

MERCADOLIBRE INC  
Form S-1/A  
July 30, 2007  
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As filed with the Securities and Exchange Commission on July 27, 2007

Registration No. 333-142880

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# SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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## Amendment No. 3 to FORM S-1 REGISTRATION STATEMENT

*Under*

*The Securities Act of 1933*

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## MERCADOLIBRE, INC.

(Exact name of Registrant as specified in its Charter)

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Delaware  
(State or other jurisdiction of  
incorporation or organization)

7389  
(Primary Standard Industrial  
Classification Code Number)

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

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MercadoLibre, Inc.

Tronador 4890, 8<sup>th</sup> Floor

Buenos Aires, C1430DNN, Argentina

011-54-11-5352-8000

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(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

**United Corporate Services, Inc.**

**15 East North Street**

**Dover, Delaware 19901-3609**

**(914) 949-9188**

(Name, address, including zip code, and telephone number, including area code, of agent for service)

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**Approximate Date of Commencement of Proposed Sale to the Public:** As soon as practicable after the effective date of this Registration Statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

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**CALCULATION OF REGISTRATION FEE**

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TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED	PROPOSED	
	MAXIMUM AGGREGATE OFFERING PRICE(1)(2)	AMOUNT OF REGISTRATION FEE(3)
Common stock, par value \$0.001 per share	\$ 332,797,716	\$ 10,217

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- (1) Estimated pursuant to Rule 457(o) solely for the purpose of calculating the amount of the registration fee.
  - (2) Includes shares to be sold upon exercise of the underwriters' over-allotment option. See Underwriting.
  - (3) Previously paid.
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The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities, and we are not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Subject to completion, dated July 27, 2007

Prospectus

**16,077,185 shares**

**MERCADOLIBRE, INC.**

***Common stock***

This is the initial public offering of our common stock. Of the shares of common stock to be sold in the offering, we are selling 2,608,696 shares and the selling stockholders identified in this prospectus are selling 13,468,489 shares. We will not receive any of the proceeds from the shares of common stock being sold by the selling stockholders. We expect the initial public offering price to be between \$16.00 and \$18.00 per share.

Prior to the offering, there has been no public market for our common stock. We have been approved for listing of our common stock on the Nasdaq Global Market under the symbol MELI.

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed on the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.**

	Per share	Total
Initial public offering price	\$	\$
Underwriting discount	\$	\$
Proceeds to MercadoLibre, Inc., before expenses	\$	\$
Proceeds to the selling stockholders, before expenses	\$	\$

We and the selling stockholders have granted the underwriters an option for a period of 30 days to purchase from us and them an aggregate of up to 2,411,577 additional shares of our common stock to cover over-allotments, if any.

**Investing in our common stock involves a high degree of risk. See Risk factors beginning on page 10 to read about certain factors you should consider before buying shares of our common stock.**

The underwriters expect to deliver the shares on or about \_\_\_\_\_, 2007.

**JPMorgan**

**Merrill Lynch & Co.**

**RBC CAPITAL MARKETS**  
, 2007

**Pacific Crest Securities**

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**You should rely only on the information contained in this prospectus. We and the underwriters have not authorized anyone to provide you with information that is different from or additional to, that contained in this prospectus. This prospectus may only be used where it is legal to sell our common stock. The information in this prospectus may only be accurate on the date of this prospectus.**

**We have not undertaken any efforts to qualify this offering for offers to individual investors in any jurisdiction outside the United States. Therefore, individual investors located outside the United States should not expect to be eligible to participate in this offering.**

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*Definitions.* Unless otherwise indicated, the terms we, us, our and company refer to MercadoLibre, Inc. and its consolidated subsidiaries. References in this prospectus to \$ or U.S.\$ are to U.S. dollars.

*Brands.* MercadoLibre and MercadoPago are brands that belong to us. This prospectus also includes trademarks, trade names and trade dress of other companies. Use or display by us of other parties' trademarks, trade names or trade dress or products is not intended to and does not imply a relationship with, or endorsement or sponsorship of us by, the trademark, trade name or trade dress owners. Solely for the convenience of the reader, we refer to our brands in this

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prospectus without the ® symbol, but these references are not intended to indicate in any way that we will not assert our rights to these brands to the fullest extent permitted by law.

*Market position.* We make statements in this prospectus about our competitive position and market share in, and the market size of, the Internet and e-commerce industries in certain Latin American countries. Market data and other statistical information used throughout this prospectus are based on independent industry publications, government publications, reports by market research firms and other published independent sources that we believe are reliable. Some data are also based on our estimates, which are derived from our review of internal surveys and independent sources. We have made these statements on the basis of statistics and other information from third-party sources that we believe are reliable. Although we have no reason to believe that any of this information or these reports are inaccurate in any material respect, neither we nor the selling stockholders, nor the underwriters have independently verified the competitive position, market share and market size or market growth data provided by third parties or by industry or general publications. None of the publications, reports, or other published industry sources referred to in this prospectus were commissioned by us or prepared at our request, and we have not sought or obtained the consent of any of these sources to include such market data in this prospectus.

*Rounding.* Certain figures included in this prospectus have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them.

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## Prospectus summary

*This summary highlights information contained elsewhere in this prospectus. This summary is not complete and does not contain all of the information you should consider before investing in our common stock. You should read the entire prospectus carefully before investing in our common stock, especially the risks of investing in our common stock discussed under Risk factors and our consolidated financial statements and their related notes included elsewhere in this prospectus.*

### The company

We host the largest online trading platform in Latin America, called MercadoLibre and located at [www.mercadolibre.com](http://www.mercadolibre.com). We are market leaders in e-commerce in each of Argentina, Brazil, Chile, Colombia, Ecuador, Mexico, Peru, Uruguay and Venezuela, based on unique visitors and page views during 2006. Additionally, we have recently launched online trading platforms in Costa Rica, the Dominican Republic and Panama. With a market of over 550 million people and a region with one of the world's fastest-growing Internet penetration rates, we provide buyers and sellers a robust online trading environment that fosters the development of a large and growing e-commerce community. We offer a technological and commercial solution that addresses the distinctive cultural and geographic challenges of operating an online trading platform in Latin America.

We offer our users two principal services:

*The MercadoLibre marketplace:* The MercadoLibre marketplace is a fully-automated, topically-arranged and user-friendly online trading service. This service permits both businesses and individuals to list items and conduct their sales and purchases online in either a fixed-price or auction-based format. Additionally, through online classified advertisements, our registered users can also list and purchase motor vehicles, vessels, aircraft, real estate and services. Any Internet user can browse through the various products and services that are listed on our 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. During the three months ended March 31, 2007, visitors to our website were able to browse an average of over 2.9 million total listings per month, organized by country, in over 2,000 different product categories. We believe that we have achieved a critical mass of active buyers, sellers and product listings in most of the countries where we operate and that our business can be readily scaled to handle increases in our user base and transaction volume. At March 31, 2007, we had 19.7 million confirmed registered MercadoLibre users. For 2006, we had 1.7 million unique sellers, 4.4 million unique buyers and 13.8 million successful items sold. During the three months ended March 31, 2007, we had 0.6 million unique sellers, 1.7 million unique buyers and 3.9 million successful items sold.



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We generate revenues from the MercadoLibre marketplace from listing fees, optional feature fees, final value fees and online advertising, and from MercadoPago from commissions for use of the service.

We achieved gross merchandise volume (which is a measure of the total value of goods and services bought and sold on the MercadoLibre marketplace excluding motor vehicles, vessels, aircraft and real estate) of \$1,075.1 million in 2006, an increase of approximately 76.9% compared to 2005. For the three months ended March 31, 2006 and 2007, our gross merchandise volume was \$217.8 million and \$312.5 million, respectively, which represented an increase of 43.5%. Since we commenced operations in 1999, we have consistently generated higher annual revenues over the prior year, and since 2005 we have generated positive net income and cash from operations. For 2006, we recognized net revenues of \$52.1 million, which represented a compounded annual growth rate of 102.8% from 2004 to 2006. For the three months ended March 31, 2007, our net revenues were \$16.5 million, which represented an increase of 49.8% compared to the same period in 2006. For 2006, our net income was approximately \$1.1 million. The following table sets forth, for the periods indicated, some of our principal consolidated financial and operational indicators:

(in millions)	Year ended December 31,			Three months ended March 31,	
	2004	2005	2006 (unaudited)	2006	2007
Net revenues	\$ 12.7	\$ 28.2	\$ 52.1	\$ 11.0	\$ 16.5
Income (loss) from operations	\$ (3.3)	\$ 0.8	\$ 5.4	\$ 0.8	\$ 2.9
Net income (loss)	\$ (2.2)	\$ 2.4	\$ 1.1	\$ 0.1	\$ 1.0
Gross merchandise volume(1)	\$ 299.3	\$ 607.7	\$ 1,075.1	\$ 217.8	\$ 312.5
Number of successful items sold(2)	5.1	8.4	13.8	2.8	3.9
Total payment volume(3)	\$ 8.9	\$ 38.5	\$ 89.0	\$ 16.5	\$ 26.6

(1) Measure of the total U.S. dollar sum of all transactions completed through the MercadoLibre marketplace, excluding motor vehicles, vessels, aircraft and real estate.

(2) Measure of the number of items that were sold through the MercadoLibre marketplace.

(3) Measure of the total U.S. dollar sum of all transactions paid for using MercadoPago.

On November 10, 2005, we acquired certain operations of a regional competitor in online trading, DeRemate.com Inc., including all of its operations in Brazil, Colombia, Ecuador, Mexico, Peru, Uruguay and Venezuela. See Business History of MercadoLibre for more information.

**Market opportunity**

We provide services to a region with one of the world's fastest growing Internet penetration rates. We were one of the initial entrants into the Latin American e-commerce market. The region, which consists of South America, Central America, the Caribbean and Mexico, is home to over 550 million people, or approximately 8.5% of the world's population. The International Monetary Fund estimates that Latin America's combined annual gross domestic product in 2006 was greater than \$2.9 trillion. Based on information released by InternetWorldStats.com, estimates for Internet penetration in Latin America at May 7, 2007 range from a high of 42.4% for Chile to 17.2% for Brazil and 6.5% for Panama with an average penetration of approximately 18.4%. Between the end of 2000 and May 7, 2007, InternetWorldStats.com estimates that Latin America's Internet user base increased approximately 466.2% with a compounded annual growth rate of 30.9%.

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We believe that the Latin American market presents a significant opportunity for an Internet-based marketplace provider. E-commerce platforms offer advantages of scale, information availability and accessibility to markets, which address many of the inefficiencies associated with traditional offline trading in Latin America, such as limited access to information, high number of parties in distribution chains, limited inventory, and obstacles to efficient communication and interaction between market participants.

## **Competitive strengths**

We believe the following characteristics give us a competitive advantage in realizing the potential of our market opportunity:

***We have a strong brand and are one of the leaders in the Latin American e-commerce market.*** We were one of the initial entrants in the Latin American e-commerce market, and we host the leading online trading platform in the region based on unique visitors and page views. We have built strong brand awareness and a growing online community that provides our users with the advantages of a sizable network with a large number of participants in a single marketplace. In some countries, we operate the only large-scale online trading platform that covers a wide range of product and service categories.

***We operate a proven business model.*** Business models similar to ours have been successfully implemented in many countries around the world, most notably by one of our stockholders, eBay Inc., or eBay. We have had the advantage of working closely with eBay in exchanging industry best practices and developing and improving our services and strategy.

