MERCADOLIBRE INC

FORM 10-Q
(Quarterly Report)

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 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)

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

Tronador 4890, 8 th Floor
Buenos Aires, C1430DNN, Argentina
(Address of registrant's principal executive offices)

011-54-11-5352-8000
(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☒

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

44,226,563 shares of the issuer’s common stock, $0.001 par value, outstanding as of September 14, 2007

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Mercadolibre Inc.
Consolidated Balance Sheets
As of September 30, 2007 and December 31, 2006

PART I. FINANCIAL INFORMATION

Item 1 – Unaudited condensed consolidated financial statements

	September 30, 2007 (Unaudited)	December 31, 2006 (Audited)
Assets		
Current assets:		
Cash and cash equivalents	$ 14,535,980	$ 7,143,027
Short-term investments	48,373,617	6,320,656
Accounts receivable	2,499,780	1,983,003
Funds receivable from customers	17,216,572	10,188,712
Prepaid expenses	590,898	333,570
Deferred tax assets	2,185,423	2,904,558
Other current assets	678,950	246,352
Total current assets	86,081,220	29,119,878
Non-current assets:		
Long-term investments	1,459,271	—
Property and equipment, net	4,171,087	2,931,470
Goodwill and intangible assets, net	23,018,001	21,342,315
Deferred tax assets	561,085	390,820
Other assets	167,877	28,089
Total non-current assets	29,377,321	24,692,694
Total assets	$115,458,541	$ 53,812,572
Liabilities and Shareholders' Equity (Deficit)		
Current liabilities:		
Accounts payable and accrued expenses	$ 7,818,585	$ 5,708,682
Funds payable to customers	12,498,257	9,085,013
Social security payable	3,622,343	2,722,874
Taxes payable	2,001,754	1,735,975
Loans payable	3,050,580	97,527
Provisions	36,100	310,848
Total current liabilities	29,027,619	19,660,919
Non-current liabilities:		
Loans payable	—	9,000,000
Other liabilities	948,406	1,803,315
Total non-current liabilities	948,406	10,803,315
Total liabilities	29,976,025	30,464,234
Commitments and contingencies (Note 9)		
Mandatorily redeemable convertible preferred stock, $0.01 par value, 45,600,000 shares authorized, 27,187,838 shares issued and outstanding at December 31, 2006; liquidation amount: $78,334,161 at December 31, 2006	—	64,076,545
Shareholders' equity (deficit):		
Common stock, $0.001 and $0.01 par value, 108,800,000 shares authorized, 44,226,563 and 13,166,982 shares issued and outstanding at September 30, 2007 and December 31, 2006	44,227	131,670
Additional paid-in capital	121,881,108	2,694,404
Accumulated deficit	(39,686,310)	(44,054,817)
Accumulated other comprehensive income	3,243,491	500,536
Total shareholders' equity (deficit)	85,482,516	(40,728,207)
Total liabilities, mandatorily redeemable convertible preferred stock and shareholders' equity (deficit)	$115,458,541	$ 53,812,572

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

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Mercadolibre Inc.
Consolidated Statements of Operations
For the three- and nine-month periods ended September 30, 2007 and 2006

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2007	2006	2007	2006
	(Unaudited)			
Net revenues	$ 58,232,755	$ 36,596,493	$ 22,800,130	$ 13,224,610
Cost of net revenues	(12,840,016)	(8,432,483)	(5,192,650)	(3,166,559)
Gross profit	45,392,739	28,164,010	17,607,480	10,058,051
Operating expenses:				
Product and technology development	(3,157,033)	(2,251,767)	(1,154,317)	(782,097)
Sales and marketing	(19,629,001)	(16,647,142)	(6,982,476)	(6,057,976)
General and administrative	(8,970,232)	(5,894,455)	(3,483,918)	(2,071,974)
Total operating expenses	(31,756,266)	(24,793,364)	(11,620,711)	(8,912,047)
Income from operations	13,636,473	3,370,646	5,986,769	1,146,004
Other income (expenses):				
Interest income	872,207	177,819	352,968	82,530
Interest expense and other financial charges	(1,217,569)	(1,277,329)	(390,029)	(469,535)
Foreign currency loss	(1,806,520)	(118,481)	(802,348)	(54,793)
Other expenses, net	(3,006,416)	(1,342,048)	(960,358)	(237,682)
Net income before income / asset tax expense	8,478,175	810,607	4,187,002	466,524
Income / asset tax expense	(4,107,628)	(1,583,610)	(1,401,528)	(428,983)
Net income (loss)	$ 4,370,547	$ (773,003)	$ 2,785,474	$ 37,541
Accretion of preferred stock	(309,299)	(371,158)	(61,860)	(123,719)
Net income / (loss) available to common shareholders	$ 4,061,248	$ (1,144,161)	$ 2,723,614	$ (86,178)
Basic EPS				
Basic net income / (loss) available to common shareholders per common share	$ 0.10	$ (0.09)	$ 0.07	$ (0.01)
Weighted average shares	18,214,978	13,132,216	27,538,652	13,141,676
Diluted EPS				
Diluted net income per common share	$ 0.10		$ 0.07	
Weighted average shares	18,608,181		27,685,028	

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

Mercadolibre Inc.
Consolidated Statements of Changes in Shareholders' Equity (Deficit)
For the nine-month periods ended September 30, 2007 and 2006 (unaudited)

	Comprehensive income	Common stock		Additional paid-in capital	Preferred stock warrants	Accumulated deficit	Accumulated other comprehensive income (loss)	Total
		Shares	Amount					
Balance as of December 31, 2005		13,095,863	$130,959	$3,149,663	$ —	$(45,126,900)	$ (560,542)	$(42,406,820)
Stock options exercised		45,813	458	5,940				6,398
Stock-based compensation—stock options				23,367				23,367
Accretion of mandatorily redeemable convertible preferred stock				(371,158)				(371,158)
Net loss	(773,003)					(773,003)		(773,003)
Currency translation adjustment	639,608						639,608	639,608
Unrealized net gains on investments	72,925						72,925	72,925
Comprehensive loss	(60,470)							
Balance as of September 30, 2006		13,141,676	$131,417	$2,807,812	$ —	$(45,899,903)	$ 151,991	$(42,808,683)
Stock options exercised		25,306	253	456				709
Stock-based compensation—stock options				9,856			9,856	
Accretion of mandatorily redeemable convertible preferred stock				(123,720)				(123,720)
Net income	1,845,086						1,845,086	1,845,086
Currency translation adjustment	503,234						503,234	503,234
Unrealized net gains on investments	29,405						29,405	29,405
Realized net gain on investments	(184,094)						(184,094)	(184,094)
Comprehensive income	2,193,631							
Balance as of December 31, 2006		13,166,982	$131,670	$2,694,404	$ —	$(44,054,817)	$ 500,536	$(40,728,207)

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

Mercadolibre Inc.
Consolidated Statements of Changes in Shareholders' Equity (Deficit)
For the nine-month periods ended September 30, 2007 and 2006 (unaudited)

	Comprehensive income	Common stock Shares	Common stock Amount	Additional paid-in capital	Preferred stock warrants	Accumulated deficit	Accumulated other comprehensive income (loss)	Total
Balance as of December 31, 2006		13,166,982	$ 131,670	$ 2,694,404	$ —	$(44,054,817)	$ 500,536	$(40,728,207)
Shares issued in 2000 and 2001 (1)		204,000	2,040	$ —		(2,040)		—
Stock options exercised		483,470	4,835	33,744				38,579
Stock-based compensation—stock options				20,434				20,434
Stock-based compensation—restricted shares				1,977				1,977
Accretion of mandatorily redeemable convertible preferred stock				(309,299)				(309,299)
Change in par value of common stock			(124,690)	124,690				—
Issuance of common stock		3,000,000	3,000	49,570,239				49,573,239
Conversion of mandatorily redeemable convertible preferred stock into common stock		27,187,838 27,188	64,358,656					64,385,844
Reclassification of warrants					4,636,456			4,636,456
Exercise of warrants		184,273	184	5,386,263	(4,636,456)			749,991
Net income	4,370,547					4,370,547		4,370,547
Currency translation adjustment	2,898,994						2,898,994	2,898,994
Unrealized net gains on investments	69,236						69,236	69,236
Realized net gain on investments	(225,275)						(225,275)	(225,275)
Comprehensive income	7,113,502							
Balance as of September 30, 2007		44,226,563	$ 44,227	$121,881,108	$ —	$(39,686,310)	$ 3,243,491	$ 85,482,516

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

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

Mercadolibre Inc.
Consolidated Statements of Cash Flows
For the nine-month periods ended September 30, 2007 and 2006

	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
	(Unaudited)	
Cash flows from operations:		
Net income (loss)	$ 4,370,547	$ (773,003)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	1,667,918	1,481,106
Interest expense	—	637,000
Realized gains on investments	(362,891)	—
Unrealized gains on investments	(244,676)	(17,749)
Stock-based compensation expense—stock options	20,434	23,367
Stock-based compensation expense—restricted shares	1,977	—
Change in fair value of warrants	3,045,992	1,143,678
Deferred income taxes	511,589	56,082
Changes in assets and liabilities:		
Accounts receivable	(516,777)	240,834
Funds receivable from customers	(7,027,860)	(3,132,463)
Prepaid expenses	(257,328)	(263,290)
Other assets	(572,386)	(625,929)
Accounts payable	3,275,151	3,232,579
Funds payable to customers	3,413,244	2,219,247
Provisions	(274,748)	(707,953)
Other liabilities	638,721	147,217
Net cash provided by operating activities	7,688,907	3,660,723
Cash flows from investing activities:		
Purchase of investments	(49,916,141)	(2,875,665)
Proceeds from sale of investments	6,892,718	—
Purchase of intangible assets	(47,461)	(258,790)
Purchases of property and equipment	(2,061,477)	(1,423,942)
Net cash used in investing activities	(45,132,361)	(4,558,397)
Cash flows from financing activities:		
Increase in short term debt	3,049,886	1,911
Loans paid	(9,000,000)	—
Stock options exercised	38,579	6,398
Exercise of Warrants	749,991	—
Issuance of common stock	49,573,239	—
Net cash provided by financing activities	44,411,695	8,309
Effect of exchange rate changes on cash and cash equivalents	424,712	140,908
Net increase (decrease) in cash and cash equivalents	7,392,953	(748,457)
Cash and cash equivalents, beginning of year	7,143,027	8,979,838
Cash and cash equivalents, end of period	$ 14,535,980	$ 8,231,381

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

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Mercadolibre Inc.
Consolidated Statements of Cash Flows
For the nine-month periods ended September 30, 2007 and 2006

	Nine Months Ended September 30, 2007	2006
	(Unaudited)	
Supplemental cash flow information:		
Cash paid for interest	$ 495,833	$ —
Cash paid for income taxes	$ 3,463,724	$ 1,336,001
Non-cash financing activities:		
Accretion of preferred stock	$ 309,299	$ 371,158
Conversion of mandatorily redeemable convertible preferred stock into common stock	$ 64,385,844	$ —
Reclassifications of warrants	$ 4,636,456	$ —

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

Mercadolibre Inc.
Notes to Condensed Consolidated Financial Statements (unaudited)

1. Nature of Business

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

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

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

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

In 2004, the Company introduced an online classified advertisements service platform for motor vehicles, vessels and aircrafts. Buyers usually require a physical inspection of these items or specific types of interaction before completing a transaction, and therefore a classified advertisements service is better suited for these types of items than the traditional online purchase method. For these items, buyers can search by make, model, year and price, and sellers can list their phone numbers and receive prospective buyers’ e-mail addresses, in order to allow for instant and direct communication between sellers and potential buyers. During 2005, the classified advertisements service platform was expanded to include real estate.

