

MERCADOLIBRE INC
Form 10-K
March 31, 2008
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE
ACT OF 1934**

For the fiscal year ended December 31, 2007

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)

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Delaware
(State of incorporation)

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

Tronador 4890, 8th Floor

Buenos Aires, C1430DNN, Argentina

(Address of principal executive offices)

011-54-5352-8000

(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 whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark whether the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

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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 Accelerated Filer Non-Accelerated Filer Smaller reporting company

(Do not check if 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

The aggregate market value of the registrant's Common Stock, \$0.001 par value per share, at June 30, 2007, held by those persons deemed by the registrant to be non-affiliates was approximately \$0.

As of March 17, 2008, there were 44,226,563 shares of the registrant's Common Stock, \$0.001 par value per share, outstanding.

Documents Incorporated By Reference

Portions of the Company's Definitive Proxy Statement relating to its 2008 Annual Meeting of Stockholders scheduled for June 2008 to be filed with the Securities and Exchange Commission by no later than April 30, 2008, are incorporated by reference in Part III, Items 10-14 of this Annual Report on Form 10-K as indicated herein.

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FORM 10-K

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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 and should be evaluated as such. The words anticipate, believe, expect, intend, plan, estimate, target, pro may, could, will and 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, including, among other things:

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;

system 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, and in particular, Venezuela.

Many of these risks are beyond our ability to control or predict. All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements contained throughout this report. Because of these risks, uncertainties and assumptions, you should not place undue reliance on these forward-looking statements. Furthermore, forward-looking statements speak only as of the date they are made. We do not undertake any obligation to update or review any forward-looking information, whether as a result of new information, future events or otherwise. Moreover, we operate in a very competitive and rapidly changing environment. 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. For a further discussion of these and other factors that could cause our future results to differ materially from any forward-looking statements, see the risk factors described in Item 1A herein and in other documents that we file from time to time with the Securities and Exchange Commission (SEC).

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MercadoLibre, Inc. (together with its subsidiaries us, we, our or the company) hosts the largest online trading and payments platform in Latin America, called MercadoLibre and located at www.mercadolibre.com. We are market leaders in e-commerce in each of Argentina, Brazil, Chile, Colombia, Ecuador, Mexico, Peru, Uruguay and Venezuela, based on unique visitors and page views during 2007. Additionally, we also operate online trading platforms in Costa Rica, the Dominican Republic and Panama. With a market of over 550 million people and a region with one of the world's fastest-growing Internet penetration rates, we provide buyers and sellers a robust online trading environment that fosters the development of a large and growing e-commerce community. We offer a technological and commercial solution that addresses the distinctive cultural and geographic challenges of operating an online trading platform in Latin America.

We offer our users two principal services:

The MercadoLibre marketplace: The MercadoLibre marketplace is a fully-automated, topically-arranged and user-friendly online trading 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 advertisements, our registered users can also 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.

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. During 2007, visitors to our web site were able to browse an average of over 1.4 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, 2007, we had over 24.9 million confirmed registered MercadoLibre users. For 2007 we had 2.0 million unique sellers, 5.5 million unique buyers and 17.5 million successful items sold.

History of MercadoLibre

In March of 1999, Marcos Galperín, our co-founder and Chief Executive Officer, while working towards his master's degree in business administration from Stanford Business School, wrote our business plan and 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:

	Country	Launch date	Office opening	MercadoPago
1	Argentina	August 1999	July 1999	November 2003
2	Brazil	October 1999	September 1999	January 2004
3	Mexico	November 1999	October 1999	January 2004
4	Uruguay	December 1999	September 2004	N/A
5	Colombia	February 2000	January 2000	December 2007
6	Venezuela	March 2000	March 2000	April 2005
7	Chile	March 2000	April 2000	September 2007
8	Ecuador	December 2000	N/A	N/A

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	Country	Launch date	Office opening	MercadoPago
9	Peru	December 2004	N/A	N/A
10	Costa Rica	November 2006	N/A	N/A
11	Dominican Republic	December 2006	N/A	N/A
12	Panama	December 2006	N/A	N/A

Our business is organized using the same technological platform in each country where we operate. However, we run the MercadoLibre marketplace in each country as a separate marketplace with no interaction with the marketplaces of 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 of 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 trading 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, with the termination of this agreement, there are no contractual restrictions upon eBay 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 of 2002, we acquired certain key strategic assets of *Lokau.com*, a competing Brazilian online trading platform and we incorporated all registered users of *Lokau.com* into our platform.

In November of 2005, we acquired certain operations of a regional competitor in online trading, DeRemate.com Inc., including all of its operations in Brazil, Colombia, Ecuador, Mexico, Peru, Uruguay and Venezuela and the majority of shares of its subsidiaries (except for its Argentine and Chilean subsidiaries, which operate under the control of certain previous stockholders of DeRemate), 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.

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

In January 2008, we acquired 100% of the issued and outstanding shares of capital stock of CMG, 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. The purchase price for the shares of CMG and its subsidiaries was \$19 million, subject to certain escrows and working capital adjustment.

Our strategy

We seek to serve people in Latin America by offering an online marketplace and electronic payment service 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

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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, which enables them to build businesses. At the same time, we provide payment settlement services to facilitate such transactions. More broadly, we strive to turn inefficient markets into more efficient ones and in that process we 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, and, when possible and advantageous, 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, and selling advertising and Internet marketing services on our platform. Additionally, we intend to take advantage of the natural synergies that exist between our marketplace and payments service by promoting increased use of MercadoPago so that it becomes the preferred online payment method on and off our platform.

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, advertise and increase recognition of our brand through a variety of marketing and promotional campaigns. These may include marketing agreements with companies with 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, by enhancing our e-commerce community experience, we believe we will promote 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 at fostering customer loyalty and repeated purchases, such as our MercadoLider loyalty program for high-volume sellers, our targeted and segmented direct marketing program, and MercadoPago special promotions awarding interest-free installments.

Increase operational efficiency. We believe that our business model is an advantage in competing with traditional online and offline retailers as we do not require a physical showroom or storage locations and do not actually process the orders. We plan to maximize this advantage 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 trading 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 trading 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.

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The MercadoLibre marketplace

The MercadoLibre marketplace is an Internet-based trading platform where buyers and sellers can meet, exchange information and complete e-commerce transactions for a wide range of goods and services using either a fixed-price sale or an auction-based format. The MercadoLibre marketplace also allows sellers to list motor vehicles, vessels, aircraft, real estate and services on our online classified section. 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.

The MercadoPago online payments solution

Our online payments service is called MercadoPago and is currently available to MercadoLibre users in each of Argentina, Brazil, Mexico and Venezuela and to users in Chile and Colombia who choose to register in MercadoLibre and MercadoPago or in MercadoPago only. MercadoPago was launched as an escrow product in Argentina in November of 2003 and then was gradually introduced in Brazil, Mexico and Venezuela. In September 2007 we introduced our new direct payments product in Chile and in December 2007 in Colombia. During the year ended December 31, 2007, our users paid approximately \$158.0 million for items by using MercadoPago, which represented 10.5% of our gross merchandise volume for that year. During 2006, our users paid approximately \$ 89.0 million for items by using MercadoPago, which represented 8.3% of our gross merchandise volume for that year. MercadoPago enables any individual or business registered with MercadoLibre to securely and easily send and receive payments online for MercadoLibre marketplace items.

Direct payments product

During 2007 and the first quarter of 2008, we introduced an improved version of MercadoPago, a direct payments product, in Chile (September), Colombia (December), and Argentina (February, 2008). This version of MercadoPago, which is scheduled for roll-out in Brazil, Mexico and Venezuela during 2008, eliminates the escrow component and simplifies the payment of transactions in the MercadoLibre marketplace.

The direct payments product also 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 payments offers online sellers who accept MercadoPago as a means of payment on their web sites the ability to provide to their customers a MercadoPago shopping cart that streamlines the shopping and payment processes. We believe that the ease of use, safety and efficiency that the MercadoPago shopping cart offers will allow us to generate additional business 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 in and outside of the MercadoLibre marketplace.

Direct payments offers two different types of accounts for sellers. A personal account that is available to all users and withholds payments for 14 days to ensure the security of the transaction; and a professional account available to users with good track record or who complete a credit scoring process, who may withdraw their payments two days after receiving them. We expect the majority of our high volume sellers to obtain a professional account improving the speed of the transaction versus the escrow method, in the countries where direct payments is available.

In addition to improved usability, direct payments also has a different pricing structure from the one we have for escrow. The price for purchases made in single installments will be charged to the seller as opposed to the buyer, in the case of our escrow product. The commission charged will vary by country, ranging from 6.0% to 10.0%. For purchases made in installments, the seller will continue to be charged the single installment fee, but in addition to that, the buyer will be charged between approximately 5.0% and 47.0% of the purchase price as a financing fee (depending on the country and number of installments).