***Our business model offers significant economies of scale.*** Since we started operations in 1999, we have shown significant revenue growth from year to year. Our business model has substantial operating leverage because a significant portion of our costs are fixed, such that increases in revenues have resulted in higher margins year after year. From 2004 to 2006, our annual revenues increased from \$12.7 million to \$52.1 million, a 311.1% increase, while total costs and operating expenses grew from \$16.0 million to \$46.7 million, a 191.4% increase.

***Our product range and information is extensive.*** We offer our customers one of the broadest selections of products and product categories among e-commerce sites in Latin America. Our sites offer on average over 2.9 million total listings per month from a selection of over 2,000 different product categories. Our product selection ranges from traditional e-commerce items such as books, music, videos, electronics, computers, hardware, cameras and cellular telephones, to industrial goods and services, to real estate and contractor services. Our website offers an efficient shopping experience with extensive information, ratings and reviews on listed products.

***We provide creative and innovative solutions.*** We have developed creative and innovative solutions to the challenges of conducting e-commerce in Latin America. For example, in addition to offering sellers an auction-based format to sell an item, the MercadoLibre marketplace also offers a fixed-price alternative to respond to the current preferences in the region for fixed-price listings. In order to address the specific needs of buyers and sellers of motor vehicles, vessels, aircraft, real estate and certain services, items for which buyers will typically require a physical inspection or specific types of interaction, we offer our users an online classified advertisements service that is dedicated to these items. To complement the

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MercadoLibre marketplace by providing an end-to-end service that facilitates the completion of transactions online, we have developed MercadoPago, which operates as an escrow service that allows our users to make and receive payments efficiently and securely online. In order to meet the demand for product information by potential purchasers, we have launched product content sections on our platform that encourage user ratings and product reviews, and provide product catalogues and purchasing guides. To improve the efficiency of our MercadoLibre marketplace, we launched a relevance-based algorithm to sort listings, which provides users with a superior buying experience by matching supply and demand.

***We have acquired considerable local market expertise.*** As one of the first Internet trading platforms in the countries where we operate, we have developed an understanding of the needs and preferences of our users and customers. We have historically used this expertise to develop services and products that cater to the unique needs of Latin American e-commerce clients.

***We have an experienced and highly qualified team.*** We are led by a team of highly qualified management and information technology professionals who run our business and websites from our offices in Buenos Aires, São Paulo, Mexico City, Caracas, Santiago and Bogotá. Our ten most senior management officers and our four most senior technology professionals joined our team in 2000 or before, which provides us with stable and seasoned leadership. The commitment, knowledge and track record of both our management and technology teams are valuable assets to our company. We believe that our corporate culture contributes to the high level of satisfaction of our employees and to the retention and commitment of our team.

## **Business strategy**

We seek to serve people in Latin America by offering an online marketplace that can improve the quality of life of those who use it, while creating significant value for our stockholders. We serve our buyers by giving them access to a broader and more affordable variety of products and services than those available on other online and offline venues. We serve our sellers by allowing them to reach a larger and more geographically diverse user base at a lower overall cost and investment than offline venues, which enables them to build businesses. More broadly, we strive to turn inefficient markets into more efficient ones and in that process we generate value. To achieve these objectives, we apply the following strategies:

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

***Increase monetization of our transactions.*** We have focused and will continue to focus on improving the revenue generation capacity of our business by implementing initiatives designed to maximize the revenues we receive from transactions on our platform. Some of these initiatives include increasing our fee structure, introducing listing fees in the countries

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where we do not currently charge them, and selling advertising and Internet marketing services on our platform. Additionally, we intend to take advantage of the natural synergies that exist between our marketplace and payments service by promoting increased use of MercadoPago so that it becomes the preferred online payment method on and off our platform.

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

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

**Increase operational efficiency.** We believe that our business model is an advantage in competing with traditional online and off-line retailers as we do not require a physical showroom or storage locations and do not actually process the orders. We plan to maximize this advantage by achieving economies of scale, maintaining controls on overhead costs and reducing variable costs whenever possible.

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

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

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We are a Delaware corporation incorporated on October 15, 1999. Our registered office is located at 15 East North Street, Dover, Delaware. Our principal executive offices are located at Tronador 4890, 8<sup>th</sup> floor, Buenos Aires, Argentina, C1430DNN. Our telephone number is +54 11 5352-8000 and our website is located at [www.mercadolibre.com](http://www.mercadolibre.com). Information contained on our website shall not constitute, or be deemed incorporated as, a part of this prospectus.

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## The offering

Issuer	MercadoLibre, Inc.
Common stock offered by us	2,608,696 shares.
Common stock offered by the selling stockholders	13,468,489 shares.
Common stock to be outstanding after this offering	43,835,263 shares (or 44,226,567 if the underwriters exercise in full their option to purchase 391,304 additional shares to cover over-allotments if any.)(1)
Offering price	We expect the initial public offering price to be between \$16.00 and \$18.00 per share.
Over-allotment option	We and the selling stockholders have granted the underwriters an option for a period of 30 days to purchase from us and them an aggregate of up to 2,411,577 additional shares of our common stock to cover any over-allotments.
Use of proceeds	We expect to receive net proceeds of approximately \$40.6 million from our sale of 2,608,696 shares of common stock (or \$47.0 million if the underwriters exercise in full their option to purchase from us 391,304 additional shares to cover any over-allotments) at an assumed initial public offering price of \$17.00 per share, which is the midpoint of the price range set forth on the cover of this prospectus, and after deducting the underwriting discount and estimated offering expenses payable by us. We intend to use the net proceeds of this offering to repay approximately \$9.3 million outstanding on a loan from eBay and the remainder for general corporate purposes. Pending these uses, we intend to invest our net proceeds from this offering in short-term, interest-bearing, investment-grade securities.
	We will not receive any of the sales proceeds associated with common stock offered by the selling stockholders.
See	Use of proceeds and Certain relationships and related transactions.
Dividend policy	We have not declared or paid any cash dividends on our capital stock and do not anticipate paying any cash dividends in the foreseeable future. See Dividend policy and Description of capital stock.
Voting rights	Holders of our common stock will be entitled to one vote per share on all matters submitted to a vote of our stockholders.
Proposed Nasdaq Global Market symbol	We have been approved for listing of our common stock on the Nasdaq Global Market under the trading symbol MELI.



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Lock-up agreements                      In connection with this offering, we, the selling stockholders, our directors, executive officers and certain other stockholders will enter into lock-up agreements with the underwriters of this offering under which neither we nor they may, for a period of 180 days after the date of this prospectus, directly or indirectly sell, dispose of or hedge any shares of common stock or any securities convertible into or exchangeable for shares of common stock without the prior written consent of J.P. Morgan Securities Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated on behalf of the underwriters. See [Underwriting](#) for more information regarding lock-up agreements.

Certain relationships and related transactions                      Please read [Certain relationships and related transactions](#) for a discussion of business relationships between us and related parties and [Underwriting](#) for information regarding relationships between us and the underwriters.

Risk factors                                      You should carefully read and consider the information set forth under [Risk factors](#) and all other information set forth in this prospectus before investing in our common stock.

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(1) Unless otherwise indicated, all information contained in this prospectus assumes no exercise of the underwriters' option to purchase from us up to 391,304 additional common shares and from the selling stockholders up to 2,020,273 additional common shares to cover over-allotments, if any, and that the common stock to be sold in this offering is sold at \$17.00, which is the midpoint of the range set forth on the cover page of this prospectus.

Unless otherwise indicated, all information in this prospectus reflects the conversion of all outstanding shares of preferred stock and different classes of our common stock into one class of common stock upon completion of this offering. See [Description of capital stock](#).

Except as otherwise noted, the number of shares of our common stock to be outstanding after this offering excludes 149,111 shares reserved for future issuance upon exercise of outstanding options and 296,437 shares available for future awards under our stock option plan. See [Compensation discussion and analysis](#), [Our stock and stock option plans](#) and note 11 to our consolidated financial statements.

Table of Contents**Summary financial and other data**

The following summary financial data at December 31, 2005 and 2006 and for the years ended December 31, 2004, 2005 and 2006 have been derived from our audited consolidated financial statements and their related notes included elsewhere in this prospectus. The following summary financial data at December 31, 2004 have been derived from our audited consolidated financial statements for that year, which are not included in this prospectus. The following summary financial data at March 31, 2007 and for the three months ended March 31, 2006 and 2007 have been derived from our unaudited condensed consolidated financial statements included elsewhere in this prospectus. These statements include all normal recurring adjustments that management believes are necessary to fairly present our financial position, operating results and cash flows. Operating results for the three months ended March 31, 2007 are not necessarily indicative of the results that may be expected for the year ended December 31, 2007 or for any other period.

The following summary financial and other data is qualified by reference to and should be read in conjunction with Capitalization, Selected financial and other data, Management's discussion and analysis of financial condition and results of operations and our consolidated financial statements and related notes thereto included elsewhere in this prospectus.

(in millions)	Year ended December 31,			Three months ended March 31,	
	2004	2005	2006 (unaudited)	2006	2007
<b>Statement of operations data:</b>					
Net revenues	\$ 12.7	\$ 28.2	\$ 52.1	\$ 11.0	\$ 16.5
Cost of net revenues	(2.5)	(6.1)	(12.1)	(2.5)	(3.6)
Gross profit	10.2	22.1	40.0	8.5	12.9
<b>Operating expenses:</b>					
Product and technology development	(1.3)	(2.2)	(3.1)	(0.7)	(1.0)
Sales and marketing	(9.1)	(14.7)	(23.4)	(5.1)	(6.3)
General and administrative	(3.1)	(4.4)	(8.2)	(1.9)	(2.7)
Total operating expenses	(13.5)	(21.3)	(34.6)	(7.7)	(10.0)
Income (loss) from operations	(3.3)	0.8	5.4	0.8	2.9
Net income (loss)	\$ (2.2)	\$ 2.4	\$ 1.1	\$ 0.1	\$ 1.0



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(in millions, except share data)	At December 31,			At March 31, 2007
	2004	2005	2006	(unaudited)
<b>Balance sheet data:</b>				
Total assets	\$ 24.1	\$ 44.4	\$ 53.8	57.2
Total liabilities	5.1	23.2	30.5	32.2
Mandatorily redeemable convertible preferred stock	63.1	63.6	64.1	64.2
Total stockholders deficit	(44.1)	(42.4)	(40.7)	(39.2)
<b>Earnings (loss) per share data:</b>				
Basic net income (loss) available to common stockholders per common share	(0.21)	0.05	0.01	0.02
Diluted net income (loss) per common share		0.05		
Weighted average shares:				
Basic	12,739,980	13,065,496	13,149,139	13,375,482
Diluted		13,671,359		

(in millions)	Year ended December 31,			Three months ended March 31,	
	2004	2005	2006	2006	2007
<b>Other data:</b>					
Number of confirmed registered users at end of period(1)	6.5	12.2	18.2	13.5	19.7
Number of confirmed new registered users during period(2)	2.5	5.7	6.0	1.3	1.6
Gross merchandise volume(3)	\$ 299.3	\$ 607.7	\$ 1,075.1	\$ 217.8	\$ 312.5
Number of successful items sold(4)	5.1	8.4	13.8	2.8	3.9
Total payment volume(5)	\$ 8.9	\$ 38.5	\$ 89.0	\$ 16.5	\$ 26.6
Capital expenditures	\$ 2.1	\$ 2.0	\$ 2.4	\$ 0.6	\$ 0.6
Depreciation and amortization	\$ 1.1	\$ 1.6	\$ 2.0	\$ 0.5	\$ 0.5

(1) Measure of the cumulative number of users who have registered on the MercadoLibre marketplace and confirmed their registration.

