

MERCADOLIBRE INC
Form 10-Q
November 06, 2009

Table of Contents

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q**

(Mark One)

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

For the quarterly period ended September 30, 2009

-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
(State or other jurisdiction
of incorporation or organization)**

**98-0212790
(I.R.S. Employer
Identification Number)**

**Tronador 4890, 8th Floor
Buenos Aires, C1430DNN, Argentina
(Address of registrant's principal executive offices)
011-54-11-5352-8000
(Registrant's telephone number, including area code)**

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

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

(Do not check if a smaller reporting company)

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

44,114,295 shares of the issuer's common stock, \$0.001 par value, outstanding as of November 2, 2009.

**MERCADOLIBRE, INC.
INDEX TO FORM 10-Q**

<u>PART I. FINANCIAL INFORMATION</u>	2
<u>Item 1 Unaudited Condensed Consolidated Financial Statements</u>	2
<u>Condensed Consolidated Balance Sheets as of September 30, 2009 and December 31, 2008</u>	2
<u>Condensed Consolidated Statements of Income for the three-and nine-month periods ended September 30, 2009 and 2008</u>	3
<u>Condensed Consolidated Statements of Changes in Shareholders' Equity for the nine-month periods ended September 30, 2009 and 2008</u>	4
<u>Condensed Consolidated Statements of Cash Flows for the nine-month periods ended September 30, 2009 and 2008</u>	6
<u>Notes to Condensed Consolidated Financial Statements</u>	8
<u>Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	38
<u>Item 3 Qualitative and Quantitative Disclosure About Market Risk</u>	59
<u>Item 4 Controls and Procedures</u>	62
<u>PART II. OTHER INFORMATION</u>	
<u>Item 1 Legal Proceedings</u>	63
<u>Item 1A Risk Factors</u>	65
<u>Item 2 Unregistered Sales of Equity Securities and Use of Proceeds</u>	66
<u>Item 6 Exhibits</u>	67
<u>Exhibit 31.1</u>	
<u>Exhibit 31.2</u>	
<u>Exhibit 32.1</u>	
<u>Exhibit 32.2</u>	

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1 Unaudited Condensed Consolidated Financial Statements****MercadoLibre, Inc.****Condensed Consolidated Balance Sheets****As of September 30, 2009 and December 31, 2008**

	September 30, 2009 (Unaudited)	December 31, 2008 (Audited)
Assets		
Current assets:		
Cash and cash equivalents	\$ 33,332,506	\$ 17,474,112
Short-term investments	19,867,077	31,639,400
Accounts receivable, net	4,778,842	3,856,392
Funds receivable from customers	3,063,360	2,322,416
Prepaid expenses	1,041,145	426,869
Deferred tax assets	9,242,067	1,628,871
Other assets	3,067,597	2,953,164
Total current assets	74,392,594	60,301,224
Non-current assets:		
Long-term investments	24,314,404	9,218,153
Property and equipment, net	6,394,512	5,940,160
Goodwill and intangible assets, net	75,525,514	72,911,546
Deferred tax assets	2,918,816	14,270
Other assets	11,938,182	8,353,396
Total non-current assets	121,091,428	96,437,525
Total assets	\$ 195,484,022	\$ 156,738,749
Liabilities and Shareholders Equity		
Current liabilities:		
Accounts payable and accrued expenses	\$ 16,530,006	\$ 16,941,173
Funds payable to customers	27,312,514	14,727,891
Social security payable	6,608,619	4,387,943
Taxes payable	12,791,888	4,989,704
Loans payable and other financial liabilities	6,343,964	14,963,421
Provisions	88,049	299,753
Total current liabilities	69,675,040	56,309,885
Non-current liabilities:		
Social security payable	868,201	339,854
Loans payable		3,050,061
Deferred tax liabilities	5,279,199	2,556,120
Other liabilities	1,251,630	1,058,848
Total non-current liabilities	7,399,030	7,004,883

Edgar Filing: MERCADOLIBRE INC - Form 10-Q

Total liabilities	\$ 77,074,070	\$ 63,314,768
Commitments and contingencies (Note 9)		
Shareholders' equity:		
Common stock, \$0.001 par value, 110,000,000 shares authorized, 44,113,429 and 44,070,367 shares issued and outstanding at September 30, 2009 and December 31, 2008, respectively	44,114	44,071
Additional paid-in capital	120,196,731	119,807,007
Retained earnings / (Accumulated deficit)	6,370,967	(15,552,256)
Accumulated other comprehensive loss	(8,201,860)	(10,874,841)
Total shareholders' equity	118,409,952	93,423,981
Total liabilities and shareholders' equity	\$ 195,484,022	\$ 156,738,749

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

Table of Contents**MercadoLibre, Inc.****Condensed Consolidated Statements of Income****For the three- and nine-month periods ended September 30, 2009 and 2008**

	Nine Months Ended September 30, 2009 2008 (Unaudited)		Three Months Ended September 30, 2009 2008 (Unaudited)	
Net revenues	\$ 123,823,576	\$ 103,572,881	\$ 50,599,276	\$ 40,260,643
Cost of net revenues	(25,620,134)	(21,075,044)	(10,390,671)	(8,153,862)
Gross profit	98,203,442	82,497,837	40,208,605	32,106,781
Operating expenses:				
Product and technology development	(9,016,061)	(5,218,502)	(3,295,436)	(1,744,608)
Sales and marketing	(31,342,260)	(30,905,222)	(11,048,799)	(11,425,168)
General and administrative	(19,683,004)	(18,088,234)	(6,882,020)	(7,261,068)
Compensation cost related to acquisitions (Note 4)		(1,919,870)		
Total operating expenses	(60,041,325)	(56,131,828)	(21,226,255)	(20,430,844)
Income from operations	38,162,117	26,366,009	18,982,350	11,675,937
Other income (expenses):				
Interest income and other financial gains	2,112,180	1,350,068	580,343	330,139
Interest expense and other financial charges	(9,718,003)	(3,453,671)	(3,873,230)	(1,132,524)
Foreign currency loss	(2,770,725)	(5,689,938)	(3,299,938)	(2,648,584)
Other income, net		41,874		39,587
Net income before income / asset tax expense	27,785,569	18,614,342	12,389,525	8,264,555
Income / asset tax expense	(5,862,346)	(7,723,778)	(2,537,257)	(2,388,763)
Net income	\$ 21,923,223	\$ 10,890,564	\$ 9,852,268	\$ 5,875,792