1. Nature of Business (Continued)

During 2006, the Company launched several initiatives to improve its platform, and expand its reach. Particularly relevant were the launch of a new platform for eShops, to attract lower rotation items and increase the breadth of products offered, the introduction of user generated information guides for buyers, that improve the shopping experience, and the expansion of the online classifieds model by adding a services category. In terms of geographic expansion, the Company launched sites in Costa Rica, the Dominican Republic, and Panama.

In August 2007, the Company successfully completed its registration process with the United States Securities and Exchange Commission. See more details in Note 10.

As of September 30, 2007, the Company, through its wholly owned subsidiaries, operated online trading platforms directed towards Argentina, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Mexico, Panama, Peru, Uruguay and Venezuela, and online payments solutions directed towards Argentina, Brazil, Chile, Mexico and Venezuela.

2. Summary of Significant Accounting Policies

Basis of presentation

The accompanying condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany transactions and balances have been eliminated. Substantially all revenues and operating costs are generated in the Company's foreign operations, amounting to approximately 99% and 99% of the consolidated totals during the nine-month periods ended September 30, 2007 and 2006, respectively. Long-lived assets located in the foreign operations totaled $25,139,732 and $22,602,151 as of September 30, 2007 and December 31, 2006, respectively. Cash and cash equivalents as well as short-term investments, totaling $62,909,597 and $13,463,683 at September 30, 2007 and December 31, 2006, respectively, are mainly located in the United States.

These unaudited interim financial statements reflect the Company's consolidated financial position as of September 30, 2007 and December 31, 2006. These statements also show the Company's consolidated statement of operations, its consolidated statement of shareholders' equity (deficit) and its consolidated statement of cash flows for the nine months ended September 30, 2007 and 2006. These statements include all normal recurring adjustments that management believes are necessary to fairly state the Company's financial position, operating results and cash flows. Because all of the disclosures required by generally accepted accounting principles in the United States of America for annual consolidated financial statements are not included herein, these interim financial statements should be read in conjunction with the audited financial statements and the notes thereto for the year ended December 31, 2006, included in the Company's Registration Statement on Form S-1 filed with the Securities and Exchange Commission on May 11, 2007. The condensed consolidated statements of income, shareholders' equity (deficit) and cash flows for the periods presented are not necessarily indicative of results expected for any future period.

2. Summary of Significant Accounting Policies (Continued)

Taxes on revenues

The Company subsidiaries in Brazil, Argentina, Venezuela and Colombia are subject to certain taxes on revenues which are classified as cost of revenues. Taxes on revenues totaled $1,354,203 and $744,610 for the three-month periods ended September 30, 2007 and 2006, respectively. Taxes on revenues totaled $3,399,375 and $2,074,378 for the nine-month periods ended September 30, 2007 and 2006, respectively.

Use of estimates

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

Uncertainty in Income Taxes

On January 1, 2007 the Company adopted Interpretation No. 48, "Accounting for Uncertainty in Income Taxes – An Interpretation of FASB Statement No. 109" ("FIN 48"). This interpretation clarifies the accounting for uncertain tax positions recognized in a company's financial statements in accordance with Statement 109. FIN 48 prescribes a more likely than not recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on de-recognition, classification of a liability for unrecognized tax benefits, accounting for interest and penalties, accounting in interim periods, and expanded income tax disclosures. The adoption of FIN 48 had no significant impact on the Company's condensed consolidated financial statements.

The Company is subject to taxation in the U.S. and various foreign jurisdictions. The material jurisdictions that are subject to examination by tax authorities for tax years after 2002 primarily include the U.S., Argentina, Brazil and Mexico.

Recent Accounting Pronouncements

1. 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. The Company is currently analyzing the impact that the adoption of SFAS 157 will have on the Company's consolidated financial statements.

2. Summary of Significant Accounting Policies (Continued)

Recent Accounting Pronouncements (Continued)

2. 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. The Company is currently analyzing the impact that the adoption of SFAS 159 will have on the Company’s consolidated financial statements.

3. Net income / (loss) per share

Basic earnings (losses) per share for the Company’s common stock is computed by dividing net income / (loss) available to common shareholders attributable to common stock for the period by the weighted average number of common shares outstanding during the period.

Net income / (loss) available to common shareholders is computed by deducting from net income (or by increasing net loss) accretion of preferred stock.

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

Diluted earnings per share for the Company’s common stock assume the exercise of outstanding stock options under the Company’s stock based employee compensation plans. For diluted earnings per common share, net income was also allocated between common stock and preferred stock under the “two class method” because assuming that mandatorily redeemable convertible preferred stock is fully converted into common stock would result in the same dilutive effect.

3. Net income / (loss) per share (Continued)

The following table shows how net income is allocated using the two-class method for earnings per common share, for the three-month periods ended September 30, 2007 and 2006:

	Three Months Ended September 30,		
	2007		2006
	Basic	Diluted	Basic and Diluted
Net income	$2,785,474	$2,785,474	$ 37,541
Accretion of preferred stock	(61,860)	(61,860)	(123,719)
Net income (loss) available to common shareholders	$2,723,614	$2,723,614	$ (86,178)
Net income available to common shareholders attributable to preferred stock	(900,128)	(894,939)	—
Net income (loss) available to common shareholders attributable to common stock	$1,823,486	$1,828,675	$ (86,178)

The following table shows how net income is allocated using the two-class method for earnings per common share, for the nine-month periods ended September 30, 2007 and 2006:

	Nine Months Ended September 30,		
	2007		2006
	Basic	Diluted	Basic and Diluted
Net income / (loss)	$ 4,370,547	$ 4,370,547	$ (773,003)
Accretion of preferred stock	(309,299)	(309,299)	(371,158)
Net income (loss) available to common shareholders	$ 4,061,248	$ 4,061,248	$(1,144,161)
Net income available to common shareholders attributable to preferred stock	(2,249,087)	(2,219,379)	—
Net income (loss) available to common shareholders attributable to common stock	$ 1,812,161	$ 1,841,869	$(1,144,161)

Mercadolibre Inc.
Notes to Condensed Consolidated Financial Statements (unaudited)

3. Net income / (loss) per share (Continued)

Net income / (loss) per share of common stock is as follows for the three-month periods ended September 30, 2007 and 2006:

	Three Months Ended September 30,		
	2007		2006
	Basic	Diluted	Basic and Diluted
Net income / (loss) available to common shareholders per common share	$ 0.07	$ 0.07	$ (0.01)
Numerator:			
Net income / (loss) available to common shareholders	$ 1,823,486	$ 1,828,675	$ (86,178)
Denominator:			
Weighted average of common stock outstanding for Basic earnings per share	27,538,652	27,538,652	13,141,676
Adjustment for stock options	—	146,376	—
Adjusted weighted average of common stock outstanding for Diluted earnings per share	27,538,652	27,685,028	13,141,676

Net income / (loss) per share of common stock is as follows for the nine-month periods ended September 30, 2007 and 2006:

	Nine Months Ended September 30,		
	2007		2006
	Basic	Diluted	Basic and Diluted
Net income / (loss) available to common shareholders per common share	$ 0.10	$ 0.10	$ (0.09)
Numerator:			
Net income / (loss) available to common shareholders	$ 1,812,161	$ 1,841,869	$ (1,144,161)
Denominator:			
Weighted average of common stock outstanding for Basic earnings per share	18,214,978	18,214,978	13,132,216
Adjustment for stock options	—	393,203	—
Adjusted weighted average of common stock outstanding for Diluted earnings per share	18,214,978	18,608,181	13,132,216

3. Net income / (loss) per share (Continued)

The calculation of diluted net income / (loss) per share excludes all anti-dilutive shares. For the three- and nine-month periods ended September 30, 2007 and 2006, the numbers of anti-dilutive shares are as follows:

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2007	2006	2007	2006
Anti-dilutive shares				
Warrants	153,223	184,272	92,136	184,272
Restricted shares	2,000	—	2,000	—
Options	—	664,307	—	653,856
	155,223	848,579	94,136	838,128

4. Goodwill and Intangible Assets

The composition of goodwill and intangible assets is as follows:

	September 30, 2007	December 31, 2006
Indefinite lived assets		
—Goodwill	$22,481,072	$20,572,792
Amortizable intangible assets		
—Trademarks & Licenses	1,367,383	1,333,321
—Non-compete agreement	704,225	605,706
—Customer list	581,346	524,172
Total intangible assets	$25,134,026	$23,035,991
Accumulated amortization	(2,116,025)	(1,693,676)
	$23,018,001	$21,342,315

Goodwill

The changes in the carrying amount of goodwill for the nine-month periods ended September 30, 2007 and the year ended December 31, 2006, are as follows:

	Nine Months Ended September 30, 2007			
	Marketplaces			
	Brazil	Mexico	Other Countries	Total
Balance, beginning of period	$10,233,062	$4,911,840	$ 5,427,890	$20,572,792
—Effect of exchange rates changes	1,664,424	(20,151)	264,007	1,908,280
Balance, end of period	$11,897,486	$4,891,689	$ 5,691,897	$22,481,072

4. Goodwill and Intangible Assets (Continued)

Goodwill (Continued)

	Year Ended December 31, 2006			
	Marketplaces			
	Brazil	Mexico	Other Countries	Total
Balance, beginning of year	$ 9,346,899	$4,987,323	$ 5,323,575	$19,657,797
—Effect of exchange rates changes	886,163	(75,483)	104,315	914,995
Balance, end of year	$10,233,062	$4,911,840	$ 5,427,890	$20,572,792

Amortizable intangibles assets

Amortizable intangible assets are comprised of customer lists and user base, trademarks and trade names, acquired software licenses and other acquired intangible assets including a non-compete agreement and developed technologies. Aggregate amortization expense for intangible assets totaled $92,775 and $122,078 for the three-month periods ended September 30, 2007 and 2006, respectively. Aggregate amortization expense for intangible assets totaled $287,574 and $367,476 for the nine-month periods ended September 30, 2007 and 2006, respectively.