(2) Measure of the number of new users who have registered on the MercadoLibre marketplace and confirmed their registration.

(3) Measure of the total U.S. dollar sum of all transactions completed through the MercadoLibre marketplace, excluding motor vehicles, vessels, aircraft and real estate.

(4) Measure of the number of items that were sold through the MercadoLibre marketplace.

(5) Measure of total U.S. dollar sum of all transactions paid for using MercadoPago.

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## **Risk factors**

*An investment in our common stock involves a high degree of risk. In addition to the other information in this prospectus, you should carefully consider the following risk factors in evaluating us and our business before purchasing our common stock. If any of the risks discussed in this prospectus actually occur, our business, financial condition and results of operations could be materially adversely affected. If this were to occur, the value of our common stock could decline and you may lose all or part of your investment. In connection with the forward-looking cautionary statements that appear in this prospectus, you should also carefully review the cautionary statement referred to under **Forward-looking statements**.*

### **Risks related to our business**

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

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

In addition, the Internet may not be commercially viable in Latin America in the long term for a number of reasons, including potentially inadequate development of the necessary network infrastructure or delayed development of enabling technologies, performance improvements and security measures. 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

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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.

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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.

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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 during 2006 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

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Denim Ltda., Editora COC Empreendimentos Culturais Ltda., Barros Fischer e Associados Ltda., Fallms Distribuição de Fitas Ltda., 100% Nacional Distribuidora de Fitas Ltda. and Xuxa Promoções e Produções Artísticas 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

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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.

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***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



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key person life insurance policies. The option grants to most of our senior management and key employees are fully vested. Therefore, these employees may not have sufficient financial incentive to stay with us. Consequently we may have to incur costs to replace key employees who leave and our ability to execute our business model could be impaired if we cannot replace them in a timely manner.

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

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

Currently our revenues depend primarily on listing, optional feature and final value fees that we charge to our sellers for listing and upon selling their items and services, which together represented 88.4% of our revenues for 2005, 85.0% for 2006 and 85.6% for the three months ended March 31, 2007 (the remainder of our revenues consist of advertising revenues and MercadoPago revenues). Our platform depends upon providing access to a large market at a lower cost than other comparable alternatives. If market conditions force us to substantially lower our listing or final value fees or if we fail to continue to attract new buyers and sellers, and if we are unable to effectively diversify and expand our sources of revenue, our profitability, results of operations and financial condition could be adversely affected.

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

***We are subject to consumer trends and 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

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include the smaller size of the national markets, lower Internet adoption rates, lower confidence in remote payment mechanisms and less reliable postal and parcel services. Therefore, you should not interpret the success of any of these companies as indicative of our financial prospects.

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

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

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

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

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

We incur losses from claims that customers did not authorize a purchase, from buyer fraud and from erroneous transmissions. For 2006, MercadoPago's transaction loss arising from charge-backs from unrecognized credit card payments totaled \$1.2 million, representing 1.3% of MercadoPago's total payment volume and 15.8% of net revenues of MercadoPago. For the first quarter of 2007, this loss totaled \$0.3 million, representing 1.2% of MercadoPago's total

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payment volume and 14.4% of net revenues of MercadoPago. In addition to the direct costs of such losses, if they are related to credit card transactions and become excessive they could result in MercadoPago losing the right to accept credit cards for payment. If MercadoPago is unable to accept credit cards, our business will be adversely affected given that credit cards are the most widely used method for funding the MercadoPago accounts. We have taken measures to detect and reduce the risk of fraud on MercadoPago, such as running address verification system (AVS) and card security code (CSC) 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

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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. Senders funded approximately 67.2% and 65.6% of MercadoPago's payment volume using credit cards during 2006 and the three months ended March 31, 2007, respectively (either in a single payment or in installments), and MercadoPago's financial success will remain highly sensitive to changes in the rate at which its senders fund payments using credit cards. Senders may prefer credit card funding rather than bank account transfers for a number of reasons, including the ability to pay in installments in Brazil, Mexico and Argentina, the ability to dispute and reverse charges if merchandise is not delivered or is not as described, the ability to earn frequent flyer miles or other incentives offered by credit cards, the ability to defer payment, or a reluctance to provide bank account information to us.

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***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

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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. Based on reports filed with the SEC by eBay, a hearing for such motion was scheduled for June 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

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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.

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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



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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.

## **Risks related to doing business in Latin America**

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

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

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

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

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***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, which together accounted for 87.9% of our revenues for 2006 and 86.5% for the three months ended March 31, 2007, have experienced substantial depreciation and volatility, particularly against the U.S. dollar, in the past. However, certain currencies have appreciated against the U.S. dollar in recent years. For example, in 2004, 2005 and 2006, the Brazilian *real* appreciated against the U.S. dollar by 8.1%, 11.7% and 5.0%, respectively. Currency movements, as well as higher interest rates, have materially and adversely affected the economies of many Latin American countries, including countries which account or are expected to account for a significant portion of our revenues. The depreciation of local currencies creates inflationary pressures that may have an adverse effect on us and generally restricts access to the international capital markets. For example, the devaluation of the Argentine peso has had a negative impact on the ability of Argentine

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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 devalue against the U.S. dollar), the economic value of our revenues in U.S. dollar terms will decline.***

We are subject to increased risks relating to foreign currency exchange rate fluctuations. Because we conduct our business outside the United States and receive almost all of our revenues in currencies other than the U.S. dollar, but report our results in U.S. dollars, we face exposure to adverse movements in currency exchange rates. The currencies of certain countries where we operate, including most notably Brazil, Argentina and Mexico, have historically experienced significant devaluations. The results of operations in the countries where we operate are exposed to foreign exchange rate fluctuations as the financial results of the applicable subsidiaries are translated from the local currency into U.S. dollars upon consolidation. If the U.S. dollar weakens against foreign currencies, as occurred in 2004, 2005 and 2006, the translation of these foreign-currency-denominated transactions will result in increased net revenues, operating expenses, and net income. Similarly, our net revenues, operating expenses, and net income will decrease if the U.S. dollar strengthens against foreign currencies. For 2006, 59.1% of our revenues were denominated in Brazilian reais, 15.1% in Argentine pesos and 13.8% in Mexican pesos. For the three months ended March 31, 2007, 57.0% of our revenues were denominated in Brazilian reais, 14.7% in Argentine pesos and 14.8% in Mexican pesos. The foreign currency exchange rates in 2006 relative to 2005 resulted in higher net revenues of approximately \$2.7 million and an increase in aggregate cost of net revenues and operating expenses of approximately \$1.6 million. While we have entered in the past into transactions to hedge portions of our foreign currency translation exposure, these are expensive, and in addition it is impossible to perfectly predict or completely eliminate the effects of this exposure.

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

Most Latin American countries have historically experienced high rates of inflation. Inflation and some measures implemented to curb inflation have had significant negative effects on the

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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.

## **Risks related to the offering and to our shares**

### ***There has been no prior market for our common stock, and an active trading market for our common stock may not develop.***

Prior to this offering, there has been no public market for our common stock, and we cannot assure you that an active public market will develop or be sustained after this offering or that investors will be able to sell the common stock should they desire to do so. We will negotiate with the representatives of the underwriters to determine the initial public offering price, and it may bear no relationship to the price at which the common stock will trade upon completion of this offering.

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***The price of our shares may fluctuate substantially, and your investment may decline in value.***

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

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

***We will continue to be significantly influenced by a group of stockholders that will control a significant percentage of our common shares.***

Upon completion of this offering we expect that several stockholders will own a significant percentage of our common stock. eBay will own approximately 18.5% of our common stock. Certain members of our management are also expected to hold a significant percentage of our common stock after this offering. Investment entities affiliated with General Atlantic LLC, collectively, General Atlantic, and investment entities affiliated with Tiger Global, L.P., collectively, Tiger, have each separately expressed interest in acquiring a significant amount of shares of our common stock in this offering. As of the date of this prospectus, Tiger is the beneficial owner of 1.7 million shares of our common stock. If General Atlantic and Tiger purchase shares in this offering, we anticipate that upon completion of this offering, General Atlantic and Tiger could each hold shares representing more than 10% of our common stock. If General Atlantic chooses to purchase a significant amount of shares of common stock in this offering, it has expressed an interest in submitting to our nominating and corporate governance committee a director nominee to be considered for appointment by our board of directors after completion of this offering. See Underwriting.

Although the stockholders agreement will terminate upon the closing of this offering, we cannot assure you that stockholders will not enter into one in the future. These stockholders will retain the power to influence the outcome of important corporate decisions or matters submitted to a vote of our stockholders. The interests of these stockholders may conflict with, or differ from, the interests of other holders of our common shares. For example, these stockholders could cause us to make acquisitions that increase the amount of our indebtedness or outstanding shares of common stock, sell revenue-generating assets or inhibit change of control transactions that benefit other stockholders. They may also pursue acquisition opportunities that may be complementary to our business, and as a result, those acquisition opportunities may not be available to us. So long as these stockholders continue to own a substantial number of shares of our common stock, they will significantly influence all our corporate decisions and together with other stockholders may be able to effect or inhibit changes in control of our company.

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

Certain provisions of our certificate of incorporation and by-laws, to be effective immediately before this offering, may inhibit a change of control that our board of directors does not approve or changes in the composition of our board of directors, which could result in the entrenchment of current management. These provisions include:

advance notice requirements for stockholder proposals and director nominations;

a staggered board of directors;

limitations on the ability of stockholders to remove directors other than for cause;

limitations on the ability of stockholders to own and/or exercise voting power over 20% of our common stock;

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

the inability of stockholders to act by written consent;

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

the authority of the board of directors to issue, without stockholder approval, preferred stock with any terms that the board of directors determines and additional shares of our common stock; and

limitations on the ability of certain stockholders to enter into certain business combinations with us, as provided under Section 203 of the Delaware General Corporation Law.

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

***We may require additional capital after the offering, and this additional capital may not be available on acceptable terms or at all.***

We currently anticipate that the net proceeds of this offering, together with our available funds, will be sufficient to meet our anticipated needs for working capital, capital expenditures and business expansion through at least the next twelve months. After that time, we may need to raise additional funds. We may need to raise additional funds sooner in order to fund more rapid expansion (organically or through strategic acquisitions), to develop new or enhanced services or products, to respond to competitive pressures or to acquire complementary products, businesses or technologies. If we raise additional funds through the issuance of equity or convertible debt securities, the percentage ownership of our stockholders will be reduced, stockholders may experience additional dilution and the securities that we issue may have rights, preferences and privileges senior to those of our common stock. We cannot assure you that additional financing will be available on terms favorable to us or at all. If adequate funds are not available or are not available on acceptable terms, we may not be able to fund our expansion, take advantage of unanticipated acquisition opportunities, develop or enhance services or products or respond to competitive pressures. These inability could have a material adverse effect on our business, results of operations and financial condition.