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MercadoPago strategy

Our improved version of MercadoPago will seek to increase adoption and penetration of MercadoPago among MercadoLibre marketplace users. In the countries where MercadoPago was available, during 2007 approximately 48% of the MercadoLibre marketplace's listings accepted MercadoPago for payments and 10.5% of our total gross merchandise volume (excluding motor vehicles, vessels, aircraft and real estate) was completed through MercadoPago. Beyond launching direct payments, in order to strengthen MercadoPago's penetration into the online payments activity of the MercadoLibre marketplace, we will also continue our marketing efforts on our web site, further integrate MercadoPago payment options into MercadoLibre marketplace listings and develop new product features to enhance our users' experience.

We also seek to foster adoption of our new version of MercadoPago outside the MercadoLibre platform. Direct Payments will allow online sellers to use MercadoPago as to facilitate checkout and payment processes in their web site and also enable users to simply transfer money to each other.

At December 31, 2007, MercadoPago was available in local currency in each of Argentina, Brazil, Chile, Colombia, Mexico and Venezuela. We plan to gradually introduce MercadoPago in countries where it is not yet available in order to provide our users with our online payments solution and further monetize our business.

Marketing

Our marketing strategy is to promote the MercadoLibre brand and grow our platform by attracting new users and promoting more frequent trading by our existing users. To this end, we employ various means of advertising, including leading portals, our affiliates program, cable television, paid positioning in leading search engines, search engine optimization and off-line events. Our investment in online and offline marketing activities was \$9.2 million for 2005, \$13.9 million for 2006 and \$17.1 million during 2007.

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:

Negotiating and signing agreements with portals and web sites that we believe could reach our target audience. These agreements allow us to purchase online advertising positions where we can market ourselves and show our promotions to potential users.

Actively managing our MercadoSocios program, an affiliates program that financially rewards site owners for directing new users to our platform who ultimately register with and conduct transactions on MercadoLibre. The MercadoSocios program is available in all countries where we operate, except Ecuador, Uruguay, Costa Rica, Dominican Republic and Panama. With our MercadoSocios program any site owner can place a link to our web site with a pre-approved icon that we provide. 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 owner. For each new registered user that completes a transaction on our platform, we pay the site owner that directed the user to us a fee per active registered user and a percentage of the commissions that that user pays us for transactions carried out in the first 30 days after that user registered.

Investing in preferential placing 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.

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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 2007, our cable media campaign ran from April to December.

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.

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. We also participate in trade shows in order to build brand awareness and attract potential sellers.

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 trading sites. We believe these ratings are the result of the quality of our product and our marketing efforts.

Product development

At December 31, 2007, we had 129 employees on our information technology and product development staff, including those who work in our MercadoPago operations. We incurred product development expenses (including salaries) in the amount of \$2.2 million for 2005, \$3.1 million for 2006 and \$ 4.4 million for 2007. We also incurred information technology capital expenditures, including software licenses, of \$1.9 million for 2005, \$2.2 million for 2006 and \$2.3 million for 2007.

We work permanently 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 is allocated to these purposes. We strive to keep 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 the suggestions of 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 in 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 perfect 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 release improved versions to subsequent countries.

The adequate management of the MercadoLibre and MercadoPago software architecture and hardware requirements is as important as introducing more 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.

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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 this process allows us to have a greater operating capacity and strengthen 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 be familiar with the latest inventions and developments in the field.

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 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). Unlike the northern hemisphere, the first quarter of the year is 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 is partially mitigated by the countries located in the northern hemisphere, such as Colombia, Mexico and Venezuela, the slowest months of 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 a relatively low cost using commercially available software. We currently or potentially compete with a number of other companies. Our direct competitors include various online sales and auction services, including DeRemate in Chile and Argentina, MasOportunidades.com in Argentina, and a number of other small services, including those that serve specialty markets. We also compete with businesses that offer business-to-consumer online e-commerce services such as B2W in Brazil, and with shopping comparison sites, such as Buscape and Bondfaro, located throughout Latin America. In the classified market although no regional competitor exists, local players have important positions in certain significant markets such as Webmotors in Brazil, DeAutos in Argentina, and Auto Plaza in Mexico. In the payments market, few competitors have emerged. The principal players among these competitors are DineroMail and a recently launched Universo Online venture named Pag Seguro.

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

In September of 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 trading 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, with the termination of this agreement, there are no contractual restrictions upon eBay competing with us.

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 handshake logo, 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, except for Chile and Argentina, 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.

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, and Salesforce.com Inc., 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.

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The following table shows the number of our employees at December 31, 2007.

Country	Number of employees
Argentina	550
Brazil	298
Colombia	16
Chile	10
Mexico	31
Uruguay	4
Venezuela	23
Total	932

We manage operations in the remaining countries remotely and electronically 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*). 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 have attracted and retained 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 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 implemented SAP's human resources module across our business. We believe this will 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

A variety of laws, decrees and regulations govern our main activities in the countries where we operate. In Argentina, we are subject to e-commerce laws such as Resolution N°104/05 adopted by the Ministry of Economy and the Argentine Consumer Protection Agency, which establishes certain information requirements for Internet providers. We are also subject to Law N°25,326, as amended, and its corresponding regulations, which mandate the registration of databases with the Data Protection Agency and regulate, among other things, the type of information that can be collected, and how information can be used. In Brazil, we are subject to Law N°9,507, as amended, and its corresponding regulations, which establish, among other things, privacy requirements and the *Habeas Data* process, recognizes consumers' rights to access, modify and know information collected in databases. In Chile, we are subject to Law N°19,628, as amended, and its corresponding regulations, which establish, among other things, consumers' rights to access, modify and know information collected in databases. In Mexico, we are subject to the *Ley Federal de Protección al Consumidor* (Consumer Protection Federal Law), which establishes certain provisions for e-commerce transactions. We are also subject to a decree adopted on June 7, 2000 that amended and introduced provisions in the Mexican Commercial Code, Civil Federal Code and Consumer Protection Law, addressing different issues related to e-commerce, consumer affairs, digital signatures and electronic messages. In Mexico, we are also subject to law NOM-151-SCFI-2002, which establishes certain required commercial practices related to the conservation of messages with data.

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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 where we operate. We need governmental authorization to pay invoices to a foreign supplier or send money abroad only in Venezuela 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.

At May 15, 2007, the Argentine Ministry of Economy approved MercadoLibre S.A., our wholly owned Argentine subsidiary as a beneficiary of the Argentine Regime to promote the software industry. Benefits of receiving this treatment 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.

Segment and Geographic Information

For an analysis of financial information about our segments as well as our geographic areas, 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 Tronador 4890, 8th floor, Buenos Aires, Argentina, C1430DNN. Our telephone number is +54 11 5352-8000.

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, Tronador 4890, 8th floor, Buenos Aires, Argentina, C1430DNN. 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.

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. 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 constitute forward-looking statements. Please refer to the section entitled Special Note Regarding Forward-Looking Statements at the beginning of this report.

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Risks related to our business

The market for the sale of goods over the Internet is developing in Latin America, 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, however, 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 expand our operations by developing and promoting new and complementary services. We may not be able to expand 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 brand name. To expand our operations we will also need to spend significant amounts in development, operations and other resources, and we would place 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.

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, none of the countries where we operate 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. 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 operation and financial condition. In addition, legal uncertainty may negatively affect our clients' perception and use of our services.

We are not currently subject to direct government regulation in most of the countries where we operate, other than those regulations applicable to businesses 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, libel and defamation, obscenity, and personal privacy apply to online businesses. The majority of these laws were adopted before the Internet was available and, as a

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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 are 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), 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 grow, 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 of 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 use, storage and transfer of personally identifiable information about our users, especially financial information. Several jurisdictions have passed new laws in this area, and other jurisdictions are considering imposing additional restrictions. 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.

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 of 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 the Latin American countries where we operate. Even though we have implemented clear policies that are written into 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, 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

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a consequence of these transactions, 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 assure 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, which 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. In fact, various governmental regulatory agencies have already contacted us from time to time with questions about our operations and may continue to do so. 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 an enforcement action, fines or penalties. Such actions or fines could require us to restructure our business processes in ways that would harm our business, and 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, payments made during 2007 totaled \$0.1 million, we may in the future receive additional requests from users requesting reimbursement or threatening legal action against us if we do not reimburse them.

Any resulting litigation related to unpaid or undelivered purchases 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 brand name.

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.

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 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 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, an allegation of infringement could result in litigation against us.

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 Comércio Ltda., Sporloisirs S.A., Qix Skateboards Indústria e Comércio 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 Educacionais Ltda., Serasa S.A. and Botelho Industria e Distribuição Cinematográfica Ltda. While we have been largely successful to date in settling existing claims by agreeing to monitor

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the brands and have not paid any damages, the current lack of laws regarding the Internet results in great uncertainty as to the outcome of any future claims. 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.