	Nine Months Ended September 30, 2009 2008		Three Months Ended September 30, 2009 2008	
Basic EPS				
Basic net income per common share	\$ 0.50	\$ 0.25	\$ 0.22	\$ 0.13
Weighted average shares	44,079,171	44,255,985	44,088,936	44,290,540

Diluted EPS

Diluted net income per common share	\$	0.50	\$	0.25	\$	0.22	\$	0.13
Weighted average shares		44,130,078		44,374,124		44,138,031		44,379,682

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

Table of Contents**MercadoLibre, Inc.****Condensed Consolidated Statements of Changes in Shareholders' Equity****For the nine-month periods ended September 30, 2009 and 2008 (unaudited)**

	Comprehensive	Common stock		Additional	Treasury	Accumulated	Accumulated other	
	income	Shares	Amount	paid-in	Stock	deficit	comprehensive	Total
				capital			income	
							(loss)	
Balance as of December 31, 2007		44,226,563	44,227	\$ 121,890,138	\$	\$(34,363,917)	\$ 4,102,691	\$ 91,673,139
Stock options exercised		70,058	70	64,789				64,859
Stock-based compensation stock options				3,684				3,684
Stock-based compensation restricted shares				81,875				81,875
Stock-based compensation LTRP				132,421				132,421
Net income	\$ 10,890,564					10,890,564		10,890,564
Currency translation adjustment	(3,921,915)						(3,921,915)	(3,921,915)
Unrealized net gains on investments	3,114						3,114	3,114
Realized net gains on investments	(57,890)						(57,890)	(57,890)
Comprehensive income	\$ 6,913,873							
Balance as of September 30, 2008		44,296,621	44,297	122,172,907		(23,473,353)	126,000	98,869,851
Stock options exercised and restricted shares issued		23,446	24	18,206				18,230

Edgar Filing: MERCADOLIBRE INC - Form 10-Q

Stock-based compensation stock options				1,035				1,035
Stock-based compensation restricted shares				23,685				23,685
Stock -based compensation LTRP				189,147				189,147
Repurchase of Treasury Stock					(2,598,223)			(2,598,223)
Retirement of Treasury Stock		(249,700)	(250)	(2,597,973)	2,598,223			
Net income	\$ 7,921,097					7,921,097		7,921,097
Currency translation adjustment	(11,001,369)						(11,001,369)	(11,001,369)
Unrealized net gains on investments	528						528	528
Comprehensive income	\$ 3,834,129							
Balance as of December 31, 2008		\$ 44,070,367	\$ 44,071	\$ 119,807,007	\$	\$ (15,552,256)	\$ (10,874,841)	\$ 93,423,981

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

Table of Contents**MercadoLibre, Inc.****Condensed Consolidated Statements of Changes in Shareholders' Equity****For the nine-month periods ended September 30, 2009 and 2008 (unaudited)**

	Comprehensive	Common stock		Additional	Treasury	Accumulated	Accumulated	
	income	Shares	Amount	paid-in	Stock	deficit /	other	Total
				capital	Earnings	Retained	comprehensive	
						Earnings	income	
							(loss)	
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		28,807	29	22,501				22,530
Stock-based compensation stock options				1,312				1,312
Stock-based compensation restricted shares				52,706				52,706
Stock-based compensation LTRP				142,120				142,120
Restricted shares issued		10,655	11	171,088				171,099
LTRP shares issued		3,600	3	(3)				
Net income	\$ 21,923,223					21,923,223		21,923,223
Currency translation adjustment	2,595,788						2,595,788	2,595,788
Unrealized net gains on investments	77,193						77,193	77,193
Comprehensive income	\$ 24,596,204							
Balance as of September 30, 2009		44,113,429	\$ 44,114	\$ 120,196,731	\$	\$ 6,370,967	\$ (8,201,860)	\$ 118,409,952

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

Table of Contents**MercadoLibre, Inc.****Condensed Consolidated Statements of Cash Flows****For the nine-month periods ended September 30, 2009 and 2008**

	Nine Months Ended September	
	30,	
	2009	2008
	(Unaudited)	
Cash flows from operations:		
Net income	\$ 21,923,223	\$ 10,890,564
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,959,277	2,475,850
Interest expense	343,643	58,484
Unrealized gains on investments	(437,137)	(1,011,899)
Stock-based compensation expense - stock options	1,312	3,684
Stock-based compensation expense - restricted shares	52,706	81,875
LTRP accrued compensation	1,163,139	352,271
Deferred income taxes	(1,020,056)	(168,148)
Changes in assets and liabilities, excluding the effect of acquisitions:		
Accounts receivable	(1,537,363)	4,782,430
Funds receivable from customers	(221,236)	(8,984,163)
Prepaid expenses	(596,311)	(513,844)
Other assets	(3,078,233)	(1,358,459)
Accounts payable and accrued expenses	317,019	7,790,459
Funds payable to customers	8,169,631	4,026,062
Provisions		