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

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

After the consummation of this offering, there will be 43,835,263 shares of our common stock outstanding. Subject to the lock-up agreements described below, the 16,077,185 shares of common stock sold in this offering (18,488,762 shares if the underwriters exercise their over-allotment option in full) will be freely tradable without restriction or further registration under the Securities Act of 1933, as amended, by persons other than our affiliates within the meaning of Rule 144 under the Securities Act.

Certain stockholders or entities controlled by them or their permitted transferees will, subject to the lock-up agreements described below, be able to sell their shares in the public market from time to time without registering them, subject to certain limitations on the timing, amount and method of those sales imposed by regulations promulgated by the Securities and Exchange Commission, or the SEC. Holders of restricted stock will also have the right to cause us to register the resale of shares of common stock beneficially owned by them. For example, beginning 90 days after the completion of this offering, certain of our stockholders will have the right to request that we register with the SEC shares of our common stock having a gross offering price of at least \$2,000,000. If any of these stockholders, the affiliated entities controlled by them or their respective permitted transferees were to sell a large number of their shares, the market price of our common stock could decline significantly. In addition, the perception in the public markets that sales by them might occur could also adversely affect the market price of our common stock.

We, the selling stockholders, certain of our other stockholders and our directors and executive officers have agreed to lock-up agreements that restrict us, these stockholders and our directors and executive officers, subject to specified exceptions, from selling or otherwise disposing of any shares of our stock for a period of 180 days after the date of this prospectus without the prior consent of J.P. Morgan Securities Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated on behalf of the underwriters. Although there is no present intention to do so, the underwriters may, in their sole discretion and without notice, release all or any portion of the shares from the restrictions in any of the lock-up agreements described above. Each of General Atlantic and Tiger has agreed that, in the event it purchases any shares in this offering, it will not, without our prior written consent, transfer or dispose of, directly or indirectly, any of its shares of our common stock or securities convertible into or exchangeable or exercisable for our shares, for a period of 18 months. In addition, these lock-up agreements are subject to the exceptions described in Underwriting.

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

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

We have not declared or paid any cash dividends on our capital stock and do not anticipate paying any cash dividends in the foreseeable future. Instead, we intend to retain earnings, if any, for future operations and expansion and debt repayments. In addition, the terms of certain of our credit agreements prohibit the payment of cash dividends on our capital stock. Any decision



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to declare and pay dividends in the future will be made at the discretion of the board of directors and will depend on, among other things, our results of operations, cash requirements, financial condition, contractual restrictions and other factors that our board of directors may deem relevant.

***As a new investor, you will experience substantial and immediate dilution in the net tangible book value per share of your shares.***

The initial public offering price of our common stock is substantially higher than the net tangible book value per share of our outstanding common stock. Investors purchasing shares of common stock in this offering will incur an immediate dilution of \$16.00 in net tangible book value per share (based on the midpoint of the price range per share of common stock set forth on the cover of this prospectus). This means that investors in this offering will pay a price per share that substantially exceeds the value of our tangible assets after subtracting liabilities. See [Dilution](#) for more information.

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

After completion of this offering, we will become subject to the periodic reporting requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act, and the other rules and regulations of the SEC and the Nasdaq Global Market. We will also be subject to various other regulatory requirements, including the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act. Section 404 of the Sarbanes-Oxley Act requires that we evaluate and determine the effectiveness of our internal control over financial reporting by December 31, 2008. If we or our independent registered public accounting firm determine that we have a material weakness or significant deficiency in our internal control over financial reporting, we may not detect errors on a timely basis and our financial statements may be materially misstated. As a result, our stockholders could lose confidence in our financial reporting, which could harm the trading price of our stock. In addition, upon completion of this offering, we will become subject to the rules of The Nasdaq Global Market. We expect the rules and regulations to increase our legal and financial compliance costs and to make some activities more time-consuming and costly.

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

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

Although we are a Delaware corporation, our subsidiaries and most of our assets are located outside of the United States. Furthermore, most of our directors and officers and some experts named in this prospectus reside outside the United States. As a result, you may not be able to enforce against us or our directors or officers in U.S. courts judgments based on the civil liability provisions of U.S. federal securities laws. It is unclear if original actions of civil liabilities based solely upon U.S. federal securities laws are enforceable in courts outside the United States. It is

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equally unclear if judgments entered by U.S. courts based on the civil liability provisions of U.S. federal securities laws are enforceable in courts outside the United States. Any enforcement action in a court outside the United States will be subject to compliance with procedural requirements under applicable local law, including the condition that the judgment does not violate the public policy of the applicable jurisdiction.

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## Forward-looking statements

Any statements contained in this prospectus that are not statements of historical fact, including statements about our beliefs and expectations, are forward-looking statements and should be evaluated as such. The words anticipate, believe, expect, intend, plan, estimate, target, project, should, may, could, will and similar words and expressions are intended to identify forward-looking statements. These forward-looking statements are contained throughout this prospectus, for example in Prospectus summary, Risk factors, Dividend policy, Management's discussion and analysis of financial condition and results of operations and Business. Forward-looking statements generally relate to information concerning our possible or assumed future results of operations, business strategies, financing plans, competitive position, industry environment, potential growth opportunities, the effects of future regulation and the effects of competition. Such forward-looking statements reflect, among other things, our current expectations, plans, projections and strategies, anticipated financial results, future events and financial trends affecting our business, all of which are subject to known and unknown risks, uncertainties and important factors in addition to those discussed elsewhere in this prospectus that may cause our actual results to differ materially from those expressed or implied by these forward-looking statements, including, among other things:

continued growth of online commerce and Internet usage in Latin America;

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

government regulation;

litigation and legal liability;

system interruptions or failures;

our ability to attract and retain qualified personnel;

consumer trends;

security breaches and illegal uses of our services;

competition;

reliance on third-party service providers;

enforcement of intellectual property rights;

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

seasonal fluctuations; and

political, social and economic conditions in Latin America.

Many of these risks are beyond our ability to control or predict. All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements contained throughout this prospectus. Because of these risks, uncertainties and assumptions, you should not place undue reliance on these forward-looking statements. Furthermore, forward-looking statements speak only as of the date they are made. We do not undertake any obligation to update or review any forward-looking information, whether as a result of new information, future events or otherwise.

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## **Use of proceeds**

We expect to receive net proceeds of approximately \$40.6 million from our sale of 2,608,696 shares of common stock (or \$47.0 million if the underwriters exercise in full their option to purchase from us 391,304 additional shares to cover any over-allotments) at an assumed initial public offering price of \$17.00 per share, which is the midpoint of the price range set forth on the cover of this prospectus, and after deducting the underwriting discount and estimated offering expenses payable by us. A \$1.00 increase (decrease) in the assumed initial public offering price of \$17.00 per share would increase (decrease) the net proceeds to us from this offering by approximately \$2.5 million, assuming the number of shares that we offer, as set forth on the cover page of this prospectus, remains the same, and after deducting the underwriting discount and estimated offering expense. We have also agreed to consider, at our discretion, paying to the underwriters an incentive fee equal to up to 1% of the gross proceeds to us from our sale of shares in this offering. If we determine to pay this additional fee in full, our net proceeds would be reduced by approximately \$443,000 (or \$510,000 if the underwriters exercise in full their option to purchase from us 391,304 additional shares to cover any over-allotments.)

We will not receive any proceeds from the sale of the common stock by the selling stockholders.

We intend to use \$9.3 million of our net proceeds from this offering to repay the total outstanding principal amount and accrued interest, as required under the Loan and Security Agreement, dated November 2, 2005, between us and eBay. The interest rate on the loan is 7.0% per year on the basis of a 360-day year, with an additional 3.0% interest if we are in default. The borrowings under the loan mature 15 days after we receive the proceeds of an issuance of equity securities, such as this offering. We expect to use our remaining net proceeds for general corporate purposes, including working capital. In particular, we may acquire or invest in businesses, technologies or products that are complementary to our business. Although we have no acquisitions pending, we regularly evaluate acquisition opportunities consistent with these strategic goals. Pending these uses, we intend to invest our net proceeds from this offering in short-term, interest-bearing, investment-grade securities. We will have significant discretion as to the use of the net proceeds from this offering.

## **Dividend policy**

We have not declared or paid any cash dividends on our capital stock and do not anticipate paying any cash dividends in the foreseeable future. Instead, we intend to retain earnings, if any, for future operations and expansion and debt repayments. Any decision to declare and pay dividends in the future will be made at the discretion of our board of directors and will depend on, among other things, our results of operations, cash requirements, financial condition, contractual restrictions and other factors that our board of directors may deem relevant. For example, the terms of the agreement governing our loan with eBay imposes restrictions on our ability to declare dividends on our capital stock in an event of default. This agreement will terminate upon payment in full of the outstanding principal amount of the loan and accrued interest, which we expect to pay with the net proceeds of this offering. Currently, we do not plan on incurring any additional material debt.

Table of Contents**Capitalization**

The following table sets forth our cash, cash equivalents, short and long term investments, current debt and capitalization at March 31, 2007:

(i) on an actual basis; and

(ii) on a pro forma, as adjusted basis to give effect to (a) our issuance of 478,470 shares upon exercise of outstanding options and our receipt of the aggregate exercise price therefrom since March 31, 2007, (b) the conversion of all of our outstanding shares of preferred stock (mandatorily redeemable convertible preferred stock) and different classes of common stock into shares of one class of common stock upon the closing of this offering (see Description of capital stock ), (c) our issuance of 184,273 shares upon the exercise of outstanding warrants for which we have received irrevocable notices of election to exercise upon completion of this offering and our receipt of the aggregate exercise price therefrom, (d) our sale of 2,608,696 shares of common stock in this offering at an assumed initial public offering price of \$17.00 per share, which is the midpoint of the price range per share of common stock set forth on the cover of this prospectus, and after deducting the underwriting discount and estimated offering expenses, and (e) application of the net proceeds as described in Use of proceeds.

You should read this table in conjunction with our consolidated financial statements and accompanying notes included elsewhere in this prospectus.

**March 31, 2007**

<b>(in millions) (unaudited)</b>	<b>Actual</b>	<b>Pro forma, as adjusted</b>
Cash and cash equivalents and short and long term investments	\$ 15.6	\$ 47.9
Debt, current portion	0.3	
Debt, long-term portion	9.0	
Total debt	9.3	
Mandatorily redeemable convertible preferred stock	64.2	
Stockholders' (deficit) equity:		
Common stock, par value \$0.01 per share, 108,800,000 shares authorized; 13,375,982 shares issued and outstanding, at March 31, 2007 (actual)	0.1	
Common stock, par value \$0.001 per share, 110,000,000 shares authorized; 43,835,263 shares issued and outstanding, pro forma, as adjusted(1)		
Additional paid-in capital	2.6	110.8
Accumulated deficit	(43.1)	(43.7)
Accumulated other comprehensive income	1.2	1.2
Total stockholders' equity (deficit)	(39.2)	68.3
Total capitalization(2)	\$ 34.3	68.3

- (1) Assumes no exercise of the underwriters' option to purchase 391,304 shares from us to cover over-allotments. Excludes 149,111 shares reserved for future issuance upon exercise of outstanding options and 296,437 shares available for future awards under our stock option plan.
- (2) Total capitalization (actual) includes total debt plus mandatorily redeemable convertible preferred stock and stockholders' deficit; total capitalization, pro forma, as adjusted includes total debt plus stockholders' equity.

Table of Contents**Dilution**

If you invest in our common stock, your interest will be diluted to the extent of the difference between the initial public offering price per share of our common stock and the net tangible book value per share of our common stock upon completion of this offering.