Additionally, if the public perception were that counterfeit items are commonplace on our site, it could damage our reputation and our business.

It is also possible that third parties could bring claims against online services companies for defamation, libel, invasion of privacy, negligence, or other theories based on the nature and content of the materials disseminated through their 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, 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 to discontinuing certain services. Any such 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, 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.

We have only recently achieved profitability in a new and rapidly evolving market, and we may not continue to be profitable.

We were incorporated in Delaware in October of 1999 and commenced operations in Argentina in August of 1999, in Brazil in October of 1999, in Mexico in November of 1999 and in Uruguay in December of 1999. Our operations in the remaining Latin American countries where we operate have all been launched after January of 2000, including our launch in Costa Rica, Panama and the Dominican Republic as recently as December of 2006. Our net income and cash flow from operations were negative from the time we commenced operations in 1999 until 2004. Accordingly, we have a limited history of profits and positive cash flow operations on which to base an evaluation of our business and prospects. You must consider our prospects in light of the risks, uncertainties, expenses and difficulties that companies in their early stages of development frequently encounter, particularly companies in new and rapidly evolving markets such as online commerce. Because our business has evolved rapidly and we have a limited operating history, and an even more limited history of profit and positive cash flow, we believe that period-to-period comparisons of our operating results are not necessarily meaningful and you should not rely on them as indications of future performance.

Furthermore, as a result of our limited operating history, 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, 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.

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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 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 Miami, Florida. These systems and operations are vulnerable to damage or interruption from earthquakes, 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 Miami 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 Florida facilities, the services we provide could suffer interruptions. We currently have no plans to upgrade the Florida 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 technology 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

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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.

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 the listing, optional feature and final value fees we charge to sellers and may decrease if market conditions force us to lower such fees or if we fail to diversify our sources of revenue.

Currently our revenues depend primarily on listing, optional feature and final value fees that we charge to our sellers for listing and upon selling their items and services, which together represented 88.4% of our revenues for 2005, 85.0% for 2006 and 80.5% for 2007 (the remainder of our revenues consist of advertising revenues and MercadoPago revenues). 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 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 adversely affected.

MercadoPago is subject to similar market pressure on the commissions charged for provision of its service.

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 charged to sellers who purchase optional features, 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. The popularity of certain categories of items, such as cellular telephones, other electronics, 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.

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

Several companies that operate e-commerce web sites, such as eBay, 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 and less reliable postal and parcel services. 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, 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 engaged in an unauthorized banking business, we could be subject to liability, forced to cease doing business with residents of certain countries, or forced to change our business practices. 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, 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. 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. For 2006, MercadoPago's transaction loss arising from charge backs from unrecognized credit card payments totaled \$1.2 million, representing 1.3% of MercadoPago's total payment volume and 15.8% of net revenues of MercadoPago. For 2007, this loss totaled \$0.9 million, representing 0.6% of MercadoPago's total payment volume and 5.9% of net revenues of MercadoPago. 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)

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checks in some countries, asking users to fax extra documentation for higher risk transactions, 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 our MercadoPago business 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 new service that faces competition from other payment methods, 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 players such as DineroMail in Argentina, Chile, Colombia and Mexico, 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.

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 a new fee scale and structure for MercadoPago, in order to achieve better monetization of transactions. While we have already launched the new fee scale in Colombia and Chile, we anticipate to roll out this new fee scale to all markets where we operate during 2008. Customers may not accept this new fee structure, which could result in decreased use of MercadoPago, and therefore, have the opposite effect as the one intended. 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 payments business in Costa Rica, the Dominican Republic, Ecuador, Panama, Peru or Uruguay. In order to introduce MercadoPago in some countries we may require a close commercial relation 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.

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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 give 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 if MasterCard and/or Visa determine that users are using MercadoPago to engage in illegal or high risk activities. We must prevent high risk merchants from using MercadoPago. We have not incurred fines from MercadoPago's credit card processor relating to our failure to detect the use of MercadoPago by high risk merchants. However, in Brazil, in January of 2006 MasterCard informed us that they could not advance our receivables temporarily due to a high level of cancellations. That decision was reversed in February of the same year.

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 and Mexico, and no fees when customers fund payment transactions from an existing MercadoPago account balance. Senders funded approximately 67.2% and 72.8% of MercadoPago's payment volume using credit cards during 2006 and 2007, 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.

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 trademarks 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 in every country in which our services are made available online.

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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 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.

We filed our first three applications to register the name MercadoLivre in Brazil with the Instituto Nacional da Propriedade Industrial (the National Institute of Industrial Property, or INPI) on October 7, 1999. Editora Livre Mercado Ltda., a publishing company, challenged these three applications based on their trademark Livre Mercado, a trade magazine. These challenges are currently pending with INPI. In addition to these processes, Agência Folha de Notícias Ltda., a news company, filed an application to register the name MercadoLivre on October 7, 1999, a few hours before we filed our application. We challenged that application. We may not succeed in obtaining these trademarks or in our challenges to existing or future applications by other parties. If we are not successful, 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. We may also have to modify our brand name in certain countries if any successful demands against us are too expensive. Any of these circumstances could adversely affect our business, results of operations and financial condition.

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.

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

We also rely on certain technologies that we license from third parties, such as Oracle Corp., SAP AG, and Salesforce.com Inc., the suppliers of key database technology, the 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 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, but a few users who were banned from withdrawing funds started 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.

We may not be able to efficiently integrate CMG's operations with our business and may incur unexpected liabilities in connection with our acquisition of CMG.

On January 22, 2008, we acquired 100% of the issued and outstanding shares of capital stock of CMG and its subsidiaries. We may not be able to successfully integrate CMG's businesses or technologies, which could adversely impact our operations. Furthermore, the integration of CMG may divert our management's time and resources from our core business and disrupt our operations. We may also become responsible for unexpected liabilities that we failed or were unable to discover in the course of performing due diligence in connection with our acquisition of CMG. Any of these liabilities could have an adverse effect on our business, financial condition and results of operations.

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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, and DeRemate, and our acquisition of CMG, 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 financing is available, it might cause 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 have spent significant resources to launch and market classified advertisements on the MercadoLibre marketplace, which may not be successful in generating sufficient revenues for us.

In order to address the specific needs of buyers and sellers of motor vehicles, vessels, aircraft, real estate and services, we created classified advertisements in the MercadoLibre marketplace.

We have spent considerable resources in creating and marketing this space. However, this investment may not be successful in generating additional revenues for us and we may incur losses from offering this service. These losses could have a material adverse effect on our business, results of operations and financial condition.

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 and new competitors can launch new sites at a 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 DeRemate in Chile and Argentina, 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 B2W Inc. in Brazil and with shopping comparison sites, such as Buscap and Bondfaro, located throughout Latin America. In addition, we compete with online communities that specialize in classified advertisements. 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 trading services, searching services and classified advertising services, and certain of these companies may introduce broader online trading to their large user populations. Other large companies

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with strong brand recognition and experience in online commerce, such as large newspaper or media companies also compete in the online listing market. 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. 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.

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 trading 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

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. Government policies to preempt such civil, social and political turmoil affected the Argentine economy. 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, 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.

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

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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; import duties on information technology equipment; liquidity of domestic capital and lending markets; electricity rationing; tax policies; 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.

Latin America 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. 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. Any of these adverse economic conditions may occur again in the future, which would adversely affect 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 and Mexico, which together accounted for 87.9% of our revenues for 2006 and 86.4% for 2007, have experienced substantial depreciation and volatility, particularly against the U.S. dollar, in the past. However, certain currencies have appreciated against the U.S. dollar in recent years. For example, in 2005, 2006, and 2007, the Brazilian real appreciated against the U.S. dollar by 11.7%, 5.0% and 17.2%, respectively. 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 the public accounts and balance of payments of the countries where we operate, as well as to a lower economic growth related to exports.

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. These restrictions have been substantially eased, including those requiring the Central Bank's prior authorization for the transfer of funds abroad in order to pay principal and interest on debt obligations. 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 certain exchange control regulations in place that restrict our ability to convert local currency into U.S. dollars. Any additional imposition of exchange controls could adversely affect our company.

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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 devalue 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 and Mexico, 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 2004, 2005 and 2006, 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 foreign currencies. For 2007, 59.0% of our revenues were denominated in Brazilian reais, 14.8% in Argentine pesos and 12.6% in Mexican pesos. The foreign currency exchange rates in 2007 relative to 2006 resulted in higher net revenues of approximately \$5.8 million and an increase in aggregate cost of net revenues and operating expenses of approximately \$4.2 million. 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 impossible 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, 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.

