as amended. The share repurchase plan did not require the Company to acquire any specific number of shares and may be temporarily or permanently suspended or discontinued by the Company at any time. A committee of the board of directors reevaluated the operation of the plan each fiscal quarter.

During November and December 2008, the Company sold written put options of its own shares as part of the Share Repurchase Plan, those put options were not exercised at the expiration date and for that reason, during the first quarter of 2009, the Company recognized a gain of $185,000.

The Company accounted for its written put options as derivative instruments and measured them initially and subsequently at fair value. The liabilities associated with these derivative instruments were recorded at fair value in current liabilities in the consolidated balance sheet.

During March 2009, the Company sold written put options of its own shares. The following table summarizes the written put option transactions made in the first quarter of 2009:

MercadoLibre Inc.

Notes to Consolidated Financial Statements

17. Share Repurchase Plan (Continued)

	September 30, Total
Number of Shares	226,000
Premium	302,997
Average Price	1.34
Commissions and other fees	(6,782)
Cash received	296,215

These put options were not exercised at the expiration date and for that reason, during the first half of 2009, the Company recognized a gain of $302,997.

No additional written put option transactions were made since the second quarter of 2009. As of December 31, 2011 and 2010 there was no written put options transaction outstanding.

Those derivative financial instruments were not accounted for as hedges and, therefore, the change in the fair value of these instruments was recorded in the income statement as interest income and other financial gains.

18. Related Party Transactions

Indemnification agreements

The Company has entered into indemnification agreements with each of the directors and executive officers of its local subsidiaries. These agreements require the Company to indemnify such individuals, to the fullest extent permitted by the laws of the jurisdiction where these subsidiaries operate, for certain liabilities to which they may become subject by reason of the fact that such individuals are or were directors or executive officers of the local subsidiaries of the Company.

Curtidos San Luis S.A.

Until February 22, 2011, the Company leased office space from Curtidos San Luis S.A. Immediate family of Marcos Galperin (CEO) are managers and shareholders of the controlling company of Curtidos San Luis S.A. After February 14, 2011, the Company s Argentine subsidiary moved its headquarters and Argentine operation offices to a new own office building located in the City of Buenos Aires. During the years ended December 31, 2011, 2010 and 2009, the Company recognized expenses from Curtidos San Luis S.A. totaling $253,924, $872,768 and $903,094, respectively. As of December 31, 2011, the Company estimates a partial recovery of the lease contract escrow for $16,553.

As of December 31, 2011 and 2010, the amounts payable to this supplier were $46,825 and $3,352, respectively.

MercadoLibre Inc.

Notes to Consolidated Financial Statements

18. Related Party Transactions (Continued)
Curtidos San Luis S.A. (Continued)

During the year ended December 31, 2011, the Company bought VAT credits from Curtidos San Luis S.A. The Company recognized a gain for $24,095 related to the discount received in the transaction. As of December 31, 2011, there are no receivables related to these transactions.

eBay Inc.

The Company had an agreement with eBay for the use of marketing software, a paid search bidding tool, and 50% time of an analyst to manage it at eBay headquarters. During the year ended December 31, 2011, the Company recognized expenses from eBay Inc. for a total amount of $199,697. As of December 31, 2011, the amount payable to this supplier was $268.

19. Valuation and qualifying accounts
The following table summarizes valuation and qualifying accounts activity during the years ended December 31, 2011, 2010 and 2009:

	September 30, Balance at beginning of year	September 30, Charged / credited to Net income / (loss)	September 30, Charges Utilized / Write-offs	September 30, Balance at end of year
Allowance for doubtful accounts				
Year ended December 31, 2009	8,510,127	9,681,048	(14,493,168)	3,698,007
Year ended December 31, 2010	3,698,007	15,093,326	(7,230,765)	11,560,568
Year ended December 31, 2011	11,560,568	17,560,508	(13,169,579)	15,951,497
Credit cards receivable allowance for chargebacks				
Year ended December 31, 2009	167,020	572,555	(652,026)	87,549
Year ended December 31, 2010	87,549	46,083		133,632
Year ended December 31, 2011	133,632	1,376,361	(1,304,886)	205,107
Tax valuation allowance				
Year ended December 31, 2009	11,652,192	(897,123)	(1,485,674)	9,269,395
Year ended December 31, 2010	9,269,395	(3,946,289)	(504,853)	4,818,253
Year ended December 31, 2011	4,818,253	(1,878,518)	(54,139)	2,885,596
Contingencies				
Year ended December 31, 2009	1,050,316	1,543,438	(1,354,174)	1,239,580
Year ended December 31, 2010	1,239,580	1,735,239	(1,326,285)	1,648,534
Year ended December 31, 2011	1,648,534	2,178,717	(2,062,009)	1,765,242

MercadoLibre Inc.

Notes to Consolidated Financial Statements

20. Quarterly Financial Data (Unaudited)

The following tables present certain consolidated quarterly financial information for each of the last twelve quarters for the years ended December 31, 2011, 2010 and 2009:

	September 30,	September 30,	September 30,	September 30,
		Quarter Ended		
	March 31,	June 30,	September 30,	December 31,
2011				
Net Revenues	$ 61,459,668	$ 69,378,160	$ 81,628,144	$ 86,465,653
Gross profit	47,127,964	52,439,042	61,567,671	65,741,114
Net Income	14,057,634	14,820,826	26,296,449	21,621,431
Net Income per share-basic	0.32	0.34	0.60	0.47
Net Income per share-diluted	0.32	0.34	0.60	0.47
Weighted average shares				
Basic	44,131,383	44,138,105	44,141,925	44,142,020
Diluted	44,147,667	44,152,296	44,151,218	44,152,658
2010				
Net Revenues	$ 45,937,774	$ 52,510,331	$ 55,951,378	$ 62,316,230
Gross profit	36,044,723	41,098,770	44,500,459	48,521,916
Net Income	9,620,601	11,673,962	18,790,963	15,939,493
Net Income per share-basic	0.22	0.26	0.43	0.36
Net Income per share-diluted	0.22	0.26	0.43	0.36
Weighted average shares				
Basic	44,113,595	44,121,087	44,129,762	44,131,376
Diluted	44,149,700	44,145,255	44,151,367	44,151,762
2009				
Net Revenues	$ 32,322,501	$ 40,901,799	$ 50,599,276	$ 49,020,045
Gross profit	25,688,515	32,306,322	40,208,605	38,682,129
Net Income	5,391,176	6,679,779	9,852,268	11,285,570
Net Income per share-basic	0.12	0.15	0.22	0.26
Net Income per share-diluted	0.12	0.15	0.22	0.26
Weighted average shares				
Basic	44,069,134	44,074,462	44,088,936	44,108,207
Diluted	44,130,866	44,127,208	44,138,031	44,143,281

21. Cash Dividend Distribution

During the fiscal year ended December 31, 2011, the Company approved cash dividends for a total amount of $14.1 million or $0.32 per share, which had all been paid as of the year-end, except for the one approved in October 2011, consisting of $3,531,362 or $0.08 per share, which was paid on January 17, 2012.

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

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