Our net tangible book value at March 31, 2007 was a deficit of \$64.2 million, or \$(4.80) per share, based on the number of shares of common stock outstanding at March 31, 2007. Net tangible book value per share of common stock is equal to our total assets less intangible assets and net deferred tax assets less total liabilities and mandatorily redeemable convertible preferred stock, divided by the number of outstanding shares of common stock at March 31, 2007. After giving effect to (a) our issuance of 478,470 shares upon exercise of outstanding options and our receipt of the aggregate exercise price therefrom since March 31, 2007, (b) the conversion of all of our outstanding shares of preferred stock (mandatorily redeemable convertible preferred stock) and different classes of common stock into shares of one class of common stock upon the closing of this offering (see Description of capital stock ), (c) our issuance of 184,273 shares upon the exercise of outstanding warrants for which we have received irrevocable notices of election to exercise upon completion of this offering and our receipt of the aggregate exercise price therefrom, and (d) our sale of 2,608,696 shares of common stock in this offering at an assumed initial public offering price of \$17.00 per share, which is the midpoint of the price range per share of common stock set forth on the cover of this prospectus, and after deducting the underwriting discount and estimated offering expenses, our net tangible book value at March 31, 2007 would have been approximately \$43.9 million, or \$1.00 per share. This represents an immediate increase in net tangible book value of \$5.80 per share to existing stockholders and an immediate dilution of \$16.00 per share to new investors purchasing shares at the initial public offering price. The following table illustrates the per share dilution:

Assumed initial public offering price per share	\$ 17.00
Net tangible book value per share at March 31, 2007	(4.80)
Increase in net tangible book value per share attributable to existing stockholders	3.32
Increase in net tangible book value attributable to conversion of preferred stock, exercise of warrants and stock options	2.48
Net tangible book value per share after the offering	1.00
Dilution per share to new investors	\$ 16.00

The following table summarizes at March 31, 2007, on an adjusted basis, the number of shares of common stock purchased from us, the total consideration paid to us and the average price per share paid by existing stockholders and by investors purchasing shares of common stock in this offering (before deducting the estimated underwriting discount and estimated offering expenses) based upon an assumed initial public offering price of \$17.00 per share, which is the midpoint of the price range per share of common stock set forth on the cover of this prospectus, after giving effect to the conversion of all outstanding shares of preferred stock and different classes of common stock into shares of one class of common stock and before deducting the underwriting discount and estimated offering expenses:

	Shares purchased		Total consideration		Average price per share
	Number	Percent	Amount	Percent	
Existing stockholders	13,468,489	84%	\$ 228,964,313	84%	\$ 17.00
New investors	2,608,696	16	44,347,832	16	17.00
Total	16,077,185	100%	\$ 273,312,145	100%	

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As of the date of this prospectus, there are options outstanding to purchase a total of 149,111 shares of common stock with a weighted average exercise price of \$1.17 per share and there are 296,437 shares available for future awards. To the extent that any of these additional options are exercised, there will be further dilution to new public investors. See Capitalization, Compensation discussion and analysis Our stock and stock option plans and note 11 of the notes to our consolidated financial statements.



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## **Selected financial and other data**

The following summary financial data at December 31, 2005 and 2006 and for the years ended December 31, 2004, 2005 and 2006 have been derived from our audited consolidated financial statements and their related notes included elsewhere in this prospectus. The following selected financial data at December 31, 2002, 2003 and 2004, and for the years ended December 31, 2002 and 2003 have been derived from our audited consolidated financial statements for those years, which are not included in this prospectus.

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

A separate audited combined income statement and statement of cash flows of the acquired business (certain operations of DeRemate.com, Inc.) for the period from January 1, 2005 to October 31, 2005 is included elsewhere in this prospectus in compliance with Rule 3-05 of Regulation S-X.

The following summary financial and other data is qualified by reference to and should be read in conjunction with Capitalization, Summary financial and other data, Management's discussion and analysis of financial condition and results of operations and our consolidated financial statements and related notes thereto included elsewhere in this prospectus.

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(in millions)	Year ended December 31,					Three months ended March 31,	
	2002	2003	2004	2005	2006	2007	
					(unaudited)	(unaudited)	
<b>Statement of operations data:</b>							
Net revenues	\$ 1.7	\$ 5.6	\$ 12.7	\$ 28.2	\$ 52.1	\$ 11.0	\$ 16.5
Cost of net revenues	(0.7)	(1.1)	(2.5)	(6.1)	(12.1)	(2.5)	(3.6)
Gross profit	1.0	4.5	10.2	22.1	40.0	8.5	12.9
<b>Operating expenses:</b>							
Product and technology development	(0.7)	(1.0)	(1.3)	(2.2)	(3.1)	(0.7)	(1.0)
Sales and marketing	(2.3)	(4.9)	(9.1)	(14.7)	(23.4)	(5.1)	(6.3)
General and administrative	(1.0)	(2.1)	(3.1)	(4.4)	(8.2)	(1.9)	(2.7)
Total operating expenses	(4.0)	(8.0)	(13.5)	(21.3)	(34.6)	(7.7)	(10.0)
Income (loss) from operations	(2.9)	(3.5)	(3.3)	0.8	5.4	0.8	2.9
<b>Other income (expenses):</b>							
Interest income	0.3	0.2	1.2	0.4	0.5		0.1
Interest expense and other financial charges		(0.1)	(0.3)	(0.5)	(1.7)	(0.4)	(0.4)
Foreign currency (loss) gain	(0.1)	0.2	0.2	0.3	(0.4)	0.1	(0.4)
Other expenses, net				(0.3)	(1.5)	(0.1)	(0.3)
Net income (loss) before income and asset tax and cumulative effect of change in accounting principle	(2.7)	(3.2)	(2.2)	0.7	2.3	0.5	1.9
Income and asset tax (expense) benefit				1.4	(1.2)	(0.4)	(0.9)
Net income (loss) before cumulative effect of change in accounting principle and gain from discontinued operations	(2.7)	(3.2)	(2.2)	2.0	1.1	0.1	1.0
Gain from discontinued operations	0.2						
Cumulative effect of change in accounting principle				0.3			
Net income (loss)	(2.5)	(3.2)	(2.2)	2.4	1.1	0.1	1.0
Accretion of preferred stock	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(0.1)	(0.1)
Net income (loss) available to common stockholders	\$ (3.0)	\$ (3.7)	\$ (2.7)	\$ 1.9	\$ 0.6	\$ 0.0	\$ 0.9

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(in millions, except per share data)	At December 31,					At March 31, 2007
	2002	2003	2004	2005	2006	(unaudited)
<b>Balance sheet data:</b>						
Total assets	\$ 27.3	\$ 24.1	\$ 24.1	\$ 44.4	\$ 53.8	\$ 57.2
Total liabilities	1.9	2.4	5.1	23.2	30.5	32.2
Net assets	25.3	21.7	19.0	21.2	23.3	25.0
Mandatorily redeemable convertible preferred stock	62.1	62.6	63.1	63.6	64.1	64.2
Common stock	0.1	0.1	0.1	0.1	0.1	0.1
Stockholders deficit	\$(36.8)	\$(40.9)	\$(44.1)	\$(42.4)	\$(40.7)	\$(39.2)
<b>Earnings (loss) per share data:</b>						
Basic net income (loss) available to common stockholders per common share			\$(0.21)	\$ 0.05	\$ 0.01	\$ 0.02
Diluted net income (loss) per common share				\$ 0.05		
<b>Weighted average shares:</b>						
Basic			12,739,980	13,065,496	13,149,139	13,375,482
Diluted				13,671,359		

(in millions)	Year ended December 31,					Three months ended March 31,	
	2002	2003	2004	2005	2006	2006	2007
<b>Other data:</b>							
Number of confirmed registered users at end of period(1)	2.5	4.0	6.5	12.2	18.2	13.5	19.7
Number of confirmed new registered users during period(2)	1.3	1.5	2.5	5.7	6.0	1.3	1.6
Gross merchandise volume(3)	\$ 55.4	\$ 164.3	\$ 299.3	\$ 607.7	\$ 1,075.1	\$ 217.8	\$ 312.5
Number of successful items sold(4)	1.4	3.1	5.1	8.4	13.8	2.8	3.9
Total payment volume(5)		\$ 0.1	\$ 8.9	\$ 38.5	\$ 89.0	\$ 16.5	\$ 26.6
Capital expenditures	\$ 0.5	\$ 0.9	\$ 2.1	\$ 2.0	\$ 2.4	\$ 0.6	\$ 0.6
Depreciation and amortization	\$ 0.6	\$ 0.8	\$ 1.1	\$ 1.6	\$ 2.0	\$ 0.5	\$ 0.5

(1) Measure of the cumulative number of users who have registered on the MercadoLibre marketplace and confirmed their registration.

(2) Measure of the number of new users who have registered on the MercadoLibre marketplace and confirmed their registration.

(3) Measure of the total U.S. dollar sum of all transactions completed through the MercadoLibre marketplace, excluding motor vehicles, vessels, aircraft and real estate.

(4) Measure of the number of items that were sold/purchased through the MercadoLibre marketplace.

(5) Measure of total U.S. dollar sum of all transactions paid for using MercadoPago.

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## Management's discussion and analysis of financial condition and results of operations

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

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

a brief overview of our company;

a review of our financial presentation and accounting policies, including our critical accounting policies;

a discussion of our principal trends and results of operations for the years ended December 31, 2004, 2005 and 2006, and for the three months ended March 31, 2006 and 2007;

a discussion of principal factors that influence our results of operations, financial condition and liquidity;

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

a discussion of the market risks that we face.

### Overview

We host 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 addresses the distinctive cultural and geographic challenges of operating an online trading platform in Latin America.

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

In May of 2000 we obtained significant financing and reached gross merchandise volume of \$14.3 million. In 2001 we launched a new version of our site and brand and launched our operations in Ecuador. Our gross merchandise volume for the year ending December 31, 2001 grew to \$21.3 million. Our gross merchandise volume reached \$55.4 million for 2002, \$164.3 million for 2003 and \$299.3 million for 2004. In 2005, we acquired certain operations of DeRemate.com, Inc. and our gross merchandise volume reached \$607.7 million. During 2006 we launched sites in Costa Rica, the Dominican Republic and Panama, and our gross merchandise volume reached \$1,075.1 million. Our gross merchandise volume was \$217.8 million for the three months ended March 31, 2006 and \$312.5 million for the same period in 2007.



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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.

During the three months ended March 31, 2007, visitors to our website were able to browse an average of over 2.9 million total listings per month, organized by country, in over 2,000 different product categories. We believe that we have achieved a critical mass of active buyers, sellers and product listings in most of the countries where we operate and that our business can be readily scaled to handle increases in our user base and transaction volume. At March 31, 2007, we had 19.7 million total confirmed registered MercadoLibre users. For 2006, we had 1.7 million unique sellers, 4.4 million unique buyers and 13.8 million successful items sold. For the three months ended March 31, 2007, we had 0.6 million unique sellers, 1.7 million unique buyers and 3.9 million successful items sold.

For 2006, our annual net revenues were \$52.1 million. Of those \$52.1 million in revenues approximately 85.9% were attributable to MercadoLibre marketplace listing, optional feature, final value and advertisement fees. The remaining 14.1% of revenues were attributable to MercadoPago fees. For the three months ended March 31, 2007, our net revenues were \$16.5 million, of which approximately 86.2% were attributable to MercadoLibre marketplace listing, optional feature, final value and advertisement fees. The remaining 13.8% of revenues were attributable to MercadoPago fees.