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 23 employees who work in the country. Additionally, with the acquisition of CMG, we now have more significant operations in Venezuela. Recently, the political and economic conditions have become increasingly volatile and unstable. We cannot predict the impact of any future political and economic events on our business. Also, the Venezuelan National Assembly has granted President Hugo Chávez the power to rule by decree and allowed him the power to carry out the nationalization of certain businesses in the electricity, energy and telecommunication sectors and the Venezuelan government has already nationalized Venezuela's largest telecommunications company. 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.

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. For 2007, we incurred foreign currency loss related to Venezuelan revenue of approximately \$2.4 million, compared to approximately \$0.5 million for 2006, due to the increased costs of transferring funds out of Venezuela. 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. Recent 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.

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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' perception 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

Our common stock has limited trading history, and the price of our shares may fluctuate substantially, and our stockholders' investment may decline in value.

Our common stock commenced trading on the Nasdaq Global Market on August 10, 2007. 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.

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

Several stockholders own a significant percentage of our common stock. As of December 31, 2007, eBay owned approximately 8.1 million shares of our common stock (which represents 18.4% of our outstanding common stock as of December 31, 2007). Certain members of our management also hold a significant percentage of our common stock. Investment entities affiliated with General Atlantic LLC, collectively, General Atlantic, and investment entities affiliated with Tiger Global, L.P., collectively, Tiger, beneficially own approximately 3.9 million and 4.3 million shares of our common stock, respectively as of December 31, 2007 (which represent 8.9% and 9.8%, respectively of our outstanding common stock as of December 31, 2007). 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 shares. 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 these 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

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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.

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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 will, subject to the lock-up agreements described below, be able to sell their shares in the public market from time to time without registering them, subject to certain limitations on the timing, amount and method of those sales imposed by regulations promulgated by the Securities and Exchange Commission, or 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.

Each of General Atlantic and Tiger agreed that, in respect of the shares each purchased in our initial public offering, neither of them would, without our prior written consent, transfer or dispose of directly or indirectly, any of its shares of our common stock or securities convertible into or exchangeable into or exercisable for our shares, for a period of 18 months following the closing of our initial public offering that closed in August 2007. These agreements do not cover shares of our common stock owned by General Atlantic and Tiger that were not purchased in our initial public offering. If any of these stockholders, the affiliated entities controlled by them or their respective permitted transferees were to sell a large number of their shares, the market price of our common stock could decline significantly. In addition, the perception in the public markets that sales by them might occur could also adversely affect the market price of our common stock.

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.

It is unlikely that we will declare any dividends on our capital stock.

We have not declared or paid any cash dividends on our capital stock and do not anticipate paying any cash dividends in the foreseeable future. Instead, we intend to retain earnings, if any, for future operations and expansion and debt repayments. In addition, the terms of certain of our credit agreements prohibit the payment of cash dividends on our capital stock. Any decision to declare and pay dividends in the future will be made at the discretion of the board of directors and will depend on, among other things, our results of operations, cash requirements, financial condition, contractual restrictions and other factors that our board of directors may deem relevant.

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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 by December 31, 2008. 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 have and will continue to increase our legal and financial compliance costs and to make some activities more time-consuming and costly.

We currently take advantage of certain grace periods for newly public companies under certain of the new SEC and Nasdaq Global Market rules and regulations, which grace periods provide us a short period of time after we become a public company before we are required to be in full compliance with these rules and regulations. Our ability to satisfy the various requirements before the expiration of the applicable grace periods will depend largely on our ability to attract and retain qualified independent members of our board of directors, particularly to serve on our audit committee, which may be more difficult in light of these new rules and regulations. If we fail to satisfy the various requirements before the expiration of the applicable grace periods, our common stock may be delisted from the Nasdaq Global Market, which would cause a decline in the trading price of our common stock and impair the ability of the holders of our common stock to sell and buy our common stock in a public market.

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 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 and São Paulo, Brazil; Caracas, Venezuela; Mexico City, Mexico; Santiago, Chile and Zona America, Uruguay. Currently, all of our offices are occupied under lease agreements. Other than the Venezuelan office lease, the leases for our facilities do not provide for renewal options. After expiration of these leases, we can renegotiate the leases with our current landlords, or move to another location. The following table shows the location of our offices and centers, and the expiration date of the leases under which they operate.

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City and Country	Facility	Address	Approximate Square Meters	Lease Term
Bogotá, Colombia	Colombia operation	Calle 93 B # 17-25 Ofc.406, Bogotá, Colombia	107	April 2008
Buenos Aires, Argentina	Corporate headquarters, Argentina operation & Customer service center	Tronador 4890 floors 6th and 8th, Buenos Aires, 1430 Argentina	1,826	March 2010
Buenos Aires, Argentina	Customer service center	Av. Costanera Rafael Obligado y Geronimo Salguero, Buenos Aires, Argentina	1,740	January 2012
Caracas, Venezuela	Venezuela operation	Oficina A del Piso 5 del Centro Gerencial Mohedano, Calle Los Chaguaramos con Avenida Mohedano de la Urbanización La Castellana, Municipio Chacao, Estado Miranda, Venezuela	220	February 2008
Lithia Springs, Georgia, U.S.A.	SAVVIS Data Center	375 Riverside Parkway Lithia Springs, Georgia 30122,	9.7	April 2009
Mexico City, Mexico	Mexico operation	Ibsen 43-101, Colonia Polanco, Miguel Hidalgo, Código Postal 11650, Mexico D.F. Mexico	147	December 2008
Sterling, Virginia, U.S.A.	SAVVIS Data Center	45901 Nokes Blvd. Sterling, Virginia 20166	356	April 2008
San Luis, Argentina	Technology Development center	Av. Universitaria s/n, Ciudad de la Punta, San Luis, Argentina	158	February 2008
Santana do Parnaíba, Brazil	Brazilian Customer service center	Rua Yojiro Takaoka, 4350 Cep 06541-038 Santana do Parnaíba, São Paulo, Brazil	673	October 2009
Santiago, Chile	Chile operation	Coronel Pereira 72, oficina 301, Las Condes, Santiago, Chile	131	April 2009
São Paulo, Brazil	Brazil operation	Rua Gomes de Carvalho, 1306 Vila Olimpia, Cep 04547-005 São Paulo, Brazil	598	November 2009
Miami, Florida, U.S.A.(1)	SAVVIS Data Center	11300 N.W. 25th Street Doral, Florida 33172	8.5	March 2008
Zona America, Uruguay	Uruguay Staff	Rula 8, km 17.5 Edificio 200, local 108 Zona America, Uruguay	37	December 2008

(1) Upon the expiration of the Miami, Florida data center lease, we will move this data center to our newly leased Lithia Springs, Georgia data center.

All of our properties are leased. We do not own any properties. 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.

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, are time consuming, can result in

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costly litigation, require significant amounts of management time, can result in the diversion of significant operational resources and could 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.

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At December 31, 2007, our total reserves for proceeding-related contingencies were approximately \$0.8 million for 391 legal actions against us 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, 2007, we had 146 cases in litigation against our Brazilian subsidiary in the Brazilian ordinary courts. In addition, at December 31, 2007 our Brazilian subsidiary had more than 1,240 cases still in litigation in consumer courts, where a lawyer is not required. 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 the web site, when using MercadoPago, or when we invoiced them. We believe we have meritorious defenses to these claims and intend to continue defending them.

We do not believe that any single pending lawsuit or administrative proceeding, if adversely decided, would have a material adverse effect on our financial condition results of operations and cash flows. 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 these proceedings (see Litigation section below for more detail).

Litigation

On March 28, 2003, Qix Skateboards Indústria e Comercio Ltda., or Qix, sued MercadoLivre.com Atividades de Internet Ltda., our Brazilian subsidiary, in the 3rd Civil Court, County of Novo Hamburgo, State of Rio Grande do Sul, Brazil. Qix alleged that our Brazilian subsidiary was infringing Qix's trademarks as a result of users selling allegedly counterfeit Qix shoes through the Brazilian page of our web site, based on Brazilian Industrial Property Law (Law 9,279/96). Qix sought an order enjoining the sale of Qix-branded shoes on the MercadoLibre marketplace with a \$50,000 daily non-compliance penalty. An injunction was granted to prohibit the offer of Qix products on our platform, but the penalty was established at \$500. We appealed the decision, but the injunction was not lifted. To date, we have not received the summons for the original action because we filed an appeal challenging the jurisdiction of the court, which appeal is still pending.

On November 5, 2003, Editora COC Empreendimentos Culturais Ltda., or Editora COC, sued our Brazilian subsidiary in the 3rd Civil Court of the County of Bauru, State of São Paulo, Brazil. Editora COC alleged that our Brazilian subsidiary and an identified user were both infringing Editora COC's trademarks as a result of our users selling allegedly pirate copies of Editora's COC CD-ROMs through the Brazilian page of our web site, 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 our platform. An injunction was granted to prohibit the offer of Editora COC's products on our platform. In 2005, the court ruled against us and held that we had to pay \$3,000 and our 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. We have appealed the ruling to the relevant court of appeals.