Expected future intangible asset amortization from acquisitions completed as of September 30, 2007 is as follows:

For year ended 12/31/2007 (remaining three months)	$ 95,324
For year ended 12/31/2008	239,090
For year ended 12/31/2009	126,408
Thereafter	76,107
	$536,929

5. Segments

Reporting segments are based upon the Company's internal organization structure, the manner in which the Company's operations are managed, the criteria used by the Company's chief operating decision-maker to evaluate segment performance, the availability of separate financial information, and overall materiality considerations.

The Marketplace segments include Brazil, Argentina, Mexico and Other countries (Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Panama, Peru, Uruguay and Venezuela) online marketplaces commerce platforms. The Payments segment includes the Company's regional payments platform consisting of MercadoPago.

Mercadolibre Inc.
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5. Segments (Continued)

Direct contribution consists of revenues less direct costs. Direct costs include specific costs of net revenues, sales and marketing expenses, and general and administrative expenses over which segment managers have direct discretionary control, such as advertising and marketing programs, customer support expenses, bank charges, allowances for doubtful accounts, authorized credits and transaction losses.

Expenses over which segment managers do not currently have discretionary control, such as certain technology and general and administrative costs, are monitored by management through shared cost centers and are not evaluated in the measurement of segment performance.

The following tables summarize the financial performance of the Company's reporting segments:

	Three Months Ended September 30, 2007						
	Marketplaces						
	Brazil	Argentina	Mexico	Other Countries	Total	Payments	Consolidated
Net revenues	$ 9,735,433	$ 3,117,546	$ 2,480,155	$ 2,809,492	$ 18,142,626	$ 4,657,504	$ 22,800,130
Direct costs	(6,275,225)	(1,488,304)	(1,699,950)	(1,438,725)	(10,902,204)	(3,196,955)	(14,099,159)
Direct contribution	3,460,208	1,629,242	780,205	1,370,767	7,240,422	1,460,549	8,700,971
Operating expenses and indirect costs of net revenues							(2,714,202)
Income from operations							5,986,769
Other income (expenses):							
Interest income							352,968
Interest expense and other financial results							(390,029)
Foreign exchange							(802,348)
Other expenses, net							(960,358)
Net income before income / asset tax expense							$ 4,187,002

	Three Months Ended September 30, 2006						
	Marketplaces						
	Brazil	Argentina	Mexico	Other Countries	Total	Payments	Consolidated
Net revenues	$ 6,254,917	$ 1,966,340	$ 1,577,906	$ 1,499,079	$11,298,242	$ 1,926,368	$ 13,224,610
Direct costs	(4,684,170)	(1,249,097)	(1,339,453)	(1,188,705)	(8,461,425)	(1,731,912)	(10,193,337)
Direct contribution	1,570,747	717,243	238,453	310,374	2,836,817	194,456	3,031,273
Operating expenses and indirect costs of net revenues							(1,885,269)
Income from operations							1,146,004
Other income (expenses):							
Interest income							82,530
Interest expense and other							

financial results	(469,535)
Foreign exchange	(54,793)
Other expenses, net	(237,682)
Net income before income / asset tax expense	$ 466,524

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Mercadolibre Inc.
Notes to Condensed Consolidated Financial Statements (unaudited)

5. Segments (Continued)

	Nine Months Ended September 30, 2007						
	Marketplaces						
	Brazil	Argentina	Mexico	Other Countries	Total	Payments	Consolidated
Net revenues	$ 26,306,517	$ 7,859,816	$ 6,917,780	$ 7,339,954	$ 48,424,067	$ 9,808,688	$ 58,232,755
Direct costs	(17,108,926)	(3,987,398)	(4,498,440)	(4,341,008)	(29,935,772)	(7,502,044)	(37,437,816)
Direct contribution	9,197,591	3,872,418	2,419,340	2,998,946	18,488,295	2,306,644	20,794,939
Operating expenses and indirect costs of net revenues							(7,158,466)
Income from operations							13,636,473
Other income (expenses):							
Interest income							872,207
Interest expense and other financial results							(1,217,569)
Foreign exchange							(1,806,520)
Other expenses, net							(3,006,416)
Net income before income / asset tax expense							$ 8,478,175

	Nine Months Ended September 30, 2006						
	Marketplaces						
	Brazil	Argentina	Mexico	Other Countries	Total	Payments	Consolidated
Net revenues	$ 18,571,053	$ 4,888,526	$ 4,336,164	$ 3,876,396	$ 31,672,139	$ 4,924,354	$ 36,596,493
Direct costs	(13,197,634)	(3,336,969)	(3,666,491)	(3,133,676)	(23,334,770)	(4,528,070)	(27,862,840)
Direct contribution	5,373,419	1,551,557	669,673	742,720	8,337,369	396,284	8,733,653
Operating expenses and indirect costs of net revenues							(5,363,007)
Income from operations							3,370,646
Other income (expenses):							
Interest income							177,819
Interest expense and other financial results							(1,277,329)
Foreign exchange							(118,481)
Other expenses, net							(1,342,048)

Net income before income / asset tax expense	$ 810,607

The following table summarizes the allocation of the long-lived tangible assets based on geography:

	September 30, 2007	December 31, 2006
US long-lived tangible assets	$2,111,672	$1,578,122
Other countries long-lived tangible assets		
Argentina	1,252,378	827,438
Brazil	690,330	459,978
Mexico	33,186	43,542
Other countries	83,521	22,390
	$2,059,415	$1,353,348
Total long-lived tangible assets	**$4,171,087**	**$2,931,470**

5. Segments (Continued)

The following table summarizes the allocation of the goodwill and intangible assets based on geography:

	September 30, 2007	December 31, 2006
US intangible assets	$ 105,562	$ 121,602
Other countries goodwill and intangible assets		
Argentina	216,062	379,785
Brazil	11,979,679	10,341,961
Mexico	4,951,136	4,982,529
Rest	5,765,562	5,516,438
	$22,912,439	$21,220,713
Total goodwill and intangible assets	**$23,018,001**	**$21,342,315**

The following table summarizes the allocation of net revenues based on geography:

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2007	2006	2007	2006
Brazil	$ 34,110,804	$ 22,007,562	$ 13,614,300	$ 7,602,038
Argentina	8,719,291	5,470,209	3,477,587	2,194,503
Mexico	7,661,833	5,018,244	2,743,238	1,833,162
Other countries	7,740,827	4,100,478	2,965,005	1,594,907
Total net revenues	**$ 58,232,755**	**$ 36,596,493**	**$ 22,800,130**	**$ 13,224,610**

6. Comprehensive income / (loss)

Comprehensive income / (loss) is as follows for the three- and nine-month periods ended September 30, 2007 and 2006:

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2007	2006	2007	2006
Net income / (loss)	$ 4,370,547	$ (773,003)	$ 2,785,474	$ 37,541
Currency translation adjustment	2,898,994	639,608	790,058	233,065
Unrealized net gains on investments	69,236	72,925	55,298	24,650
Realized net gain on investments	(225,275)	—	—	—
Comprehensive income / (loss)	$ 7,113,502	$ (60,470)	$ 3,630,830	$ 295,256

7. Compensation Plan for Outside Directors

On September 17, 2007, the Board, upon the recommendation of the Compensation Committee of the Board, adopted a compensation plan for outside directors. Under the terms of the plan, the outside directors will receive an annual cash retainer fee of $30,000 and an annual grant of restricted Common Stock ("Restricted Shares").

As of September 17, 2007, the Company awarded each of the two current outside directors, 1,000 Restricted Shares for their original grants. On the first anniversary of each director's respective original Restricted Shares grant date, each outside director will receive a grant of additional Restricted Shares having a value equal to $30,000. On the second anniversary of each director's respective original Restricted Shares grant date, each outside director will receive a grant of additional Restricted Shares having a value equal to $40,000.

The number of shares to be issued on each of the first and the second anniversary of the original Restricted Shares grant date will be based on the closing sale price of the Common Stock on the prior trading day.

Each grant of Restricted Shares vests twelve months following the first and second anniversary date. Restricted Shares are and will be granted pursuant to the Company's Amended and Restated 1999 Stock Option and Restricted Stock Plan.

8. Stock Option and Restricted Shares

At September 30, 2007, pursuant to the "Amended and Restated 1999 Stock Option and Restricted Stock Plan", (the "Plan") the Company has reserved 4,732,400 shares of Common Stock for issuance under the Plan.

Stock Options

Stock option awards granted under the Plan are at the discretion of the Company's Board of Directors and may be in the form of either incentive or nonqualified stock options. Options granted under the Plan generally vest over a three to four year period and expire ten years after the date of grant. At September 30, 2007, there are 298,437 shares of Common stock available for additional awards under the Plan.

Up to December 31, 2005, when options were granted to employees, a non-cash charge representing the difference between the exercise price and the fair market value of the common stock underlying the options on the date of grant was recorded as reduction of shareholders' equity and amortized over the vesting period.

On January 1, 2006, the Company adopted the provisions of SFAS No. 123(R) requiring the recognition of compensation expense based upon the grant date fair value of its stock-based compensation awards.

Stock-based compensation expense related to stock options and employee stock purchases for the three- and nine-month periods ended September 30, 2007 and 2006 was allocated as follows:

8. Stock Option and Restricted Shares (Continued)

Stock Options (Continued)

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2007	2006	2007	2006
Product and technology development	$ 1,441	$ 6,656	$ 147	$ 2,239
Sales and marketing	3,214	14,838	329	4,985
General and administrative	15,779	1,873	6,410	1,122
Total	$ 20,434	$ 23,367	$ 6,886	$ 8,346

The effect of adopting SFAS No. 123(R) per basic and per diluted share for the three- and nine-month periods ended September 30, 2007 and 2006, is not material.

In accordance with SFAS No. 123(R), the Company uses the Black-Scholes option pricing model to measure the fair value of its option awards granted after January 1, 2006. The Black-Scholes model requires the input of highly subjective assumptions including volatility, expected term, risk-free interest rate and dividend yield. In 2005, the SEC issued Staff Accounting Bulletin No. 107 ("SAB No. 107") which provides supplemental implementation guidance for SFAS No. 123(R). Since the Company has 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 SAB No. 107, 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. The Company has not paid dividends and does not anticipate paying a dividend in the foreseeable future and accordingly, uses an expected dividend yield of zero.

There was no granting during the three- and nine-month period ended September 30, 2007.

The following weighted-average assumptions were used in estimating the fair value of options for the three- and nine-month period ended September 30, 2006:

– Stock price volatility: 36%

– Expected term: 7 years

– Risk-free interest rate: 6%

The weighted-average grant date fair value of options granted during the three-month period ended September 30, 2006 was $8.34. The weighted-average grant date fair value of options granted during the nine-month period ended September 30, 2006 was $3.50.