Although we expect to discuss long-term trends in our business, we do not plan to give earnings guidance in the traditional sense. We believe that uncertain conditions make the forecasting of near-term results difficult. Further, we expect to make decisions focused primarily on the long-term welfare of our company and believe focusing on short term earnings does not best serve the interests of our stockholders. We believe that execution of key strategic initiatives as well as our expectations for long-term growth in our markets will best create stockholder value.

We, therefore, encourage potential investors to consider this strategy before making an investment in our common stock. A long-term focus may make it more difficult for industry analysts and the market to evaluate the value of our company, which could reduce the value of our common stock or permit competitors to grow stronger than us with short term tactics.

**Table of Contents****Description of line items****Net revenues**

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

We generate revenues from the MercadoLibre marketplace segment from:

listing fees;

optional feature fees;

final value fees; and

online advertising.

The MercadoLibre marketplace business generated 95.8% of our net revenues for 2004, 88.8% for 2005 and 85.9% for 2006 and 86.2% for the three months ended March 31, 2007. Of these revenues, during the year 2006, 57.2% were generated in Brazil, 15.7% in Argentina, 13.9% in Mexico, and the remainder, or 13.3%, in Venezuela, Colombia, Chile, Peru, Ecuador and Uruguay. For the three months ended March 31, 2006, 60.8% of marketplace revenues were generated in Brazil, 13.8% in Argentina, 14.1% in Mexico, and the remainder, or 11.3%, in Venezuela, Colombia, Chile, Peru, Ecuador and Uruguay. For that same period in 2007, 54.2% of marketplace revenues were generated in Brazil, 15.6% in Argentina, 15.4% in Mexico and 14.8% in the remaining countries (which in 2007 also includes Panama, Costa Rica and the Dominican Republic).

The breakdown for these marketplace revenues by type of fee for 2006 was 29.9% listing fees, 28.3% optional feature fees, 40.7% final value fees and 1.1% sale of advertising. The breakdown of marketplace revenues by type of fee for the three months ended March 31, 2007 was 28.9% listing fees, 29.0% optional feature fees, 41.4% final value fees and 0.7% sale of advertising.

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

(% of total MercadoLibre marketplace net revenues)	Year ended December 31,			Three months ended March 31,	
	2004	2005	2006	2006 (unaudited)	2007 (unaudited)
Brazil	60.2%	61.2%	57.2%	60.8%	54.2%
Argentina	22.3	18.7	15.7	13.8	15.6
Mexico	8.8	11.1	13.9	14.1	15.4
Other	8.7	9.0	13.3	11.3	14.8

We generate revenues from our MercadoPago payments segment by charging buyers that use MercadoPago an average commission of approximately 8.0% of the sales price of a listed item which we recognize once the transaction is completed.

Revenues generated by our MercadoPago business represented 4.2% of our total net revenues for 2004, 11.2% for 2005 and 14.1% for 2006. For the three months ended March 31, 2006, the





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MercadoPago business represented 12.8% of our total net revenues, and 13.8% for the same period in 2007. These revenues were attributable to commissions charged to buyers for the use of MercadoPago.

We have a highly fragmented revenue base of customers given the large numbers of sellers and buyers who use our platforms. For 2004, 2005 and 2006, and the three months ended March 31, 2006 and 2007, no single customer accounted for more than 1.0% of our net revenues in our MercadoLibre marketplace business or our MercadoPago payments business.

Our MercadoLibre marketplace is available in 12 countries (Argentina, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Mexico, Panama, Peru, Uruguay and Venezuela), and MercadoPago is available in four countries (Argentina, Brazil, Mexico and Venezuela). The functional currency in each country's operations is the local currency. Therefore, our net revenues are generated in multiple foreign currencies and then translated into U.S. dollars at the average monthly exchange rate.

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

(% of total consolidated net revenues)	Year ended December 31,			Three months ended March 31,	
	2004	2005	2006	2006 (unaudited)	2007 (unaudited)
Brazil	60.4%	61.9%	59.1%	61.9%	57.0%
Argentina	22.4	18.2	15.1	13.5	14.7
Mexico	8.8	11.6	13.8	14.2	14.8
Other	8.3	8.3	12.1	10.3	13.5

Our subsidiaries in Brazil, Argentina, Venezuela and Colombia are subject to certain taxes on revenues which are classified as costs of net revenues. These taxes represented 5.6% of net revenues for the full year 2006, as well as for the three months ended March 31, 2007.

**Cost of net revenues**

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

**Product and technology development**

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

**Sales and marketing**

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

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We carry out the vast majority of our marketing efforts on the Internet, where we invest in deals with portals, search engines and other sites in order to attract Internet users to the MercadoLibre marketplace and turn them into confirmed registered users and active traders on our platform. Additionally, we invest a portion of our marketing budget on cable television advertising, in order to improve our brand awareness and to complement our online efforts.

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

***General and administrative***

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

***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.

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The following table summarizes the composition of our income/asset taxes for the years ending December 31, 2004, 2005 and 2006, and for the three months ended March 31, 2006 and 2007.

(in millions)	Year ended December 31,			Three months ended March 31,	
	2004	2005	2006	2006 (unaudited)	2007 (unaudited)
Income tax - current					
Federal	\$	\$	\$	\$	\$
Foreign		0.8	1.9	0.4	0.8
Total		0.8	1.9	0.4	0.8
Income tax -deferred					
Federal					
Foreign		(2.2)	(0.7)	(0.1)	0.1
Total		(2.2)	(0.7)	(0.1)	0.1
Total current and deferred		(1.4)	1.2	0.3	0.9
Asset tax					
Federal					
Foreign		0.1	0.1		
Total		0.1	0.1		
Total income and asset tax expense (benefit)		\$ (1.4)	\$ 1.2	\$ 0.4	\$ 0.9

**Critical accounting policies and estimates**

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

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

**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

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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. This is 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. Our provision for doubtful accounts amounts to \$2.9 million at December 31, 2005, \$4.6 million at December 31, 2006 and \$5.3 million at March 31, 2007. The provision for doubtful accounts is recorded as a charge to sales and marketing expenses.

The following table illustrates our bad debt charges as a percentage of net revenues for 2004, 2005, and 2006, and for the three months ended March 31, 2006 and 2007:

(in millions, except percentages)	Year ended December 31,			Three months ended March 31,	
	2004	2005	2006	2006 (unaudited)	2007 (unaudited)
Net revenues	\$ 12.7	\$ 28.2	\$ 52.1	\$ 11.0	\$ 16.5
Bad debt charges	1.6	3.4	6.2	1.5	1.7
Bad debt charges as a percentage of net revenues	12.4%	12.1%	11.9%	13.3%	10.2%

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

**Legal Contingencies**

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

From time to time, we are involved in disputes that arise in the ordinary course of business, and we do not expect this trend to change in the future. We are currently involved in certain legal proceedings as discussed in Business Legal Proceedings, in Note 14 to our consolidated

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financial statements and in Note 7 to our unaudited condensed consolidated financial statements. We believe that we have meritorious defenses to the claims against us, and we will defend ourselves vigorously. However, even if successful, our defense could be costly and could divert management's time. 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 March 31, 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.

The following table sets forth the effective tax rates for 2004, 2005, and 2006, and for the three months ended March 31, 2006 and 2007:

(in millions, except percentages)	Year ended December 31,			Three months ended March 31,	
	2004	2005	2006	2006 (unaudited)	2007 (unaudited)
Income and asset tax (expense) benefit		\$ 1.4	\$ (1.2)	\$ (0.4)	\$ (0.9)
As a percentage of income before income and asset tax	(1.6)%	205.8%	(53.7)%	(76.1)%	(47.1)%

Historically, these provisions have adequately provided for our actual income tax liabilities. Our future effective tax rates could be adversely affected by earnings being lower than anticipated in countries where we have lower statutory rates and higher than anticipated in countries where we have higher statutory rates, by changes in the valuations of our deferred tax assets or liabilities, or by changes or interpretations in tax laws, regulations or accounting principles.

**Table of Contents****Stock-based compensation**

On January 1, 2006, we adopted Statement of Financial Accounting Standard No. 123(R), Share-Based Payment (SFAS 123(R)), which requires the measurement and recognition of compensation expense for all share-based payment awards based on estimated fair values. The following table summarizes information with respect to our equity grants during 2006. We have not made any equity grants in 2007.

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

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

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

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

We recognize stock-based compensation expense based on the estimated portion of the awards that are expected to vest. Stock-based compensation expense recognized for 2006 was \$33,223 which consisted of stock-based compensation expense related to stock options. We did not recognize any stock-based compensation expenses in 2005. For 2004, we recognized stock-based compensation expenses of approximately \$17,350 under previous accounting standards. See note 11 to our consolidated financial statements included elsewhere in this prospectus for additional information.

The fair value of our common stock at each grant date is based on internally developed valuations. We have not engaged an independent third-party valuation specialist and cannot assure you that an independent valuation firm would not determine different valuations for our common stock. We have based our internally developed valuations on our analysis of valuations of our significant subsidiaries completed by an unrelated third-party valuation specialist as of

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each of December 31, 2004, 2005, and 2006, complemented by internally prepared projections and analyses of our company. The valuations of the subsidiaries were prepared to perform impairment tests as required by FASB 142 Goodwill and Other Intangible Assets. We believe that a combination of these independent valuations and the experience of our internal accounting staff produced reasonable valuations of the fair value of our common stock.

The difference between our estimate of the fair value of our common stock as of October 2006 and our expected initial public offering price relates to improvements in our financial performance, improved prospects as we increase in size and scope, appreciation of the currencies in the countries in which we operate versus the U.S. dollar resulting in increased revenues and profits measured in U.S. dollars, and other factors that were relevant in setting the range of our initial public offering price set forth on the cover page of this prospectus but that are not necessarily considered in the determination of the fair value of our common stock pursuant to SFAS 123(R), such as improved multiples of comparable publicly-traded companies and current market conditions for public offerings of equity securities. The fair value of our common stock at the October 1, 2006 grant date, the last date we awarded an option, was \$9.64 per share, and we expect the initial public offering price to be between \$16.00 and \$18.00 per share. Factors affecting our October 2006 estimate of the fair value of our common stock pursuant to SFAS 123(R) that we did not consider in setting the range of our initial public offering price include: (1) a discount rate of 19.2% applied in October 2006 versus a rate of 16.0% that we would apply if we were to perform the same analysis as of the date of this prospectus (the reduced applicable rate resulting primarily from lower current interest rates in the countries in which we operate and the lower estimated risk currently associated with our company given our increased profitability and scale of operations since that date), (2) the fact that the October 2006 discounted cash flow model had a starting date nine months or more prior to the one that would be applied if we were to perform the same analysis as of the date of this prospectus, which starting dates have a substantial impact on valuation in a business with significantly increasing profitability like ours, (3) a 10.0% discount related to the lack of liquidity of our shares of common stock in October 2006 and (4) an approximately 8.0% discount related to the negative effect of preferred stock liquidation preferences (upon completion of this offering, all of our outstanding shares of preferred stock will convert into shares of common stock). For more information on the factors considered in determining our initial public offering price, see Underwriting.