On March 17, 2006, Vintage Denim Ltda., or Vintage, sued our 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 our web site, based on Brazilian Industrial Property Law (Law 9,279/96). Vintage sought an order enjoining the sale of Diesel-branded clothing on our 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. We appealed the decision, but the preliminary injunction was not lifted. On August 16, 2007 we presented another appeal to the Superior Court of Justice, in Brasília. Vintage filed an action requesting a permanent injunction on May 12, 2006, alleging the same facts as alleged in the preliminary injunction request. In September of 2006, a fine of \$157,000 was imposed on our Brazilian subsidiaries due to the

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alleged non-compliance of the preliminary injunction. We filed an appeal to the fine and requested its suspension pending a final adjudication on the merits. In October of 2006, the fine was suspended and on January 23, 2007, the fine was declared null and void. However, because our appeal of the preliminary injunction failed, in March of 2007, Vintage presented new petitions alleging non-compliance of the preliminary injunction granted to Vintage and requested a fine of approximately \$3.3 million against us, which represents approximately \$5,300 per defendant per day of alleged non-compliance since April 13, 2006. On July 4, 2007, the judge ordered the payment of the fine mandated in the preliminary injunction, without specifying the amount. When we are officially notified of the amount of the fine, we will present a new appeal against the application of the fine. On July 18, 2007 the judge set a conciliatory hearing for August 1, 2007. We attended the hearing but could not reach an agreement. On September, 14, 2007, the judge decided that (i) our 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. The decision maintained the injunction until such ruling is non-appealable. We presented a request that the injunction should be revoked, but it was rejected. Plaintiff presented appeal against the decision on the September 14, 2007 ruling, which appeal was published on December 11, 2007. On January 8, 2008, we presented an appeal to the Court of the State of São Paulo against the decision that maintained the injunction, and, on January 14, 2008, we presented a reply to the appeal filed by the plaintiff.

On April 6, 2006, Fallms Distribuição de Fitas Ltda., or Fallms, and 100% Nacional Distribuidora de Fitas Ltda., or 100% Nacional, sued our 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 our 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 our web site 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 our platform. An injunction was granted to prohibit the offer of Fallms, 100% Nacional and *Brasileirinhas* branded movies. We were summoned in March of 2007 and presented our defense on March 14, 2007. In June of 2007, Fallms filed a petition to increase the fine imposed in the preliminary injunction, from approximately \$200, to approximately \$530 per day of noncompliance, based on alleged non-compliance by our Brazilian subsidiary. On July 2, 2007, we presented a petition requesting the judge to revoke the preliminary injunction. On July 25, 2007 the judge revoked the preliminary injunction. On the same date, the judge decided that (i) our 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 presented a request asking for clarification of the decision, but it was rejected. On November 06, 2007, plaintiffs appealed the July 25, 2007 decision that dismissed the case, and we presented our reply to that appeal on February 1, 2008.

On March 7, 2007, Xuxa Promoções e Produções Artísticas Ltda., or Xuxa, sued our 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 our platform, and as such our 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. We appealed the injunction on July 2, 2007 and presented our defense on July 6, 2007. On December 17, 2007, both parties filed a joint petition requesting suspension of the process for 60 days until March 10, 2008, due to negotiation of a settlement of the case. On March 10, 2008, both parties presented a joint petition requesting the extension of the suspension term for 30 more days.

On June 11, 2007, Praetorium Instituto de Ensino, Pesquisas e Atividades de Extensão e Direito Ltda., or Praetorium, sued our Brazilian subsidiary in the Fourth Civil Court of the County of Belo Horizonte, State of Minas Gerais, Brazil. Praetorium alleged that our Brazilian subsidiary was infringing Praetorium's copyrights as a result of our users selling allegedly counterfeit copies of Praetorium's courses through the Brazilian page of our web site. 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 on July 11, 2007 giving us 48 hours to comply. 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

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each new product posted after July 13, 2007 containing the name of Praetorium and listed in the Brazilian page of our web site. On August 3, 2007, we appealed the preliminary injunction to the State Court of Minas Gerais and presented our defense on August 8, 2007. On November 20, 2007, the State Court of Minas Gerais rejected our request that the injunction should be suspended until judgment of the appeal. Notwithstanding, the appeal against the decision that granted the preliminary injunction is still pending.

On August 20, 2007, Sette Informações Educacionais Ltda., or Sette, sued our Brazilian subsidiary in the Fourth Civil Court of the City of Recife, State of Pernambuco, Brazil. Sette alleged that our Brazilian subsidiary was infringing its intellectual property rights as a result of users selling unauthorized copies of Sette's courses through the Brazilian web site. Sette seeks an injunction, fines, and compensatory and statutory damages. We presented our defense on October 5, 2007. On December 28, 2007, the case was settled, under an agreement to establish procedures to protect Sette's intellectual property rights based on the notice and take down of alleged infringing items listed in the Brazilian web site; no consideration was paid to plaintiff to settle the case. We filed a joint petition settling the case on January 11, 2008, which is expected to be homologated by the judge within the next few weeks.

On August 23, 2007, Serasa S.A., or Serasa, sued our 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 our 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 our Brazilian subsidiary (a) the removal of 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) the prohibition to allow in its web site 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, our Brazilian subsidiary presented the information requested. We appealed the preliminary injunction to the State Court of São Paulo and presented our defense on January 7, 2008. Serasa replied to our appeal on January 30, 2008. On March 26, 2008, we were summoned with a petition presented by Serasa alleging non-compliance with the injunction. We will present our response in the next few days.

On November 23, 2007 Botelho Indústria e Distribuição Cinematográfica Ltda., or Botelho, sued our Brazilian subsidiary in the Third Civil Court of the City of Rio de Janeiro, State of Rio de Janeiro, Brazil. Botelho alleged that our Brazilian subsidiary was infringing its intellectual property rights as a result of users selling unauthorized copies of Botelho's courses through the Brazilian web site. Botelho seeks an injunction, fines, and compensatory and statutory damages, which was not analyzed by the judge yet. On February 25, 2008 we presented arguments to give the judge support and background to analyze the requested injunction. We presented our defense on March 5, 2008.

State of São Paulo Fraud Claim

On June 12, 2007 a state prosecutor of the State of São Paulo, Brazil presented a claim against our Brazilian subsidiary. The state prosecutor alleges that our Brazilian subsidiary should be held liable for any fraud committed by sellers on the Brazilian version of our web site, or responsible for damages suffered by buyers when purchasing an item on the Brazilian version of the MercadoLibre web site. We were summoned on December, 12, 2007 and presented our defense on January 4, 2008.

City of São Paulo Tax Claim

On September 13, 2007, we paid to tax authorities in São Paulo, Brazil approximately \$1.1 million, consisting of \$1.0 million in accrued taxes and \$0.1 million in fines, related to our Brazilian subsidiary's activities in São Paulo for the period 2002 through 2004. We had reserved approximately \$1.1 million against these taxes as of December 31, 2006 so no additional provision was recorded for the payment. São Paulo tax authorities have also asserted taxes and fines against us relating to the period from 2005 to 2007 in an approximate additional amount of \$5.9 million. In January 2005 we had moved our operations to Santana de Parnaíba City, Brazil

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and began paying taxes to that jurisdiction, therefore we believe we have strong defenses to the claims of the São Paulo authorities with respect to this period. We believe the risk of loss for this period is remote, and as a result, have not reserved provisions for this claim. On August 31, 2007, we presented administrative defenses against the authorities' claim; however, their response is still pending.

Brazilian National Public Treasury Tax Claim

On March 17, 2008, our Brazilian subsidiary received a tax claim for approximately \$198,000 presented by the National Public Treasury. The notice claims non-payment of income taxes that we believe we paid, and accordingly, we consider the risk of loss for this claim to be remote. Within the next weeks we will present a defense requesting a declaration that no such taxes are due.

Trademark Claim

We filed our first three applications to register the name MercadoLivre in Brazil with the Instituto Nacional da Propriedade Industrial (the National Institute of Industrial Property, or INPI) on October 7, 1999. Editora Livre Mercado Ltda., a publishing company, challenged these three applications based on their trademark Livre Mercado, a trade magazine. These challenges are currently pending with INPI. In addition to these processes, Agência Folha de Notícias Ltda., a news company, filed an application to register the name MercadoLivre on October 7, 1999, a few hours before we filed our application. We challenged that application. However, we cannot assure you that we will succeed in obtaining these trademarks or in our challenges to existing or future applications by other parties. If we are not successful, 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. We may also have to modify our brand name in Brazil (or other jurisdictions) if any successful demands against us are too expensive. Any of these circumstances could adversely affect our business, results of operations and financial condition.