Stock-based compensation expense recognized is based on the estimated portion of the awards that are expected to vest. The Company also estimated expected forfeitures of stock options upon adoption of SFAS 123(R). In developing a forfeiture rate estimate, Management considered its historical experience and expectations. Actual forfeiture activity may differ from the estimated forfeiture rate.

8. Stock Option and Restricted Shares (Continued)

Stock Options (Continued)

Stock option activity, for the three month period ended September 30, 2007, is as follows:

	Number of options	Weighted-average exercise price
Outstanding, beginning of period	180,811	$ 1.03
Forfeited or expired	(2,000)	1.50
Exercised	(31,700)	0.49
Outstanding, end of period	147,111	1.13
Exercisable, end of period	120,578	$ 0.88

Stock option activity, for the nine month period ended September 30, 2007, is as follows:

	Number of options	Weighted-average exercise price
Outstanding, beginning of year	633,331	$ 0.33
Forfeited or expired	(2,000)	1.50
Lapsed	(750)	0.01
Exercised	(483,470)	0.08
Outstanding, end of period	147,111	1.13
Exercisable, end of period	120,578	$ 0.88

The following details the outstanding options at September 30, 2007:

	Outstanding		Exercisable
Exercise price	Number of options	Weighted-average remaining contractual life (years)	Number of options
$0.01	25,486	5.8	21,712
$0.75	48,000	2.3	48,000
$1.00	30,000	2.3	30,000
$1.50	33,125	7.5	16,366
$3.00	4,000	2.7	4,000
$6.00	6,500	8.9	500
	147,111	4.4	120,578

Weighted average Exercise Price	
- Options outstanding	$1.13
- Options exercisable	$0.88

8. Stock Option and Restricted Shares (Continued)

Restricted Shares

As mentioned in Note 7, the Company granted awards to its outside directors for 2,000 Restricted Shares. In accordance with SFAS 123(R) non-vested shares awarded to employees are measured at their fair value by the grant-date price of the Company's shares as if they were vested and issued on the grant date.

Based on the fair value of the Company's share at the grant date, total compensation cost for the 2,000 Restricted Shares awarded amounted to $55,500. For the three- and nine-month periods ended September 30, 2007, the Company recognized $1,977 of compensation expense related to these awards, which are included in operating expenses in the accompanying consolidated statements of operations.

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 three- and nine-month periods ended September 30, 2007, the Company recognized $2,016 of compensation expense related to these awards, which are included in operating expenses in the accompanying consolidated statements of operations.

9. Commitments and Contingencies

Litigation and Other Legal Matters

At the beginning of 2007, the Brazilian subsidiary of the Company had 60 cases in litigation in ordinary courts, 4 of which (QIX Skateboards Industria e Comercio Ltda., Editora COC Empreendimentos Culturais Ltda., Vintage Denim Ltda. ("Vintage") and Barros, Fischer e Associados Ltda. ("Barros, Fischer") were related to alleged intellectual property infringement.

During 2007, the Brazilian subsidiary of the Company was sued in 94 cases in ordinary courts. In most of these cases the plaintiffs asserted that the Company was responsible for fraud committed against them, or responsible for damages suffered when purchasing an item on the website, when using MercadoPago, or when the Company invoiced them. In August 2007, Sette Informações Educacionais Ltda. or Sette sued the Company's Brazilian subsidiary alleging that it was infringing its intellectual property rights as a result of users selling unauthorized copies of Sette's courses through the Brazilian website. Sette seeks an injunction, fines, and compensatory and statutory damages. In September, 2007, the judge of the case filed by Vintage Denim Ltda. against the Brazilian subsidiary of the Company, dismissed the case and ruled that the plaintiff did not prove the existence of counterfeit products in the Brazilian website and that the Brazilian subsidiary of the Company was not liable for the alleged counterfeit offers. Nevertheless, the decision maintained the injunction. We presented a recourse alleging that the injunction should be revoked, but it was rejected.

9. Commitments and Contingencies (Continued)

Litigation and Other Legal Matters (Continued)

As of September 30, 2007, 147 legal actions were still in litigation in the Brazilian ordinary courts 7 of which (QIX Skateboards Industria e Comercio Ltda., Editora COC Empreendimentos Culturais Ltda., Vintage Denim Ltda., Fallms Distribuição de Fitas Ltda. and 100% Nacional Distribuidora de Fitas Ltda., Xuxa Promoções e Produções Artísticas Ltda. Praetorium Instituto de Ensino, Pesquisas e Atividades de Extensão e Direito Ltda. and Sette Informações Educacionais Ltda.) were related to alleged intellectual property infringement. In addition, as of September 30, 2007, the Brazilian subsidiary of the Company received more than 1,400 legal actions in consumer courts, where a lawyer is not required. In most of the cases, the plaintiffs asserted that the Company was responsible for fraud committed against them, or responsible for damages suffered when purchasing an item on the website, when using MercadoPago, or when the Company invoiced them. As of September 30, 2007, there were more than 1,090 cases still in litigation in these consumer courts.

As of September 30, 2007 the Company had established reserves of $641,688 to cover 288 legal actions against the Company's subsidiary in Brazil, and $34,515 to cover some lawsuits against DeRemate Brazil because a loss was considered probable. As of September 30, 2007 no loss amount has been accrued over 941 legal actions in Brazil for the aggregate amount up to $3,305,825 because a loss is not considered probable.

Other third parties have from time to time claimed, and others may claim in the future, that the Company was responsible for fraud committed against them, or that the Company has infringed their intellectual property rights. The underlying laws with respect to the potential liability of online intermediaries like the Company are unclear in the jurisdictions where the Company operates. Management believes that additional lawsuits alleging that the Company has violated copyright or trademark laws will be filed against the Company. Intellectual property claims, whether meritorious or not, are time consuming and costly to resolve, could require expensive changes in the Company's methods of doing business, or could require the Company to enter into costly royalty or licensing agreements. The Company may be subject to patent disputes, and be subject to patent infringement claims as the Company's services expand in scope and complexity. In particular, the Company may face additional patent infringement claims involving various aspects of the Payments businesses.

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

9. Commitments and Contingencies (Continued)

Litigation after September 30, 2007

After September 30, 2007 and up to date, the Company's Brazilian subsidiary was also demanded in 14 other cases in Brazilian ordinary courts and 179 new cases in consumer courts. No loss amount has been accrued over these actions because a loss is not considered probable.

Other contingencies

As of September 30, 2007 the Company had reserved $184,939 against some tax contingencies identified in some of its subsidiaries.

Operating Leases

The Company has leases for office space in the various countries it operates in. Total rental expense amounted to approximately $281,518 and $104,890 for the three-month periods ended September 30, 2007 and 2006, respectively. Total rental expense amounted to approximately $686,095 and $311,650 for the nine-month periods ended September 30, 2007 and 2006, respectively.

Minimum remaining annual commitments under the non-cancelable operating leases are as follows:

2007 (remaining three months)	$270,297
2008	432,844
2009	74,863
	$778,004

Employment Contracts

Certain executive employees are employed under contracts which provide for annual base salaries aggregating to approximately $1,210,000 per year, a performance based bonus, and some fringe benefits. The employment contracts automatically renew annually, if not previously cancelled. All these contracts include clauses which in the event of employment termination without proper reason, require payment of full wages for one year after employment termination.

10. Initial Public Offering

In August 2007, the Company successfully completed its registration process (the "offering") with the United States Securities and Exchange Commission ("SEC") through which 16,077,185 shares of common stock were sold to J.P. Morgan Securities Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated at $18.00 per share less an underwriting discount of 4.5%. Out of that total, 2,608,696 shares of common stock were sold by the Company and 13,468,489 were sold by stockholders.

10. Initial Public Offering (Continued)

Also, the Company and certain stockholders of the Company have granted to the Underwriters an option, exercisable for 30 days from August 9, 2007, to purchase up to 2,411,577 additional shares at the public offering price less the underwriting discount. Such option was exercised on August 13, 2007 for all the shares available, and out of that total, 391,304 shares were sold by the Company and 2,020,273 were sold by stockholders.

The net proceeds of offering totaled $49.6 million after deducting the underwriting discount and offering expenses payable by the Company. These proceeds have been used to repay a $9.5 million outstanding loan (including interest) with eBay and the remainder will be used for general corporate purposes.

This condensed consolidated financial statements as of and for the period ended September 30, 2007, including share and per share amounts, include the effects of the offering as follows:

- sale of 3,000,000 shares of common stock, net of underwriting discount and offering expenses,
- conversion of all of the Company's outstanding shares of preferred stock (mandatorily redeemable convertible preferred stock) and different classes of common stock into shares of one class of common stock,
- final adjustment to fair value and reclassification from liability to equity of all of the Company's outstanding warrants,
- issuance of 184,273 shares upon the exercise of the Company's outstanding warrants.

* * * *

Item 2—Management's Discussion and Analysis of Financial Condition and Results of Operations

Cautionary Statement Regarding Forward-Looking Statements

Certain statements regarding our future performance made in this report are forward-looking statements. Forward-looking statements may relate to such matters as continued growth of online commerce and Internet usage in Latin America; our ability to expand our operations and adapt to rapidly changing technologies; government regulation; litigation and legal liability; systems interruptions or failures; our ability to attract and retain qualified personnel; consumer trends; security breaches and illegal uses of our services; competition; reliance on third-party service providers; enforcement of intellectual property rights; our ability to attract new customers, retain existing customers and increase revenues; seasonal fluctuations; and political, social and economic conditions in Latin America and Venezuela in particular.

These statements are based on currently available information and our current assumptions, expectations and projections about future events. While we believe that our assumptions, expectations and projections are reasonable in view of the currently available information, you are cautioned not to place undue reliance on our forward-looking statements. These statements are not guarantees of future performance. They are subject to future events, risks and uncertainties – many of which are beyond our control – as well as potentially inaccurate assumptions, that could cause actual results to differ materially from our expectations and projections. Some of the material risks and uncertainties that could cause actual results to differ materially from our expectations and projections are described in Item 1A. "Risk Factors" of this report. You should read that information in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 2 of Part I of this report and our Unaudited Condensed Consolidated Financial Statements and related notes in Item 1 of Part I of this report. We note such information for investors as permitted by the Private Securities Litigation Reform Act of 1995. There also may be other factors that we cannot anticipate or that are not described in this report, generally because we do not perceive them to be material, that could cause results to differ materially from our expectations.

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

Overview

MercadoLibre, Inc. (together with its subsidiaries "us", "we", "our" or the "company") hosts the largest online trading 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 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 seeks to address the distinctive cultural and geographic challenges of operating an online trading platform in Latin America.

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

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

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 website 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.

Recent Developments

On Tuesday, September 12th, we launched our new open payments platform in Chile, MercadoPago 3.0. MercadoPago 3.0 removes the escrow component and shifts the payment of the processing fee from the buyer to the seller, thereby making the process faster and more compelling. The buyer will continue to pay the financing cost if he or she decides to purchase in installments.