## **Recent acquisitions**

In November of 2005, we acquired certain operations of a regional competitor in online trading, DeRemate.com Inc., including all of its operations in Brazil, Colombia, Ecuador, Mexico, Peru, Uruguay and Venezuela and the majority of shares of its subsidiaries (except for its Argentine and Chilean subsidiaries, which continue to operate under the control of certain previous stockholders of DeRemate.com Inc.), for an aggregate purchase price of \$12.1 million, net of cash and cash equivalents acquired. This acquisition increased our user base by approximately 1.3 million confirmed registered users and solidified our market leadership position in Brazil, Mexico, Venezuela, Colombia, Peru, and Uruguay.

Separate audited combined statements of operations, changes in net investment and cash flows of the acquired business for the period from January 1, 2005 to October 31, 2005 is included elsewhere in this prospectus in compliance with Rule 3-05 of Regulation S-X.

**Table of Contents****Results of operations**

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

(in millions)	Year ended December 31,			Three months ended March 31,	
	2004	2005	2006	2006 (unaudited)	2007 (unaudited)
<b>Statement of operations data:</b>					
Net revenues	\$ 12.7	\$ 28.2	\$ 52.1	\$ 11.0	\$ 16.5
Cost of net revenues	(2.5)	(6.1)	(12.1)	(2.5)	(3.6)
Gross profit	10.2	22.1	40.0	8.5	12.9
Operating expenses:					
Product and technology development	(1.3)	(2.2)	(3.1)	(0.7)	(1.0)
Sales and marketing	(9.1)	(14.7)	(23.4)	(5.1)	(6.3)
General and administrative	(3.1)	(4.4)	(8.2)	(1.9)	(2.7)
Total operating expenses	(13.5)	(21.3)	(34.6)	(7.7)	(10.0)
Income (loss) from operations	(3.3)	0.8	5.4	0.8	2.9
Other income (expenses):					
Interest income	1.2	0.4	0.5		0.1
Interest expense and other financial charges	(0.3)	(0.5)	(1.7)	(0.4)	(0.4)
Foreign currency (loss) gain	0.2	0.3	(0.4)	0.1	(0.4)
Other expenses, net		(0.3)	(1.5)	(0.1)	(0.3)
Net income (loss) before income and asset tax and cumulative effect of change in accounting principle	(2.2)	0.7	2.3	0.5	1.9
Income and asset tax (expense) benefit		1.4	(1.2)	(0.4)	(0.9)
Net income (loss) before cumulative effect of change in accounting principle	(2.2)	2.0	1.1	0.1	1.0
Cumulative effect of change in accounting principle		0.3			
Net income (loss)	(2.2)	2.4	1.1	0.1	1.0
Accretion of preferred stock	(0.5)	(0.5)	(0.5)	(0.1)	(0.1)
Net income (loss) available to common stockholders	\$ (2.7)	\$ 1.9	\$ 0.6	\$	\$ 0.9



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(% of net revenues)	Year ended December 31,			Three months ended March 31,	
	2004	2005	2006	2006 (unaudited)	2007 (unaudited)
<b>Statement of operations data:</b>					
Net revenues	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of net revenues	(19.7)	(21.7)	(23.2)	(22.9)	(21.7)
Gross profit	80.3	78.3	76.8	77.1	78.3
Operating expenses:					
Product and technology development	(10.5)	(7.7)	(5.9)	(6.4)	(5.9)
Sales and marketing	(72.1)	(52.2)	(44.9)	(46.0)	(38.4)
General and administrative	(24.2)	(15.5)	(15.7)	(17.5)	(16.3)
Total operating expenses	(106.8)	(75.4)	(66.4)	(69.9)	(60.5)
Income (loss) from operations	(26.4)	2.9	10.4	7.2	17.7
Other income (expenses):					
Interest income	9.8	1.2	1.0	0.4	0.6
Interest expense and other financial charges	(2.6)	(1.6)	(3.3)	(3.6)	(2.7)
Foreign currency (loss) gain	1.7	0.9	(0.8)	1.0	(2.5)
Other expenses, net	(0.2)	(1.0)	(2.8)	(0.7)	(1.7)
Net income (loss) before income and asset tax and cumulative effect of change in accounting principle	(17.7)	2.4	4.4	4.2	11.4
Income and asset tax (expense) benefit	0.3	4.8	(2.4)	(3.2)	(5.4)
Net income (loss) before cumulative effect of change in accounting principle	(17.4)	7.2	2.1	1.0	6.0
Cumulative effect of change in accounting principle		1.1			
Net income (loss)	(17.4)	8.3	2.1	1.0	6.0
Accretion of preferred stock	(3.9)	(1.8)	(1.0)	(1.1)	(0.8)
Net income (loss) available to common stockholders	(21.3)%	6.6%	1.1%	(0.1)%	5.3%

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**Table of Contents****Principal trends in results of operations**

We have identified the following trends by examining our recent operating history:

**Growth in net revenues from year to year.** Since inception, we have consistently generated revenue growth from our MercadoLibre marketplace and, from its launch in 2004, from MercadoPago, driven by the strong growth of our key operational metrics. From 2004 to 2005, our gross merchandise volume increased by 103.0%, our successful items increased by 64.4% and MercadoPago total payment volume increased by 332.3%. From 2005 to 2006, those growth rates were 76.9%, 63.9% and 131.2%, respectively. From the three months ended on March 31, 2006 to the same period in 2007, our gross merchandise volume increased 43.5%, our successful items increased by 39.2% and total payment volume increased by 61.3%. Our growth in net revenues was 123.1% from 2004 to 2005 and 84.3% from 2005 to 2006. Growth in net revenues for the three months ended March 31, 2007 compared to the same period in 2006 was 49.8%. As our business grows we expect the rate of increase, from year to year, of net revenues and the related operational metrics, to decline, as occurred in 2006 compared to 2005 when contrasted with 2005 compared to 2004.

**High but declining gross profit margins.** Our business has generated sustained high gross profit margins over time. These gross margins were 80.3% for 2004, 78.3% for 2005, and 76.8% for 2006. This variation was attributable to the lower gross profit margins of our MercadoPago business, which for 2005 and 2006 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 partially 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 months ended March 31, 2007 in which gross profit margins improved to 78.3% from 77.1% for the same period in 2006, even though net revenues from MercadoPago for these periods as a percentage of net revenues increased from 12.8% to 13.8%. If we are able to continue to carry out this partial offset successfully, we should sustain high consolidated gross profit margins.

**Improving operating income margins.** We have generated and expect to continue to generate economies of scale in operating expenses. For 2004 and 2005, operating expenses increased at a significantly lower rate than our net revenues. For the past three years, our income from operations as a percentage of net revenues has improved from a loss of 26.4% for 2004, to a gain of 2.9% for 2005, a gain of 10.4% for 2006 and a gain of 17.7% for the three months ended March 31, 2007, mostly as a result of the impact of these economies of scale, and despite declining gross operating margins between 2004 and 2006. 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.

**Three months ended March 31, 2007 compared to three months ended March 31, 2006****Net revenues**

Net revenues were \$16.5 million for the three months ended March 31, 2007, an increase of \$5.5 million, or 49.8%, from net revenues of \$11.0 million for the same period in 2006. This increase was attributable to a 48.1% increase in revenues derived from our MercadoLibre marketplace, from \$9.6 million for the three months ended March 31, 2006 to \$14.2 million for the same

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period in 2007, and to a 60.9% increase in revenues derived from MercadoPago, from \$1.4 million to \$2.3 million. Growth in MercadoLibre marketplace revenues resulted principally from a 43.5% increase in the gross merchandise volume transacted through our platform. The growth in MercadoPago revenues resulted principally from a 61.3% increase in the total payments completed on our MercadoPago payments platform. The use of MercadoPago increased to 8.5% of our gross merchandise volume for the three months ended March 31, 2007 from 7.6% for the same period in 2006.

The \$5.5 million growth in net revenues for the three months ended March 31, 2007, by country, was primarily a result of an increase of \$2.6 million, or 38.0% in net revenues in Brazil, of \$0.9 million, or 62.8% in Argentina, and \$0.9 million, or 55.3% in Mexico. All other countries combined grew by \$1.1 million or 95.8% for the three months ended March 31, 2007 as compared to the same period in 2006.

### ***Cost of net revenues***

Cost of net revenues was \$3.6 million for the three months ended March 31, 2007, an increase of \$1.1 million, or 42.1%, from cost of net revenues of \$2.5 million for the same period in 2006. Cost of net revenues represented 21.7% of net revenues for the three month period ended March 31, 2007 and 22.9% of net revenues for the same period in 2006.

This increase was primarily attributable to costs relating to our in-house customer support operations, which grew in the amount of \$0.4 million, an increase of 70.9% compared to the three months ended March 31, 2006, as we invested in improvement of services and trust and safety initiatives. Billing costs and collections fees from processing charges for payments made with credit cards and other payment methods increased by \$0.3 million, or 26.8% for the three months ended March 31, 2007 compared to the same period in 2006. Additionally, taxes on our net revenues increased by \$0.3 million, or 43.6%. These taxes represented 5.6% of net revenues during the three months ended March 31, 2007.

### ***Product and technology development***

Product and technology development expenses were \$1.0 million for the three months ended March 31, 2007, an increase of \$0.3 million, or 38.0%, from \$0.7 million for the same period in 2006. Product and technology development expenses were 5.9% of net revenues for the three months ended March 31, 2007 and 6.4% for the same period in 2006.

The growth in product and technology development expenses during the three months ended March 31, 2007 was primarily attributable to an increase in compensation costs in the amount of \$0.2 million, 70.5% higher than the same period in 2006, for additional engineers to implement planned upgrades and new features to our platform, as well as increased compensation to retain staff. We also increased other expenses during the three months ended March 31, 2007, including depreciation and amortization costs, maintenance and telecommunications by \$0.1 million, or 21.0% compared to the same period in 2006.

### ***Sales and marketing***

Sales and marketing expenses were \$6.3 million for the three months ended March 31, 2007, an increase of \$1.3 million, or 24.9%, from \$5.1 million for the same period in 2006. Sales and marketing expenses represented 38.4% of our net revenues for the three months ended March 31, 2007 and 46.0% for the same period in 2006.

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The growth in sales and marketing expenses resulted primarily from our increased expenditures in online advertising programs in the amount of \$1.0 million, a 40.1% increase over the three months ended March 31, 2006. Online advertising represented 20.5% of our net revenues in the three months period ended March 31, 2007. Bad debt charges increased \$0.2 million, or 14.5%. Sales and marketing expenses also grew due to an increase in compensation costs in the amount of \$0.1 million, or 21.0%, driven by additional headcount and higher salaries to retain talent.

### ***General and administrative***

Our general and administrative expenses were \$2.7 million for the three months period ended March 31, 2007, an increase of \$0.8 million, or 39.1%, from general and administrative expenses of \$1.9 million for the same period in 2006. As a percentage of net revenues, our general and administrative expenses were 16.3% for the three months ended March 31, 2007 and 17.5% for the same period in 2006. The major components that drove our growth over the comparable period were \$0.4 million in increased compensation costs, a 39.7% rate of growth, attributable to additional employees to support our growing business and higher salaries to retain talent, and office expenses that grew \$0.1 million, or 69.3%, as we expanded into larger facilities to accommodate increases in headcount.