Other 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 web site. 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. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of our security holders during the fourth quarter of the fiscal year ended December 31, 2007.

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 \$.001 per share, or our common stock, trade on the Nasdaq Global Market (NASDAQ) under the symbol MELI. As of December 31, 2007, the closing price of our common stock was \$73.88 per share. As of March 1, 2008, we had approximately 54 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 and the cash distributions declared per share:

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	Closing stock price		Cash
	High	Low	dividends
			declared
			per share
2007:			
3rd quarter	\$ 41.06	\$ 18.00	
4th quarter	\$ 78.81	\$ 35.18	

Prior to our initial public offering in August 2007, there had been no public trading market for our common stock.

Recent Sales of Unregistered Securities

There were no sales of unregistered securities by us during the three-month period ending December 31, 2007.

Use of Proceeds from IPO

Our registration statement on Form S-1, as amended (Registration No. 333-142880), (the *Registration Statement*) with respect to our public offering (the *Offering*) of common stock, par value \$0.001 per share, was declared effective on August 9, 2007. We sold a total of 3,000,000 shares of common stock in the Offering and the selling stockholders sold a total of 15,488,762 shares of common stock in the Offering. The net proceeds to us of the Offering were approximately \$49.6 million. These proceeds have been used to repay a \$9.5 million outstanding loan (including interest) with eBay Inc. and the remainder is expected to be used for working capital and general corporate purposes, which have been invested in interest-bearing, investment-grade securities. See our quarterly report on Form 10-Q filed with the SEC on November 14, 2007 for a further discussion of our use of proceeds from the Offering.

Equity Compensation Plan Information

Information regarding securities authorized for issuance under the Company's equity compensation plan as of December 31, 2007 is set forth in Item 12, *Security Ownership of Certain Beneficial Owners and Management*.

Issuer Purchases of Equity Securities

We have not purchased any of our registered equity securities during the year ended December 31, 2007.

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, 2007 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.

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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.

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(in millions)	Year ended December 31,				
	2003	2004	2005	2006	2007
Statement of income data:					
Net revenues	\$ 5.6	\$ 12.7	\$ 28.2	\$ 52.1	\$ 85.1
Cost of net revenues	(1.1)	(2.5)	(6.1)	(12.1)	(19.0)
Gross profit	4.5	10.2	22.1	40.0	66.1
Operating expenses:					
Product and technology development	(1.0)	(1.3)	(2.2)	(3.1)	(4.4)
Sales and marketing	(4.9)	(9.1)	(14.7)	(23.4)	(27.6)
General and administrative	(2.1)	(3.1)	(4.4)	(8.2)	(13.2)
Total operating expenses	(8.0)	(13.5)	(21.3)	(34.6)	(45.2)
Income (loss) from operations	(3.5)	(3.3)	0.8	5.4	20.9
Other income (expenses):					
Interest income	0.2	1.2	0.4	0.5	1.6
Interest expense and other financial charges	(0.1)	(0.3)	(0.5)	(1.7)	(2.0)
Foreign currency (loss) gain	0.2	0.2	0.3	(0.4)	(3.1)
Other expenses, net			(0.3)	(1.5)	(3.0)
Net income (loss) before income and asset tax and cumulative effect of change in accounting principle	(3.2)	(2.2)	0.7	2.3	14.4
Income and asset tax (expense) benefit			1.4	(1.2)	(4.7)
Net income (loss) before cumulative effect of change in accounting principle and gain from discontinued operations	(3.2)	(2.2)	2.0	1.1	9.7
Cumulative effect of change in accounting principle			0.3		
Net income (loss)	(3.2)	(2.2)	2.4	1.1	9.7
Accretion of preferred stock	(0.5)	(0.5)	(0.5)	(0.5)	(0.3)
Net income (loss) available to common stockholders	\$ (3.7)	\$ (2.7)	\$ 1.9	\$ 0.6	\$ 9.4

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(in millions)	2003	2004	At December 31,		2006	2007
			2005			
Balance sheet data:						
Total assets	\$ 24.1	\$ 24.1	\$ 44.4		\$ 53.8	\$ 134.5
Long term debt			12.0		9.0	
Total liabilities	2.4	5.1	23.2		30.5	42.8
Net assets	21.7	19.0	21.2		23.3	91.7
Mandatorily redeemable convertible preferred stock	62.6	63.1	63.6		64.1	
Common stock	0.1	0.1	0.1		0.1	0.1
Stockholders' equity (deficit)	\$ (40.9)	\$ (44.1)	\$ (42.4)		\$ (40.7)	91.7
			Year Ended December 31,			
	2003	2004	2005		2006	2007
Earnings (loss) per share data:						
Basic net income (loss) available to common stockholders per common share	\$ (0.36)	\$ (0.21)	\$ 0.05		\$ 0.01	\$ 0.22
Diluted net income (loss) per common share			0.05			\$ 0.22
Weighted average shares(2):						
Basic	10,284,622	12,739,980	13,065,496		13,149,139	25,149,405(1)
Diluted			13,671,359			25,478,336

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- (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, 2007 were 44,226,563.

(in millions)	Year ended December 31,				
	2003	2004	2005	2006	2007
Other data:					
Number of confirmed registered users at end of period(1)	4.0	6.5	12.2	18.2	24.9
Number of confirmed new registered users during period(2)	1.5	2.5	5.7	6.0	6.7
Gross merchandise volume(3)	\$ 164.3	\$ 299.3	\$ 607.7	\$ 1,075.1	\$ 1,511.5
Number of successful items sold(4)	3.1	5.1	8.4	13.8	17.5
Total payment volume(5)	\$ 0.1	\$ 8.9	\$ 38.5	\$ 89.0	\$ 158.0
Capital expenditures	\$ 0.9	\$ 2.1	\$ 2.0	\$ 2.4	\$ 3.1
Depreciation and amortization	\$ 0.8	\$ 1.1	\$ 1.6	\$ 2.0	\$ 2.3

- (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.
(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.

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

You should read the following discussion and analysis of the financial condition and results of our operations in conjunction with our Selected financial and other 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 review of our financial presentation and accounting policies, including our critical accounting policies;

a discussion of our principal trends and results of operations for the years ended December 31, 2005, 2006, and 2007;

a discussion of 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

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a discussion of the market risks that we face.

Overview

We host the largest online trading and payments platform in Latin America focused on enabling e-commerce and its related services. Our services are designed to provide our users with mechanisms to buy, sell, pay for and collect on e-commerce transactions

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

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 ending 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 during 2007.

We offer our users two principal services:

The MercadoLibre marketplace: The MercadoLibre marketplace is a fully-automated, topically-arranged and user-friendly online trading 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 advertisements, our registered users can also 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.

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

During 2007, visitors to our web site were able to browse an average of over 1.4 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, 2007, we had 24.9 million confirmed registered MercadoLibre users. For 2007, we had 2.0 million unique sellers, 5.5 million unique buyers and 17.5 million successful items sold.

For 2007, our annual net revenues were \$85.1 million. Of those \$85.1 million in revenues approximately 81.7% were attributable to MercadoLibre marketplace listing, optional feature, final value and advertisement fees. The remaining 18.3% of revenues were attributable to MercadoPago fees. Although we discuss long-term trends in our business, it is our policy that we do 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 to grow stronger than us with short term tactics.

Table of Contents**Index to Financial Statements****Description of line items*****Net revenues***

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

We generate revenues from the MercadoLibre marketplace segment from:

listing fees;

optional feature fees;

final value fees; and

online advertising.

The MercadoLibre marketplace business generated 88.8% of our net revenues for 2005, 85.9% for 2006 and 81.7% for 2007. Of these revenues, during the year 2007, 54.0% were generated in Brazil, 16.3% in Argentina, 13.8% in Mexico, and the remainder, or 15.8%, in Venezuela, Colombia, Chile, Peru, Ecuador, Uruguay, Panama, Costa Rica and the Dominican Republic.

The following table sets forth the percentage of consolidated net revenues by country from our MercadoLibre marketplace:

(% of total MercadoLibre marketplace net revenues)	Year ended December 31,		
	2005	2006	2007
Brazil	61.2%	57.2%	54.0%
Argentina	18.7	15.7	16.3
Mexico	11.1	13.9	13.8
Other	9.0	13.3	15.8

We generate revenues from our MercadoPago payments segment by:

charging sellers (in our new payments platform, and buyers in the old system) a service fee for receiving payment through MercadoPago; and

charging buyers a financing fee in instances where they opt to finance their purchases with credit extended to them through MercadoPago.

Revenues generated by our MercadoPago business represented 11.2% our total net revenues for 2005, 14.1% for 2006 and 18.3% for 2007. These revenues were attributable to commissions charged to buyers and sellers for the use of MercadoPago.