On September 17, 2007, the Board, upon the recommendation of the Compensation Committee of the Board, adopted a compensation plan for outside directors, as described in Note 7 to our consolidated financial statements. The form of restricted stock award agreement for outside directors is filed as Exhibit 10.2 to this report.

On September 20, 2007, we announced that the board of directors of the Company (the “Board”) had increased the size of the Board to seven directors and elected Anton J. Levy and Veronica Allende Serra as new directors. Mr. Levy was appointed as a Class I director and his initial term will expire after our annual meeting of stockholders in 2008. Mr. Levy was appointed to the Audit Committee of the Board and will serve as the Chairman of the Audit Committee. Ms. Serra was appointed as a Class III director and her initial term will expire after our annual meeting of stockholders in 2010. Ms. Serra was appointed to the Compensation Committee of the Board and will serve as the Chairman of the Compensation Committee. In connection with the appointments, Marcos Galperin resigned from the Audit Committee and the Compensation Committee.

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Principal trends

Growth in net revenue over comparable periods from year to year

Since our inception, we have consistently generated revenue growth from the MercadoLibre marketplace and MercadoPago, driven by the strong growth of our key operational metrics. Our growth in net revenues for the three-months ending September 30, 2007, as compared to the same period for 2006, was 60.6% and 141.8% for the MercadoLibre marketplace and MercadoPago payments platform, respectively. As our business grows we expect that at some point in time this rate of increase, from year to year, of net revenues and the related operational metrics, will decline.

High but declining gross profit margins

Our business has generated sustained high gross profit margins over time, as defined by total net revenues minus total costs of goods sold. These gross profit margins were 80.3% for 2004, 78.3% for 2005, and 76.8% for 2006. This variation is attributable to the lower gross profit margins of our MercadoPago business, which for 2005, 2006 and for the three-month period ended September 30, 2007 experienced a faster rate of increase than our MercadoLibre marketplace business. Based on these past trends, we expect that cost of net revenues could continue to increase as a percentage of net revenues as revenues related to MercadoPago grow faster relative to MercadoLibre marketplace revenues. However, we may be able to partly offset this increase in costs with increased economies of scale in customer service, ISP connectivity and site operations, as well as improved economic terms obtained from payment processors, as was the case in the three-month period ended September 30, 2007, in which gross profit margins improved to 77.2% from 76.1% for the same period in 2006, even though net revenues from MercadoPago for these periods as a percentage of net revenues increased from 14.6% to 20.4%.

Improving operating income margins

We have generated and expect to continue to generate economies of scale in operating expenses. For the three-month period ending on September 30, 2007 operating expenses increased at a lower rate than our net revenues. For the three-months ended September 30, 2007 our operating income margins, defined as income from operations as a percentage of net revenues, improved from 8.7% for 2006, to 26.3% for 2007, mostly driven by the impact of these economies of scale. We anticipate that our operating cost structure will continue to grow in absolute terms, but at a slower rate than net revenues, leading to improving operating margins.

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 is our regional payments platform which we refer to as MercadoPago business.

We generate revenues from the MercadoLibre marketplace segments from:

- listing fees;
- optional feature fees;
- final value fees; and
- online advertising.

We generate revenues from our MercadoPago payments segment by charging users that use MercadoPago a commission that during the three-month period ended September 30, 2007 averaged 10.7% of the payment amount being made by the user through the system, which we recognize once the transaction is completed.

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 five countries (Argentina, Brazil, Mexico, Venezuela and Chile). 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.

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, and hosting and site operations fees.

Our subsidiaries in Brazil, Argentina, Venezuela and Colombia are subject to certain taxes on revenues which are classified as cost of net revenues. These taxes represented 6.0% of net revenues for the three-month period ended September 30, 2007.

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 that 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, promotional activities for our users and depreciation and amortization costs.

We carry out the vast majority of our marketing efforts on the Internet, where we enter in agreements with portals, search engines and other sites that seek to attract Internet users to the MercadoLibre marketplace and convert 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.

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 / 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. We are also subject to taxes on revenues in Brazil, Argentina, Venezuela and Colombia that are classified as cost of net revenues as discussed above.

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 included in this report.

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: (1) it requires management to make assumptions about future interest rates, sales and costs; and (2) the impact that recognizing an impairment would have on the assets reported on our balance sheet as well as our net income would be material. Management's assumptions about future sales and future costs require significant judgment.

Provision for doubtful accounts

We are exposed to losses due to uncollectable accounts and credits to sellers. Provisions for these items represent our estimate of future losses based on our historical experience. 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 evaluated whether a loss is probable and have estimated the range of probable losses and provided for such losses through charges to our consolidated statement of operations. 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 for which we believe we have meritorious defenses, and will accordingly defend ourselves vigorously. However, even if successful, our defense could be costly and could divert management's time. If the plaintiffs were to prevail on certain claims, we might be forced to pay damages or modify our business practices. Any of these 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. 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 the deferred tax asset will not be realized, we establish a valuation allowance. At September 30, 2007, we had a valuation allowance on certain foreign net operating losses based on our assessment that it is more likely than not that the deferred tax asset will not be realized. To the extent we establish a valuation allowance or change the allowance in a period, we reflect the change with a corresponding increase or decrease in our tax provision in our consolidated statement of income.

Results of operations for the three-month period ended September 30, 2007 compared to three-month period ended September 30, 2006 and the nine-month period ended September 30, 2007 compared to the nine-month period ended September 30, 2006.

The selected financial data for the three- and nine- month periods ended September 30, 2007 and 2006 have been derived from our unaudited condensed consolidated financial statements included elsewhere in this report. These statements include all normal recurring adjustments that management believes are necessary to fairly present our financial position, results of operations and cash flows. Results of operations for the three and nine-month periods ended September 30, 2007 are not necessarily indicative of the results that may be expected for the year ended December 31, 2007 or for any other period.

Statement of operations data

(In millions)

	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006	Three Months Ended September 30, 2007	Three Months Ended September 30, 2006
	(Unaudited)			
Net revenues	$ 58.2	$ 36.6	$ 22.8	$ 13.2
Cost of net revenues	(12.8)	(8.4)	(5.2)	(3.2)
Gross profit	45.4	28.2	17.6	10.1
Operating expenses:				
Product and technology development	(3.2)	(2.3)	(1.2)	(0.8)
Sales and marketing	(19.6)	(16.6)	(7.0)	(6.1)
General and administrative	(9.0)	(5.9)	(3.5)	(2.1)
Total operating expenses	(31.8)	(24.8)	(11.6)	(8.9)
Income from operations	13.6	3.4	6.0	1.1
Other income (expenses):				
Interest income	0.9	0.2	0.4	0.1
Interest expense and other financial charges	(1.2)	(1.3)	(0.4)	(0.5)
Foreign currency loss	(1.8)	(0.1)	(0.8)	(0.1)
Other expenses, net	(3.0)	(1.3)	(1.0)	(0.2)
Net income before income / asset tax expense	8.5	0.8	4.2	0.5
Income / asset tax expense	(4.1)	(1.6)	(1.4)	(0.4)
Net income (loss)	4.4	(0.8)	2.8	0.0
Accretion of preferred stock	(0.3)	(0.4)	(0.1)	(0.1)
Net income / (loss) available to common shareholders	$ 4.1	$ (1.1)	$ 2.7	$ (0.1)

Other Data

(In millions)

	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006	Three Months Ended September 30, 2007	Three Months Ended September 30, 2006
	(Unaudited)			
Number of confirmed registered users at end of period [1]	23.3	16.5	23.3	16.5
Number of confirmed new registered users during period [2]	5.1	4.4	1.7	1.6
Gross merchandise volume [3]	$ 1,050.5	$ 746.3	$ 394.9	$ 283.7
Number of successful items sold [4]	12.8	9.8	4.6	3.7
Total payment volume [5]	$ 101.2	$ 58.6	$ 43.6	$ 23.1
Purchase of intangible assets, property and equipment	$ 2.1	$ 1.7	$ 0.1	$ 0.2

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 motors, real estate and services.
4—Measure of the number of items that were sold/purchased through the MercadoLibre marketplace.
5—Measure of the total U.S. dollar sum of all transactions paid for using MercadoPago.

Net revenues

Net revenues were $22.8 million for the three-month period ended September 30, 2007, an increase of $9.6 million, or 72.4%, from net revenues of $13.2 million for the same period in 2006. This increase was attributable to a 60.6% increase in revenues derived from our MercadoLibre marketplace, from $11.3 million for the three-month period ended September 30, 2006 to $18.1 million for the same period in 2007, and to a 141.8% increase in revenues derived from MercadoPago, from $1.9 million to $4.7 million for the same periods.

Growth in MercadoLibre marketplace revenues resulted principally from a 39.2% increase in the gross merchandise volume transacted through our platform, and from an increase in our take rate, defined as marketplace revenues as a percentage of gross merchandise volume, from 4.0% to 4.6%. The growth in MercadoPago revenues resulted principally from an 89.0% increase in the total payments completed on our MercadoPago payments platform, and from an increase in our take rate, defined as payments revenues as a percentage of total payment volume, from 8.4% to 10.7%. Net revenues for the nine-month period ending

September 30, 2007 where $58.2 million, a $21.6 million, or 59.1%, increase over the same nine-month period of the previous year. This growth was the result of 52.9% growth in the MercadoLibre marketplace revenues, from $31.7 million for the first nine-months of 2006 to $48.4 million for the same period in 2007, and a 99.2% growth in MercadoPago revenues, from $4.9 million to $9.8 million over the same comparables periods.

Growth in the MercadoLibre marketplace was attributed primarily to gross merchandise volume growth of 40.8% for the nine-month period ending on September 30, 2007. Growth in MercadoPago was attributable to a 72.7% growth in total payments volume for that same period.

On a segment basis, during the three-month period ending September 30, 2007 net revenue increased by $9.6 million compared to the same period of 2006 primarily due to increases of $3.5 million, or 55.6% in our Marketplace in Brazil, $1.2 million, or 58.5% in our Marketplace in Argentina, $0.9 million, or 57.2% in our Marketplace in Mexico, $1.3 million or 87.4% from Marketplaces in all other countries and $2.7 million, or 141.8% from our MercadoPago payments platform.

For the nine-month period ending September 30, 2007 revenue growth by segment compared to the same period for 2006 was attributable primarily to an increase of $7.7 million, or 41.7% in net revenues in our Marketplace Brazil, of $3.0 million, or 60.8% in our Marketplace in Argentina, $2.6 million, or 59.5% in our Marketplace in Mexico, a combined growth of $3.5 million or 89.3% for our Marketplaces in all other countries, and a $4.9 million, or 99.2% growth for MercadoPago.