We have a highly fragmented revenue base of customers given the large numbers of sellers and buyers who use our platforms. For 2005, 2006 and 2007, no single customer accounted for more than 10.0% of our net revenues in our MercadoLibre marketplace business or our

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MercadoPago payments business.

Our MercadoLibre marketplace is available in 12 countries (Argentina, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Mexico, Panama, Peru, Uruguay and Venezuela), and MercadoPago is available in six countries (Argentina,

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Brazil, Chile, Colombia, Mexico and Venezuela). The functional currency in each country's operations is the local currency. Therefore, our net revenues are generated in multiple foreign currencies and then translated into U.S. dollars at the average monthly exchange rate.

The following table sets forth the percentage of consolidated net revenues by country from both our MercadoLibre marketplace and MercadoPago businesses.

(% of total consolidated net revenues)	Year ended December 31,		
	2005	2006	2007
Brazil	61.9%	59.1%	59.0%
Argentina	18.2	15.1	14.8
Mexico	11.6	13.8	12.6
Other	8.3	12.1	13.6

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 5.7% of net revenues for 2005, 5.6% for 2006 and 5.9% for 2007.

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 operations fees.

Product and technology development

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

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, where we invest in deals with portals, search engines and other sites in order to attract Internet users to the MercadoLibre marketplace and turn them into confirmed registered users and active traders on our platform. Additionally, we invest a portion of our marketing budget on 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 sellers 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

Our general and administrative expenses consist primarily of salaries for management and administrative staff, fees and expenses for legal, accounting and other professional services, office space, 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.

Table of Contents**Index to Financial Statements*****Other income (expenses)***

Other income (expenses) consists of interest expense and other financial charges, interest income derived primarily from our short-term investments and cash equivalents, foreign currency gains or losses, the effect of changes in the fair value of outstanding warrants, and other non-operating results.

Income and asset tax

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

The following table summarizes the composition of our income/asset taxes for the years ending December 31, 2005 2006 and 2007.

(in millions)	Year ended December 31,		
	2005	2006	2007
Current:			
Federal	\$	\$	\$
Foreign	0.8	1.9	5.0
	0.8	1.9	5.0
Deferred:			
Federal			
Foreign	(2.2)	(0.7)	(0.1)
	(2.2)	(0.7)	(0.1)
	(1.4)	1.2	4.9
Asset Tax:			
Federal			
Foreign	0.1	0.1	(0.2)
	0.1	0.1	(0.2)
Income / asset tax expense (benefit)	\$ (1.4)	\$ 1.2	\$ 4.7

Table of Contents**Index to Financial Statements****Seasonality**

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

	Quarter Ended			
	March 31,	June 30,	September 30,	December 31,
2007				
Net Revenues	\$ 16,459,337	\$ 18,973,288	\$ 22,800,130	\$ 26,893,586
Gross profit	12,883,802	14,901,457	17,607,480	20,732,542
Net Income	994,187	590,886	2,785,474	5,322,393
Net Income per share-basic	0.02	0.01	0.07	0.13
Net Income per share-diluted	0.02	0.01	0.07	0.13
Weighted average shares				
Basic	13,375,482	13,575,158	27,538,652	41,226,563
Diluted	13,375,482	13,987,128	27,685,028	41,375,907
2006				
Net Revenues	\$ 10,989,133	\$ 12,382,750	\$ 13,224,610	\$ 15,462,397
Gross profit	8,472,837	9,633,122	10,058,051	11,809,232
Net Income / (loss)	110,342	(920,886)	37,541	1,845,086
Net Income per share-basic		(0.08)	(0.01)	0.04
Net Income per share-diluted	(*)	(*)	(*)	0.04
Weighted average shares				
Basic	13,114,575	13,140,100	13,141,676	13,141,728
Diluted	13,114,575	13,140,100	13,141,676	13,141,728

(*) For the Quarters ended March 31, June 30, and September 30, 2006 the diluted EPS is equal to the Basic EPS.

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. Unlike the northern hemisphere, the first quarter of the year is 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 is partially mitigated by the countries located in the northern hemisphere, such as Colombia, Mexico and Venezuela, the slowest months of which are the 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 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 consolidated financial statements and other disclosures filed in with this report.

Table of Contents**Index to Financial Statements*****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.

Goodwill is reviewed at least annually for impairment. Impairment of goodwill is tested at the reporting unit level by comparing the reporting unit's carrying amount, including goodwill, to the fair value of the reporting unit. The fair values of the reporting units are estimated using a combination of the income or discounted cash flows approach and the market approach, which utilizes comparable companies' data. If the carrying amount of the reporting unit exceeds its fair value, goodwill is 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.

We believe that the accounting estimate related to impairment of long lived assets and goodwill is a critical accounting estimate because it is highly susceptible to change from period to period because: (i) it requires management to make assumptions about 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. Our management's assumptions about future sales and future costs require significant judgment.

Provision for doubtful accounts

We are exposed to losses due to uncollectible accounts and credits to sellers. Provisions for these items represent our estimate of future losses based on our historical experience. Our provision for doubtful accounts amounts to \$2.9 million at December 31, 2005, \$4.6 million at December 31, 2006 and \$7.2 million at December 31, 2007. The provision for doubtful accounts is recorded as a charge to sales and marketing expenses.

The following table illustrates our bad debt charges as a percentage of net revenues for 2005, 2006 and 2007:

(in millions, except percentage)	Year ended December 31,		
	2005	2006	2007
Net revenues	\$ 28.2	\$ 52.1	\$ 85.1
Bad debt charges	3.4	6.2	6.2
Bad debt charges as a percentage of net revenues	12.1%	11.9%	7.3%

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.

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 consolidated statement of income. These estimates have been based on our assessment of the facts and circumstances 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, and we do not expect this trend to change in the future. We are currently involved in certain legal proceedings as discussed in "Business - Legal Proceedings," in Note 14 to our audited consolidated financial statements. We believe that we have meritorious defenses to the claims against us, and we will defend ourselves vigorously. However, even if successful, our defense could be costly and could divert management's time.

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If the plaintiffs were to prevail on certain claims, we might be forced to pay damages or modify our business practices. Any of these results could materially harm our business and could result in a material adverse impact on the financial position, results of operations or cash flows.

Income taxes

We are required to recognize a provision for income taxes based upon the taxable income and temporary differences 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 consolidated balance sheet.

As of December 31, 2007, our deferred tax assets amounts to \$ 18.8 million from which 33.2% correspond to our DeRemate.com acquisition, 24.7% correspond to our Brazilian operation, 25.6% to our holding company in the United States, 9.0% to our Mexican operation, 3.8% to our Argentine operation and 3.8% correspond to our operations in other countries. Our deferred tax assets are comprised mainly by loss carry forwards represented 85.2% of the total deferred tax assets. As of December 31, 2007, 37.6% of these loss carry forwards correspond to our DeRemate.com acquisition, 27.8% to our holding company in the United States, 22.6% correspond to our Brazilian operation, 8.4% to our Mexican operation and 3.6% correspond to our operations in other countries. 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, 2007, our valuation allowance amounts to \$ 15.0 millions from which 41.5% correspond to our DeRemate.com acquisition, 19.6% correspond to our Brazilian operation, 31.8% to our holding company in the United States and 7.0% correspond to our operations in other countries. 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 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. However, if net operating losses corresponding to the acquired operations of DeRemate be used before December 31, 2008, the release of that valuation allowance should reduce Goodwill. Thereafter, upon adoption of FAS 141 (R), any release related to the said valuation allowance will be allocated to net income.

The following table sets forth the effective tax rates for 2005, 2006 and 2007:

(in millions, except percentages)	Year ended December 31,		
	2005	2006	2007
Income and asset tax (expense) benefit	\$ 1.4	\$ (1.2)	\$ (4.7)
As a percentage of income before income and asset tax	205.8%	-53.7%	-32.8%

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

On January 1, 2006, we adopted Statement of Financial Accounting Standard No. 123(R), Share-Based Payment (SFAS 123(R)), which requires the measurement and recognition of compensation expense for all share-based payment awards based on estimated fair values. No stock option equity grants were made during 2007. However, on September 17, 2007 we granted our outside directors 2,000 restricted shares. In accordance to SFAS 123(R) these non-vested share awards are measured at the grant-date fair value of our shares as if they were vested and issued on the grant date. Based on the fair value of our shares at the grant date, total compensation cost for the 2,000 restricted shares awarded amounted to \$55,500. For the period ended December 31, 2007, we recognized \$15,966 of compensation expense related to these awards, which are included in operating expenses in the accompanying consolidated statements of income. Regarding the additional grants for fixed amounts of \$30,000 and \$40,000, in accordance with Statement of Financial Accounting Standards No. 150, Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity (SFAS 150) and SFAS 123(R), they are classified as liabilities in the accompanying consolidated balance sheet. For the period ended December 31, 2007, the Company recognized \$ 16,283 of compensation expense related to these awards, which are included in operating expenses in the accompanying consolidated statement of income.

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The following table summarizes information with respect to our stock option equity grants during 2006.

Grant date	Options granted	Exercise price	Fair value of common stock	Estimated fair value of stock options
January 1, 2006	17,000	\$ 1.50	\$ 2.93	\$ 2.04
July 1, 2006	2,000	\$ 6.00	\$ 8.34	\$ 5.03
October 1, 2006	4,500	\$ 6.00	\$ 9.64	\$ 6.21

We calculated the fair value of each option award on the date of grant using the Black-Scholes option pricing model. The Black-Scholes model requires the input of highly subjective assumptions, including the fair value of our common stock, volatility, risk-free interest rate and dividend yield. Since we have no history of volatility, the expected volatility is based on the historical volatilities of similar entities' common stock over the most recent period commensurate with the estimated expected term of the awards. The expected term of an award is based on the simplified method allowed by SEC-issued Staff Accounting Bulletin No. 107 (SAB No. 107), which provides supplemental implementation guidance for SFAS No. 123(R), whereby the expected term is equal to the midpoint between the vesting date and the end of the contractual term of the award. The risk-free interest rate is based on the rate on U.S. Treasury zero coupon issues with maturities consistent with the estimated expected term of the awards. We have not paid any dividends and do not anticipate paying any dividends in the foreseeable future and accordingly, use an expected dividend yield of zero.

The weighted-average grant-date fair value of stock options granted during 2006 was \$4.68 per share, using the Black-Scholes model with the following weighted-average assumptions:

Risk-free interest rates	6%
Expected term	7 years
Dividend yield	0%
Expected volatility	36%

We recognize stock-based compensation expense based on the estimated portion of the awards that are expected to vest. Stock-based compensation expense recognized for the period ended December 31, 2007 and the year ended December 31, 2006 were \$15,477 and \$33,233, respectively which consisted of stock-based compensation expense related to stock options. We did not recognize any stock-based compensation expenses in 2005. See Note 11 to our audited consolidated financial statements included elsewhere in this report for additional information.

As of December 31, 2007, total stock-based compensation expense related to non-vested stock options not yet recognized amounts to \$ 6,926 and the weighted-average period in which it is expected to be recognized is 3 years.

The fair value of our common stock at each grant date is based on internally developed valuations. We have not engaged an independent third-party valuation specialist and cannot assure you that an independent valuation firm would not determine different valuations for our common stock. We have based our internally developed valuations on our analysis of valuations of our significant subsidiaries completed by an unrelated third-party valuation specialist as of each of December 31, 2005, 2006 and 2007, complemented by internally prepared projections and analyses of our company. The valuations of the subsidiaries were prepared to perform impairment tests as required by Statement of Financial Accounting Standard No. 142 - Goodwill and Other Intangible Assets. We believe that a combination of these independent valuations and the experience of our internal accounting staff produced reasonable valuations of the fair value of our common stock.

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The difference between our estimate of the fair value of our common stock as of October 2006 and our \$18.00 initial public offering price in August 2007 related to improvements in our financial performance, improved prospects as we increase in size and scope, appreciation of the currencies in the countries in which we operate versus the U.S. dollar resulting in increased revenues and profits measured in U.S. dollars, and other factors that were relevant in setting initial our public offering price in August 2007 but that were not necessarily considered in the determination of the fair value of our common stock pursuant to SFAS 123(R), such as improved multiples of comparable publicly-traded companies and then prevailing market conditions for public offerings of equity securities. The fair value of our common stock at the October 1, 2006 grant date, was \$9.64 per share. Factors affecting our October 2006 estimate of the fair value of our common stock pursuant to SFAS 123(R) that we had not considered in setting our initial public offering price in August 2007 include: (1) a discount rate of 19.2% applied in October 2006 versus a rate of 16.0% that we would have applied if we were to perform the same analysis as of the date of the initial public offering prospectus (the reduced applicable rate resulting primarily from lower current interest rates in the countries in which we operate and the lower estimated risk associated with our company given our increased profitability and scale of operations since October 2006), (2) the fact that the October 2006 discounted cash flow model had a starting date nine months or more prior to the one that would be applied if we were to have performed the same analysis as of the date of the initial public offering prospectus, which starting dates have a substantial impact on valuation in a business with significantly increasing profitability like ours, (3) a 10.0% discount related to the lack of liquidity of our shares of common stock in October 2006 and (4) an approximately 8.0% discount related to the negative effect of preferred stock liquidation preferences (upon completion of our initial public offering in August 2007, all of our outstanding shares of preferred stock were converted into shares of common stock).

As noted above, on September 17, 2007, our board of directors granted awards amounting to 2,000 restricted shares to our outside directors as described in Compensation Discussion and Analysis. According to SFAS 123(R), these awards are valued at the grant date fair value of our common stock.

Recent accounting pronouncements***Fair Value Measurements***

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS 157). The changes to current practice resulting from the application of SFAS 157 relate to the definition of fair value, the methods used to estimate fair value, and the requirement for expanded disclosures about estimates of fair value. The definition of fair value retains the exchange price notion in earlier definitions of fair value. SFAS 157 clarifies that the exchange price is the price in an orderly transaction between market participants to sell the asset or transfer the liability in the market in which the reporting entity would transact for the asset or liability. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. We are currently analyzing the impact that the adoption of SFAS 157 will have on our consolidated financial statements.

Fair value for Financial Assets and Liabilities

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115 (SFAS 159) which is effective for fiscal years beginning after November 15, 2007. This statement permits an entity to choose to measure many financial instruments and certain other items at fair value at specified election dates. Subsequent unrealized gains and losses on items for which the fair value option has been elected will be reported in earnings. We are currently analyzing the impact that the adoption of SFAS 159 will have on our consolidated financial statements.

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Business Combinations

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

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

Noncontrolling Interests in Consolidated Financial Statements

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

Fair Value of Stock Options

On December 27, 2007, the Securities and Exchange Commission issued staff accounting bulletin No. 110 (SAB No. 110) expresses the views of the staff regarding the use of a simplified method, as discussed in SAB No. 107 (SAB 107), in developing an estimate of expected term of plain vanilla share options in accordance with Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment*. In particular, the staff indicated in SAB 107 that it will accept a company's election to use the simplified method, regardless of whether the company has sufficient information to make more refined estimates of expected term. At the time SAB 107 was issued, the staff believed that more detailed external information about employee exercise behavior (e.g., employee exercise patterns by industry and/or other categories of companies) would, over time, become readily available to companies. Therefore, the staff stated in SAB 107 that it would not expect a company to use the simplified method for share option grants after December 31, 2007. The staff understands that such detailed information about employee exercise behavior may not be widely available by December 31, 2007. Accordingly, the staff will continue to accept, under certain circumstances, the use of the simplified method beyond December 31, 2007. We are currently analyzing whether to adopt the provisions of SAB110.

Recent acquisitions

On January 22, 2008, we acquired 100% of the issued and outstanding shares of capital stock of 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. The purchase price for the shares of CMG and its subsidiaries was \$19 million, subject to certain escrows and a working capital adjustment.

In November of 2005, we acquired certain operations of a regional competitor in online trading, DeRemate.com Inc., including all of its operations in Brazil, Colombia, Ecuador, Mexico, Peru, Uruguay and Venezuela and the majority of shares of its subsidiaries (except for its Argentine and Chilean subsidiaries, which continue to operate under the control of certain previous stockholders of DeRemate.com Inc.), 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.

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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)	Year ended December 31,		
	2005	2006	2007
Statement of income data:			
Net revenues	\$ 28.2	\$ 52.1	\$ 85.1
Cost of net revenues	(6.1)	(12.1)	(19.0)
Gross profit	22.1	40.0	66.1
Operating expenses:			
Product and technology development	(2.2)	(3.1)	(4.4)
Sales and marketing	(14.7)	(23.4)	(27.6)
General and administrative	(4.4)	(8.2)	(13.2)
Total operating expenses	(21.3)	(34.6)	(45.2)
Income from operations	0.8	5.4	20.9
Other income (expenses):			
Interest income	0.4	0.5	1.6
Interest expense and other financial charges	(0.5)	(1.7)	(2.0)
Foreign currency gain	0.3	(0.4)	(3.1)
Other expenses, net	(0.3)	(1.5)	(3.0)
Net income before income and asset tax and cumulative effect of change in accounting principle	0.7	2.3	14.4
Income and asset tax (expense) benefit	1.4	(1.2)	(4.7)
Net income before cumulative effect of change in accounting principle	2.0	1.1	9.7