Cost of net revenues

Cost of net revenues were $5.2 million and $12.8 million for the three-month and nine-month periods ended September 30, 2007, respectively, an increase of 64.0% and 52.3% from cost of net revenues for the same periods in 2006. Cost of net revenues improved to 22.8% of net revenues for the three-month period ended September 30, 2007 from 23.9% for the same period in 2006, and to 22.0% of net revenues for the first nine-months of 2007 from 23.0% for the first nine-months of 2006. These increases were primarily attributable to additional billing and collections costs, sales taxes, and customer support expenditures.

Billing and collections fees increased by $0.9 million, or 71.6% for the three-month period ended September 30, 2007 compared to the same period in 2006, and by $1.6 million, or 49.2%, for the first nine-months of 2007 compared to 2006. Sales taxes on our net revenues increased by $0.6 million, or 81.9%, and $1.3 million, or 63.9%, for the three and nine-month periods ended September 30, 2007, respectively, compared to the same period for 2006. Expenditures in our in-house customer support operations grew in the amount of $0.3 million, an increase of 36.8% compared to the three-month period ended September 30, 2006, and increased by $1.1 million, or 53.1%, compared to the nine-month period ended September 30, 2006, as we invested in improved service, initiatives to combat fraud, illegal items and fee evasion.

Product and technology development

Product and technology development expenses were $1.2 million for the three-month period ended September 30, 2007, an increase of $0.4 million, or 47.6%, from $0.8 million for the same period in 2006. For the nine-month period ended September 30, 2007 these expenses were $3.2 million, representing an increase of $0.9 million, or 40.2%, over the same period for 2006. Product and technology development expenses as a percentage of net revenues improved to 5.1% for the three-month period ended September 30, 2007 from 5.9% of net revenues for the same period for 2006, and to 5.4% of net revenues for the nine-months ended September 30, 2007, from 6.2% for the same period for 2006.

The growth in product and technology development expenses was primarily attributable to an increase in compensation costs of 80.0% and 74.2% for the three and nine-month periods ended September 30, 2007, respectively, over the same periods for 2006. These added compensation expenses, growing at a faster rate than revenues, where primarily related to the addition of engineers as we continue to invest in top quality talent to develop enhancements and new features across our trading platforms. We believe product development to be one of our key competitive advantages and intend to continue to invest in added engineers to meet the increasingly sophisticated product expectations of our customer base.

Sales and marketing

Sales and marketing expenses were $7.0 million for the three-month period ended September 30, 2007, an increase of $0.9 million, or 15.3%, from $6.1 million over the same period in 2006. For the nine-month period ended September 30, 2007 sales and marketing expenses were $19.6 million, an increase of $3.0 million, or 17.9%, over the same period for 2006. Sales and marketing expenses represented 30.6% of our net revenues for the three-month period ended September 30, 2007 and 33.7% of net revenues for the nine-month period ended September 30, 2007, down from 45.8% and 45.5% for the same three and nine-month periods in 2006.

The growth in sales and marketing expenses resulted primarily from our increased expenditures in online advertising programs in the amount of $0.8 million, a 24.6% increase over the three-month period ended September 30, 2006 and of $2.3 million, a 28.0% over the nine-month period ended September 30, 2006. Online advertising represented 17.4% and 18.4% of our net revenues in the three and nine-month period ended September 30, 2007 respectively, down from 24.1% and 22.9% for the same periods in 2006. Sales and marketing expenses also grew from 2006 to 2007 due to an increase in compensation costs in the amount of $0.2 million, or 29.0%, for the three-month period ended September 30, 2007 and $0.4 million, or 23.4%, for the nine-month period ended September 30 2007, driven by additional headcount and higher salaries to retain talent. Additionally, bad debt charges decreased by 6.3% for the three-month period ended September 30, 2007 when compared to the same period one year earlier, and increased by 1.6% for the first nine months of 2007 when compared to the same period of 2006.

General and administrative

Our general and administrative expenses were $3.5 million for the three-month period ended September 30, 2007, an increase of $1.4 million, or 68.1%, over the same period for 2006, and $9.0 million for the nine-month period ended September 30, 2007, an increase of $3.1 million, or 52.2%, over the same period during 2006. As a percentage of net revenues, our general and administrative expenses were 15.3% for the three-month period ended September 30, 2007, an improvement over the 15.7% for the same period in 2006 and 15.4% for the first nine months of 2007 compared to 16.1% for the same period of 2006.

The major component that drove growth in general and administrative expenses over the comparable periods for the previous year was $0.6 million in increased compensation costs during the three-month period ended September 30, 2007, a 61.0% rate of growth, and a $1.3 million increase in compensation costs, or a 44.0% rate of growth, during the nine-month period ended September 30, 2007. These added compensation costs primarily went to hire additional employees to support our growing business and public company requirements, together with higher salaries to retain talent. Additionally, outside service fees grew $0.4 million, or 79.5%, for the three-month period ended September 30, 2007 when compared to the same period during 2006, and $0.9 million, or 63.4%, for the first nine months of 2007 when compared to the same period of 2006, due to increased legal expenses, and as we incurred in additional costs associated with being a publicly traded company.

Other income (expenses)

Our other income (expense) were $1.8 million for the three-month period ended September 30, 2007, an increase of $1.1 million from other expenses of $0.7 million for the same period in 2006. For the nine-month period ended September 30, 2007 other expenses were $5.2 million, an increase of $2.6 million from $2.6 million during the same period for 2006. The increase during the three-month period ended September 30, 2007 was primarily a result of an increase of $0.7 million in expenses accrued to account for the increase in the fair value of warrants, up 310.0% to $1.0 million, from $0.2 million for the same period in 2006. Additionally expenses for foreign currency loss were $0.8 million, an increase of $0.7 million from $0.1 million for the same period in 2006. These expenses were partially offset by $0.4 million in interest income, up 327.7%, or $0.3 million, from $0.1 million for the same period during 2006. For the nine-month period ended September 30, 2007, the increase in other income (expenses) was also primarily attributable to $3.0 million in expenses accrued to account for the increase in the fair value of warrants, up 166.3% from $1.1 million for the same period in 2006, and $1.8 million in foreign currency loss, an increase of $1.7 million from $0.1 million for the same period in 2006. These charges were partially offset by a $0.7 million increase in interest income, up 390.5% from $0.2 million for the nine-month period ended September 30, 2006, to $0.9 million during the same period in 2007.

Income and asset tax

Our reported income and asset tax expense for the three-month period ended September 30, 2007 was $1.4 million compared to a reported tax expense of $0.4 million for the same period in 2006, an increase of $1.0 million, or 226.7%. For the nine-month period ended September 30, 2007 reported tax expense was $4.1 million compared to $1.6 million for the same period in 2006, an increase of $2.5 million, or 159.4%. Our effective tax rate as a percentage of income before income and asset tax was 33.5% for the three-month period ended September 30, 2007 and 48.4% for the nine-month period ended September 30, 2007.

Liquidity and capital resources

Our main cash requirements purchases of property and equipment relating to technology infrastructure and software applications. The significant components of our working capital are cash equivalents, short-term investments, accounts receivable, accounts payable and accrued expenses, and funds receivable from and payable to MercadoPago users. At September 30, 2007, our principal source of liquidity was $62.9 million of cash and cash equivalents, and short-term investments, provided for by our initial public offering as well as generated from our operations. We believe that the proceeds raised during our initial public offering and the cash to be generated from future operations will be sufficient to cover current and anticipated purchases of property and equipment and working capital needs for the foreseeable future.

The following table presents our cash flows from operating activities, investing activities and financing activities for the nine-month periods ended September 30, 2006 and 2007:

(In millions)	Nine-months Ended September 30, 2007	Nine-months Ended September 30, 2006
Net cash provided by (used in):		
Operating activities	$ 7.7	$ 3.7
Investing activities	(45.1)	(4.6)
Financing activities	44.4	0.0
Effect of exchange rates on cash and cash equivalents	0.4	0.1
Net increase (decrease) in cash and cash equivalents	$ 7.4	$ (0.7)

Net cash provided by operating activities

Net cash from operating activities was $7.7 million for the nine-month period ended September 30, 2007 as compared to $3.7 million for the same period during 2006, an increase of $4.0 million or 110%. This improvement was primarily a result of an increase in net income before change in fair value of warrants of $7.0 million, to $7.4 million for the nine-month period ended September 30, 2007 when compared to $0.4 million for the same period of 2006. Additionally cash provided by operations was positively impacted by an increase of $1.2 million in funds payable to customers, up to $3.4 million for the nine months ended September 30, 2007, from $2.2 million during the same period of 2006. These increases in cash provided by operations were offset by cash used by operations, primarily an increase of $3.9 million in funds receivable from customers, up to $7.0 million for the nine months ended September 30, 2007 from $3.1 million for the same period of 2006.

Net cash used in investing activities

Net cash used in investing activities was $(45.1) million for the nine-months ended September 30, 2007 compared to $(4.6) million during the same period for 2006. Net cash used in investing activities resulted primarily from purchases of investments with the cash raised during our initial public offering, as part of our financial investment strategy.

Purchases of investments accounted for $(49.9) million of cash used in investing activities during the nine-month period ended September 30, 2007. This consumption of cash was partially offset during the first nine months of 2007 by proceeds from the sale of investments for $6.9 million. Net cash from investing activities was also affected by capital expenditures related to technological equipment, software licenses and to a lesser degree office equipment, in the amounts of $2.1 million for the nine-month period ended September 30, 2007.

Net cash provided by financing activities

Cash provided from financing activities was $44.4 million as the issuance of common stock from our initial public offering provided for $49.6 million of cash from financing. During the issuance, we sold 2,608,696 shares of common stock to buyers at $18.00 per share less an underwriting discount of 4.5%. We also granted to the underwriters an option, exercisable for 30 days from August 9, 2007, to purchase up 391,304 additional shares at the public offering price less the underwriting discount. This option was exercised in full. Cash used in financing activities was $(9.0) million as we paid back principal from a loan outstanding with eBay, Inc.

Debt

We financed the acquisition of DeRemate, Inc. with a loan from eBay, Inc., one of our stockholders, in the amount of $12.0 million, secured by our assets, including equity interests we have acquired in DeRemate, Inc. The loan bore an interest rate of 7% per year, payable in November of each year. The loan matured at the issuance of securities during our initial public offering. At September 30, 2007, no principal and interest on the loan remained outstanding as we repaid the loan in full with a portion of the net proceeds of our initial public offering.

On occasion we finance certain working capital requirements of our MercadoPago operations in Brazil through loans with third parties backed by credit card receivables through an intermediary bank. These operations are accounted for as loans guaranteed by such receivables. As of September 30, 2007 we had $3.1 million in loans of this type.

Capital expenditures

Our expenditures in property and equipment consist primarily of purchases of hardware and software licenses necessary to maintain and update the technology of our platform, and to a lesser degree office equipment. These expenditures increased $0.4 million, or 25.3%, to $2.1 million for the first nine-months of 2007 as compared to $1.7 million for the same period of 2006.

We believe that our existing cash and cash equivalents, the net proceeds from our initial public offering and cash generated from operations will be sufficient to fund our operating activities, property and equipment expenditures and other obligations going forward.

Off-balance sheet arrangements

At September 30, 2007, we did not have any off-balance sheet arrangements or relationships with unconsolidated entities for the purpose of facilitating contractually narrow or limited purposes.

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. The Company is currently analyzing the impact that the adoption of SFAS 157 will have on the Company's 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. The Company is currently analyzing the impact that the adoption of SFAS 159 will have on the Company's consolidated financial statements.

Contractual obligations

We have certain fixed contractual obligations and commitments that include future estimated payments. Changes in our business needs, cancellation provisions and other factors may result in actual payments differing materially from the estimates. We cannot provide certainty regarding the timing and amount of payments. Below is a summary of the most significant assumptions used in our determination of amounts presented in the table. Contractual obligations at September 30, 2007 are as follows:

	Payment due by period				
(In millions)	**Total**	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
Operating lease obligations (1)	0.8	0.6	0.2	—	—
Purchase obligations	5.7	5.6	0.1	—	—
Total	$6.5	$ 6.2	$0.3	—	—

(1) Includes leases of office space.

We do not have long-term debt obligations. We have leases for office space in certain countries where we operate. These are our only operating leases. Purchase obligation amounts include minimum purchase commitments for advertising, capital expenditures (technological equipment and software licenses) and other goods and services that were entered into in the ordinary course of business. We have developed estimates to project payment obligations based upon historical trends, when available, and our anticipated future obligations. Given the significance of performance requirements within our advertising and other arrangements, actual payments could differ significantly from these estimates.

Item 3—Qualitative and quantitative disclosure about market risk

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

Foreign currencies

We hold cash and cash equivalents in local currencies in our subsidiaries, and have receivables denominated in local currencies in all our operations. Our subsidiaries also incur most of their expenses in local currency. As a result, our subsidiaries use local currency as their functional currency.

At September 30, 2007, our total cash and cash equivalents denominated in these foreign currencies totaled $5.3 million, and accounts receivable and funds receivable from customers in foreign currencies totaled $19.7 million. To manage exchange rate risk, our treasury policy is that we transfer all cash and cash equivalents of our subsidiaries in excess of working capital requirements into dollar-denominated accounts in the United States. At September 30, 2007, these dollar-denominated cash and cash equivalents totaled $9.2 million. If the U.S. dollar weakens against foreign currencies, as occurred in many countries where we operate in the recent past, 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. During the nine-month period ending September 30, 2007, 58.6% of our revenues were denominated in Brazilian reais, 15.0% in Argentine pesos and 13.2% in Mexican pesos. While we have entered in the past into transactions to hedge portions of our foreign currency translation exposure, these are expensive and during the nine-month period ending September 30, 2007 we did not enter in any such hedging transactions.

The following table summarizes the distribution of net revenues based on geography:

	Nine-Months Ended September 30,		Three Months Ended September 30,	
	2007	2006	2007	2006
Brazil	$ 34.1	$ 22.0	$ 13.6	$ 7.6
Argentina	8.7	5.5	3.5	2.2
Mexico	7.7	5.0	2.7	1.8
Others	7.7	4.1	3.0	1.6
TOTAL	**$ 58.2**	**$ 36.6**	**$ 22.8**	**$ 13.2**

We have estimated that the year over year impact of exchange rate fluctuations on our results of operations for the three-month period ended September 30, 2007 resulted in higher net revenues of approximately $1.6 million and an increase in cost of net revenues and operating expenses of approximately $1.1 million. For net income we estimate an increase of $0.2 million for the three-month period ended September 30, 2007. These calculations were made taking the average monthly exchange rates for each month in the third quarter of 2006 and applying them to the corresponding months in 2007, so as to calculate what our financial results would have been had exchange rates remained stable from one year to the next.

Interest

Our earnings are also affected by changes in interest rates. These changes can have an impact on our interest expenses derived from discounting our MercadoPago receivables. Interest fluctuations could also negatively affect certain floating rate investments that we hold. At September 30, 2007, MercadoPago funds receivable from customers totaled approximately $17.2 million and we had no direct investments in variable interest rate instruments, but we had investments in money market funds that could invest in variable interest rate instruments. We believe that given this financial position the overall direct impact of significant interest rate variances would not be material and would not cause major disruptions to our operations.

At September 30, 2007 we no longer had any debt obligations outstanding that would be subject to interest rate risks.

Item 4—Controls and Procedures

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's Securities and Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to the Company's management, including its chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

Evaluation of disclosure controls and procedures

Based on the evaluation of our disclosure controls and procedures (as defined in Securities Exchange Act of 1934 Rules 13a-15(e) and 15d-15(e)) required by Securities Exchange Act Rules 13a-15(b) or 15d-15(b), our chief executive officer and our chief financial officer have concluded that as of the end of the period covered by this report, our disclosure controls and procedures were effective.

Changes in internal controls

There were no changes in our internal control over financial reporting (as such term is defined in Rule 13a-15(f) and 15d-15(f) under the Securities Exchange Act) during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1—Legal Proceedings

General

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 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.

At September 30, 2007, our total reserves for proceeding-related contingencies were approximately $0.7 million for 288 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 September 30, 2007, we had 147 cases in litigation against our Brazilian subsidiary in the Brazilian ordinary courts. In addition, at September 30, 2007 our Brazilian subsidiary had more than 1,090 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 website, 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 or results of operations, except for the proceedings described below. In each of these proceedings we also believe we have meritorious defenses, and intend to continue defending these actions. We cannot assure you that we will succeed in defending against any of the following claims and, in each case, if we were required to pay all or a part of the amounts asserted, it could have a material adverse effect on our results of operations and financial condition.

Litigation

On March 28, 2003, Qix Skateboards Indústria e Comércio 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 website, 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 website, based on Brazilian Industrial Property Law (Law 9,279/96) and the Brazilian Copyright Law (Law 9,610/98). Editora COC sought an order for the search and seizure of products held by the user and enjoining the sale of Editora COC-branded products on 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 website, 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 Brasilia. 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 approximately $157,000 was imposed on our Brazilian subsidiaries due to the 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.

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. They may still present an appeal to that decision.

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 June 11, 2007, Praetorium Instituto de Ensino, Pesquisas e Atividades de Extensão e Direito Ltda., or Praetorium, sued our Brazilian subsidiary in the 4th 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 website. Praetorium seeks an injunction, fines, and compensatory and statutory damages. An injunction ordering the removal of any offers containing the name of Praetorium was granted to Praetorium on July 11, 2007 giving us 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 each new product posted after July 13, 2007 containing the name of Praetorium and listed in the Brazilian page of our website. 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 August 20, 2007 Sette Informações Educacionais Ltda. or Sette, sued our Brazilian subsidiary in the 4th Civil Court of the County 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 website. Sette seeks an injunction, fines, and compensatory and statutory damages. We presented our defense on October 5, 2007.

State Claim

On November 08, 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 expect to present our defense within the next few weeks.

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 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 in our September 30, 2007 financial statements. Sao Paulo tax authorities have also asserted taxes and fines against us relating to the period 2005-2007 in an approximate additional amount of $5.9 million. In January 2005 we moved our operations to Santana de Parnaíba City, Brazil and began paying taxes to that jurisdiction and therefore we believe we have strong defenses to the claims of the São Paulo authorities with respect to this period.

Trademark Action

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.

Item – 1A Risk Factors

The risks and uncertainties described below are not the only ones facing us. Other events that we do not currently anticipate or that we currently deem immaterial also may affect our results of operations and financial condition. If any events described in the risk factors actually occur, our business, operating results, prospects and financial condition could be materially harmed. As a result, the market price for our common stock could decline. In connection with the forward looking statements that appear elsewhere in this report, you should also carefully review the cautionary statement referred to under "Cautionary Statement Regarding Forward Looking Statements."

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. We cannot assure you that the infrastructure for the Internet will 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 cannot assure you that we will be able to expand our operations in a cost-effective or timely manner or that any of our expansion efforts would 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 which 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 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 website 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 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, that we spend substantial resources and/or discontinue certain service offerings. Any costs that we incur as a result of this liability or asserted liability could have a material adverse effect on our business, results of operations and financial condition.

We believe that government and consumer protection agencies have received a substantial number of complaints about both the MercadoLibre marketplace and MercadoPago. We believe that these complaints are small as a percentage of our total transactions, but they could become large in aggregate numbers over time. 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, and the average claimed transaction size is approximately $77 (excluding motor vehicles, vessels, aircraft and real estate), 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 websites, 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 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 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. and 100% Nacional Distribuidora de Fitas Ltda. While we have been largely successful to date in settling existing claims by agreeing to monitor 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 private 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 cannot assure you that we will 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 website 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.

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 website and the new products and features we regularly introduce. This upgrade process is expensive, and the increasing complexity and enhancement of our website 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 website would harm our business and our ability to collect revenue.

Furthermore, we may need to enter into relationships with various strategic partners, websites 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.

We cannot assure you that our current and planned systems, procedures and controls, personnel and third party relationships will 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 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 ten 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. 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 can 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 will 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.

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

Several companies that operate e-commerce websites, 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. In addition to the direct costs of such losses, if they are related to credit card transactions and become excessive they could result in MercadoPago losing the right to accept credit cards for payment. If MercadoPago is unable to accept credit cards, our business will be adversely affected given that credit cards are the most widely used method for funding the MercadoPago accounts. We have taken measures to detect and reduce the risk of fraud on MercadoPago, such as running address verification system (AVS) and card security code (CSC) checks in some countries, 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 and Chile; 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. Customers may not like this new structure, which could result in decreased use of MercadoPago and therefore have the opposite effect to the one intended. In addition, the transition to the new system may not be a smooth one. Any of these events would adversely affect our business.

We continue to expand MercadoPago’s services internationally. We have no experience with the online payments business in Chile, Colombia, Ecuador, Peru, Uruguay, Costa Rica or the Dominican Republic. 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.

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. 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. 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 of 2007.

If eBay is not successful in appealing or modifying the court’s ruling, or in the remanded proceedings, they would likely be forced to pay significant additional damages and licensing fees and/or modify their business practices. An adverse ruling to eBay could potentially subject us to similar successful claims in the future and therefore could adversely affect our business, results of operations and financial condition.

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 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 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.

We may not be able to secure licenses for third party technologies that we rely on.

We also rely on certain technologies that we license from third parties, such as Oracle Corp., SAP AG, and Salesforce.com, 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 websites or make completing transactions on our websites 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 realize benefits from recent or future strategic acquisitions of businesses, technologies, services or products despite their costs in cash and dilution to our stockholders.

Although we currently have no understandings, commitments or agreements with respect to any current or future material acquisition, 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, which we believe are strategic if an appropriate opportunity presents itself. We cannot, however, assure that we will be able to identify, negotiate or finance such future acquisitions successfully or at favorable valuation, 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 Buscapé 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 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 website 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.

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 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, 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. 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.

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

We are subject to increased risks relating to foreign currency exchange rate fluctuations. Because we conduct our business outside the United States and receive almost all of our revenues in currencies other than the U.S. dollar, but report our results in U.S. dollars, we face exposure to adverse movements in currency exchange rates. The currencies of certain countries where we operate, including most notably Brazil, Argentina 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. 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.

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.

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 14 employees who work in the country. Recently, the political and economic conditions have become increasingly volatile and unstable. Among other things, the government has announced plans to modify the nation's constitution, including the possibility of unlimited re-elections. We cannot predict the impact of constitutional amendments 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 telephony sectors and Mr. Chávez has already commenced nationalizing 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 related or other businesses that could impact our operations. Nationalization of electrical or other companies could reduce our or our customers' access to 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 the nine-months ended September 30, 2007, we incurred foreign currency loss related to Venezuelan revenue of approximately $1.3 million, compared to approximately $0.2 million for the corresponding period in 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, operations, financial condition and results of operations.

Item – 2 Unregistered sales of Equity Securities and Use of Proceeds

Our registration statement on Form S-1, as amended (Registration No. 333-142880), (the "Registration Statement") with respect to our initial public offering (the "Offering") of common stock, par value $0.01 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 Offering closed on August 15, 2007 and did not terminate before any securities were sold.

As of the date of filing this report, the Offering has terminated and all of the securities registered pursuant to the Registration Statement have been sold. The managing underwriters of the Offering were J.P. Morgan Securities Inc., Merrill Lynch, Pierce, Fenner and Smith Incorporated, RBC Capital Markets Corporation and Pacific Crest Securities Inc. The aggregate amount registered and the aggregate amount of the shares offered and sold in the Offering were each $332,797,716.

Underwriting discounts and commissions	$2,430,000
Finders fees	—
Expenses paid to or for our underwriters	$ 400,000
Other expenses	$1,596,760
Total expenses	$4,426,760

All of the foregoing expenses were direct or indirect payments to persons other than (i) our directors, officers or any of their associates; (ii) persons owning ten percent (10%) or more of our common stock; or (iii) our affiliates.

The net proceeds to us of the Offering were approximately $49.6 million. We have used $9.5 million of the net proceeds to repay the total outstanding principal amount and accrued interest under the Loan and Security Agreement dated November 2, 2005, between us and eBay, Inc. Based on our review of SEC filings, eBay is the owner of more than 10% of our common stock. The remainder of the net proceeds has been invested in short-term, interest-bearing, investment-grade securities.

Item – 6 Exhibits

10.1 Summary of compensation plan for outside directors.

10.2 Form of Restricted Stock Award Agreement for Outside Directors.

31.1 Certification of Chief Executive Officer pursuant to Securities Exchange Act Rule 13a-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of Chief Financial Officer pursuant to Securities Exchange Act Rule 13a-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MERCADOLIBRE, INC.
Registrant

Date: November 14, 2007	By	/s/ Marcos Galperin Marcos Galperin President and Chief Executive Officer
	By	/s/ Nicolas Szekasy Nicolas Szekasy Executive Vice President and Chief Financial Officer

MercadoLibre, Inc.

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32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Exhibit 10.1

Adoption of Compensation Plan for Outside Directors

On September 17, 2007, the Board, upon the recommendation of the Compensation Committee of the Board, adopted a compensation plan for outside directors, as defined by the Board. The Board's current outside directors are Emiliano Calemzuk and Ms. Serra. Under the terms of the plan, the outside directors will receive an annual cash retainer fee of $30,000 and an annual grant of restricted Common Stock ("Restricted Shares"). As of September 17, 2007, the Company awarded each of Mr. Calemzuk and Ms. Serra 1,000 Restricted Shares for their original grants. On the first anniversary of each director's respective original Restricted Shares grant date, each outside director will receive a grant of additional Restricted Shares having a value equal to $30,000, based on the closing sale price of the Common Stock on the prior trading day. On the second anniversary of each director's respective original Restricted Shares grant date, each outside director will receive a grant of additional Restricted Shares having a value equal to $40,000, based on the closing sale price of the Common Stock on the prior trading day. Each grant of Restricted Shares will vest twelve months following the grant date. Restricted Shares will be granted pursuant to the Company's Amended and Restated 1999 Stock Option and Restricted Stock Plan. The Company reimburses nonemployee directors for actual travel and out-of-pocket expenses incurred in connection with attending meetings of the Board and committees of the Board. The following chart summarizes the annual compensation plan for outside directors:

	Cash Retainer	FMV of Restricted Share Grant (2)
Year 1 (1)	$30,000	$27,750
Year 2 (1)	$30,000	$30,000
Year 3 (1)	$30,000	$40,000

(1) Paid and issued on each outside director's election date with respect to Year 1 and the first and second anniversary date of each such election date with respect to Years 2 and 3, respectively.

(2) Based on the closing sale price of the Company's common stock on the business day prior to the outside director's (i) election date with respect to Year 1 and (ii) first and second anniversary date of election date with respect to Years 2 and 3, respectively.

Exhibit 10.2

FORM OF
MERCADOLIBRE, INC.
RESTRICTED STOCK AGREEMENT

THIS RESTRICTED STOCK AGREEMENT (the " Agreement "), effective as of the ___________day of ___________, 200 ___, governs the Restricted Stock award granted by MERCADOLIBRE, INC., a Delaware corporation (the " Company "), to ___________(the " Participant "), in accordance with and subject to the provisions of the Company's Amended and Restated 1999 Stock Option and Restricted Stock Plan (the " Plan "). A copy of the Plan has been made available to the Participant. All terms used in this Agreement that are defined in the Plan have the same meaning given them in the Plan.

1. Grant of Awards . In accordance with the Plan, and effective as of ___________, 200 ___(the " Date of Grant "), the Company granted to the Participant, subject to the terms and conditions of the Plan and this Agreement, a Restricted Stock award of ___________shares of Common Stock (the " Stock Award ").

2. Vesting . The Participant's interest in the shares of Common Stock covered by the Stock Award shall be vested and nonforfeitable on ___________, 200 ___, if the Participant remains a member of the Board from the Date of Grant until ___________, 200 ___. Notwithstanding the preceding sentence, the Participant's interest in all of the shares of Common Stock covered by the Stock Award shall be vested and nonforfeitable on the date of the Participant's death if the Participant remains a member of the Board from the Date of Grant until the date of his death. If the Participant ceases to be a member of the Board prior to ___________, 200 ___, for any reason other than death, any shares of Common Stock covered by the Stock Award shall be forfeited on the date that the Participant ceases to be a member of the Board.

3. Transferability . Shares of Common Stock covered by the Stock Award that have not become vested and nonforfeitable under Section 2 cannot be transferred. The shares of Common Stock covered by the Stock Award may be transferred, subject to the requirements of applicable securities laws, after they become vested and nonforfeitable under Section 2.

4. Shareholder Rights . On and after the Date of Grant and prior to their forfeiture, the Participant shall have all of the rights as a shareholder of the Company with respect to the shares of Common Stock covered by the Stock Award, including the right to vote the shares and to receive, free of all restrictions, all dividends on the shares. Notwithstanding the preceding sentence, any shares of Common Stock issued with respect to the Common Stock covered by the Stock Award in a stock dividend, stock split, etc., shall be vested and transferable to the extent that this Stock Award has become vested and transferable under Section 2.

5. No Right to Continued Service . The grant of the Stock Award does not give the Participant any right with respect to continuance of service with the Company, nor shall it interfere in any way with the right of the Company to terminate his service at any time.

6. Custody of Certificate . The certificate evidencing the Common Stock covered by the Stock Award (and any shares issued with respect to those shares) shall be held by, or on behalf of, the Company until the shares have become vested and transferable under Section 2.

7. Grant of Stock Power . The Participant hereby appoints the Company's Chief Executive Officer, or his or her successor, as the true and lawful attorney of the Participant, to endorse and execute for and in the name and stead of the Participant any certificates evidencing the shares of Common Stock covered by the Stock Award (and any shares issued with respect to those shares) that are forfeited under Section 2.

8. Governing Law . This Agreement shall be governed by the laws of the State of Delaware.

9. Conflicts. In the event of any conflict between the provisions of the Plan as in effect on the Date of Grant and this Agreement, the provisions of the Plan shall govern. All references herein to the Plan shall mean the Plan as in effect on the Date of Grant.

10. Participant Bound by Plan. The Participant hereby acknowledges that a copy of the Plan has been made available to him and agrees to be bound by all the terms and provisions of the Plan.

11. Binding Effect. Subject to the limitations stated above and in the Plan, this Agreement shall be binding upon the Participant and his or her successors in interest and the successors of the Company.

IN WITNESS WHEREOF, the Company and the Participant have executed this Agreement effective as of the date set forth above.

MERCADOLIBRE, INC.

By: ____________________________________
Name: Marcos Galperín
Title: President and Chief Executive Officer

Exhibit 31.1

**CERTIFICATION PURSUANT TO
RULE 13A-14 OF THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Marcos Galperin, certify that:

1. I have reviewed this quarterly report on Form 10-Q of MercadoLibre, Inc. (the “registrant”);

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) [Omitted in reliance on SEC Release No. 33-8238; 34-47986 Section III.E];

   (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of registrant’s board of directors (or persons performing the equivalent function):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

November 14, 2007

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

Exhibit 31.2

CERTIFICATION PURSUANT TO
RULE 13A-14 OF THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Nicolas Szekasy, certify that:

1. I have reviewed this quarterly report on Form 10-Q of MercadoLibre, Inc. (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) [Omitted in reliance on SEC Release No. 33-8238; 34-47986 Section III.E];

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

November 14, 2007

By: /s/ Nicolas Szekasy
Nicolas Szekasy
Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of MercadoLibre, Inc. (the “Company”) for the period ending September 30, 2007 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Marcos Galperin, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Marcos Galperin
Marcos Galperin
Chief Executive Officer
November 14, 2007

The foregoing certification is being furnished solely to accompany this report pursuant to 18 U.S.C. 1350, and is not being filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the Company whether made before or after the date hereof, regardless of any general incorporation language in such filing. A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.2

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of MercadoLibre, Inc. (the "Company") for the period ending September 30, 2007 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Nicolas Szekasy, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Nicolas Szekasy
Nicolas Szekasy
Chief Financial Officer
November 14, 2007

The foregoing certification is being furnished solely to accompany this report pursuant to 18 U.S.C. 1350, and is not being filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the Company whether made before or after the date hereof, regardless of any general incorporation language in such filing. A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.