### ***Other income (expenses)***

Our other expenses were \$1.0 million for the three months ended March 31, 2007, an increase of \$0.7 million from other expenses of \$0.3 million for the same period in 2006. This increase was primarily a result of an increase in foreign currency losses of \$0.5 million. Foreign currency losses were \$0.4 million for the three months ended March 31, 2007 and were a gain of \$0.1 million for the same period in 2006.

### ***Income and asset tax***

Our reported income and asset tax expense for the three months ended March 31, 2007 was \$0.9 million, an increase of \$0.5 million, or 152.5%, from a reported expense of \$0.4 million for the same period in 2006. Our effective tax rate as a percentage of income before income and asset tax was 47.1% for the three months ended March 31, 2007 and 76.1% for the same period in 2006, which reflects the blended tax rate plus the effect of certain non-deductible expenses.

## **Year ended December 31, 2006 compared to year ended December 31, 2005**

### ***Net revenues***

Net revenues were \$52.1 million for 2006, an increase of \$23.8 million, or 84.3%, from net revenues of \$28.2 million for 2005. This increase was attributable to a 78.4% increase in revenues derived from our MercadoLibre marketplace, from \$25.1 million for 2005 to \$44.7 million for 2006, and to a 130.9% increase in revenues derived from MercadoPago, from \$3.2 million to \$7.3 million. Growth in MercadoLibre marketplace revenues resulted principally from a 76.9% increase in the gross merchandise volume transacted through our platform. The growth in MercadoPago revenues resulted principally from a 131.2% increase in the total payments completed on our MercadoPago payments platform. The use of MercadoPago increased to 8.3% of our gross merchandise volume for 2006 from 6.3% for 2005.

The \$23.8 million growth in net revenues for 2006, by country, was primarily a result of an increase of \$13.3 million, or 75.9% in net revenues in Brazil, of \$3.9 million, or 119.7% in Mexico, and \$2.7 million, or 52.1% in Argentina. All other countries combined grew by \$3.9 million or 168.2% for 2006 as compared to 2005.

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### ***Cost of net revenues***

Cost of net revenues was \$12.1 million for 2006, an increase of \$5.9 million, or 96.9%, from cost of net revenues of \$6.1 million for 2005. Cost of net revenues represented 23.2% of net revenues for 2006 and 21.7% of net revenues for 2005.

This increase was primarily attributable to additional billing costs and collections fees from processing charges for payments made with credit cards and other payment methods. These billing and collections fees increased by \$2.6 million, or 117.2% for 2006 compared to 2005. Billing and collections charges tend to increase at about the same pace as net revenues, since most of the associated costs grow with our business. However, since they represent a higher percentage of revenues for MercadoPago than for the MercadoLibre marketplace, and as MercadoPago's net revenues grew at a faster rate than the MercadoLibre marketplace, these collection fees as a percentage of net revenues increased slightly. Taxes on our net revenues increased by \$1.3 million, or 83.1%. These taxes represented 5.6% of net revenues in 2006. We also increased expenditures in our in-house customer support operations in the amount of \$1.7 million, an increase of 119.0% compared to 2005, as we invested in improved service, initiatives to combat fraud, illegal items and fee evasion, and upgraded the pay scale of customer service personnel in order to retain and attract top level customer service representatives.

### ***Product and technology development***

Product and technology development expenses were \$3.1 million for 2006, an increase of \$0.9 million, or 40.3%, from \$2.2 million for 2005. Product and technology development expenses were 5.9% of net revenues for 2006 and 7.7% for 2005.

The growth in product and technology development expenses was primarily attributable to an increase in compensation costs in the amount of \$0.5 million, 80.3% higher than 2005, for additional engineers to implement planned upgrades and new features to our platform, as well as increased compensation to retain staff, and an increase in depreciation and amortization expenses related to product and technology development of \$0.3 million, or 20.7% compared to 2005.

### ***Sales and marketing***

Sales and marketing expenses were \$23.4 million for 2006, an increase of \$8.6 million, or 58.6%, from \$14.7 million for 2005. Sales and marketing expenses represented 44.9% of our net revenues for 2006 and 52.2% of net revenues for 2005.

The growth in sales and marketing expenses resulted primarily from our increased expenditures in online advertising programs in the amount of \$3.6 million, a 43.4% increase over 2005. Online advertising represented 22.7% of our net revenues in 2006. Bad debt charges also increased \$2.8 million, or 81.6%. Despite this growth in absolute value, bad debt charges as a percentage of net revenues decreased to 11.9% for 2006, from 12.1% for 2005. In addition, these expenses also grew due to an additional \$1.1 million, or 111.5% increase, in expenditures in our cable television advertising campaign and offline promotional activities, and an increase in compensation costs in the amount of \$0.8 million, or 49.3%, driven by additional headcount and higher salaries to retain talent.

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### ***General and administrative***

Our general and administrative expenses were \$8.2 million for 2006, an increase of \$3.8 million, or 86.1%, from general and administrative expenses of \$4.4 million for 2005. As a percentage of net revenues, our general and administrative expenses were 15.7% for 2006 and 15.5% for 2005. The major components that drove our growth over the comparable period were \$1.6 million in increased compensation costs, a 66.4% rate of growth, attributable to additional employees to support our growing business and higher salaries to retain talent, and fees and expenses for legal, audit and other professional services that grew \$1.0 million, or 112.4%.

### ***Other income (expenses)***

Our other expenses were \$3.1 million for 2006, an increase of \$2.9 million from other expenses of \$0.1 million for 2005. This increase was primarily a result of an increase in interest expenses of \$1.3 million relating mainly to our loan from eBay, an increase in other expenses, net, of \$1.2 million, resulting mainly from the change in fair value of our outstanding warrants, and an increase in foreign currency losses of \$0.6 million.

### ***Income and asset tax***

Our reported income and asset tax expense for 2006 was \$1.2 million compared to a reported benefit of \$1.4 million for 2005. Our blended tax rate as a percentage of income before income and asset tax was 38.0% for 2006 and 48.0% for 2005. However, as a result of the effect of permanent differences, our effective tax rate was approximately 53.7% (expense) for 2006 and 205.8% (benefit) for 2005. The variation in the effective tax rate for these periods reflects the taxes payable plus the change during the period in our deferred tax assets and liabilities. During 2006, we recognized a deferred income tax benefit of \$0.7 million, and of \$2.2 million during 2005, mainly as a result of a partial reversal of the valuation allowance recognized over our deferred tax asset position.

## **Year ended December 31, 2005 compared to year ended December 31, 2004**

### ***Net revenues***

Net revenues were \$28.2 million for 2005, an increase of \$15.6 million, or 123.1%, from net revenues of \$12.7 million for 2004. This increase was attributable to a 106.7% increase in revenues derived from our MercadoLibre marketplace, from \$12.1 million for 2004 to \$25.1 million for 2005, and a 495.8% increase in revenues derived from MercadoPago, from \$0.5 million for 2004 to \$3.2 million for 2005. Growth in MercadoLibre marketplace revenues was mainly a result of a 103.0% increase in gross merchandise volume transacted through our platform. The growth in MercadoPago revenues was mainly a result of a 332.3% increase in the total payments volume completed on our MercadoPago payments platform. The use of MercadoPago increased to 6.3% of our gross merchandise volume for 2005, from 3.0% for 2004.

### ***Cost of net revenues***

Cost of net revenues was \$6.1 million for 2005, an increase of \$3.6 million, or 146.6%, from cost of net revenues of \$2.5 million for 2004. Our cost of net revenues represented 21.7% of net revenues for 2005 and 19.7% of net revenues for 2004.

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The growth in our cost of net revenues for 2005 was primarily attributable to additional billing costs and collections fees from processing charges for payments made with credit cards and other payment methods that grew \$1.6 million, representing a 289.4% growth rate. Billing and collections charges tend to increase at about the same pace as net revenues, since most of the associated costs grow with our business. However, since they represent a higher percentage of revenues for MercadoPago than for the MercadoLibre marketplace, and as MercadoPago's net revenues grew at a faster rate than the MercadoLibre marketplace, these collection fees as a percentage of net revenues increased slightly. Taxes on our net revenues increased by \$0.9 million, or 141.7%. These taxes represented 5.7% of net revenues for 2005. In addition, expenditures in our in-house customer support operations increased by \$0.8 million, or 134.5% as we invested in improved services and controls.

### ***Product and technology development***

Our product and technology development expenses were \$2.2 million for 2005, an increase of \$0.9 million, or 64.4%, from product and technology development expenses of \$1.3 million for 2004. Product and technology development expenses were 7.7% of net revenues for 2005 and 10.5% for 2004. The increase was primarily attributable to growth in depreciation and amortization in the amount of \$0.5 million, or 57.2%. Additionally, compensation costs increased in the amount of \$0.2 million, or 57.8% for additional employees, as well as increased compensation to retain our product and technology development staff.

### ***Sales and marketing***

Our sales and marketing expenses were \$14.7 million for 2005, an increase of \$5.6 million, or 61.3%, from \$9.1 million for 2004. Sales and marketing expenses represented 52.2% of net revenues for 2005 and 72.1% of net revenues for 2004.

The growth in our sales and marketing expenses resulted primarily from our increased expenditures in online advertising programs, where we spend the majority of our sales and marketing budget, in the amount of \$2.2 million, a 35.6% growth rate. Online advertising represented 29.2% of net revenues for 2005. These expenses also grew \$1.9 million, or 117.7%, from higher bad debt charges. However, bad debt as a percentage of net revenues for 2005 decreased to 12.1% from 12.4% for 2004. Offline advertising activities grew \$1.0 million due to our first cable television advertising campaign and offline promotional activities, and compensation costs increased \$0.5 million, or 42.8%, driven by additional headcount and higher salaries to retain talent.

### ***General and administrative***

Our general and administrative expenses were \$4.4 million for 2005, an increase of \$1.3 million, or 43.0%, from general and administrative expenses of \$3.1 million for 2004. However, our general and administrative expenses decreased as a percentage of net revenues to 15.5% for 2005 from 24.2% for 2004.

The major components that drove growth in absolute terms over the comparable period were \$1.0 million in increased compensation costs attributable to additional employees to support our growing business and higher salaries to retain talent, an increase that represented a 71.2% growth over 2004.

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### ***Other income (expense)***

Other expense was \$0.1 million for 2005, a decrease of \$1.3 million from a \$1.1 million income for 2004. This decrease was primarily attributable to a reduction of \$0.9 million in interest income as we had recorded a gain on the sale of short-term investments for 2004.

### ***Income / asset tax***

Our reported income and asset tax for 2005 was a benefit of \$1.4 million compared to an immaterial charge for 2004. The reported taxes for 2005 reflect the taxes payable plus the change during the period in our deferred tax assets and liabilities. During 2005, we recognized a deferred income tax benefit of \$2.2 million as a result of a partial reversal of the valuation allowance recognized over our deferred tax asset position. Prior to 2005, our valuation allowance covered all our deferred tax asset position.

## **Factors affecting results of operations and financial condition**

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

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

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

continued growth of online commerce and Internet usage in Latin America;

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

governmental regulation in the countries where we operate, including exchange controls;

litigation, legal liability and intellectual property rights enforcement;

system interruptions or failures;



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our ability to attract and retain qualified personnel;

the announcement or introduction of new sites, services and products by us or our competitors, and price competition;

reliance on third-party service providers;

increasing consumer confidence in and acceptance of the Internet and other online services for commerce and, in particular, the trading of products such as those listed on our website;

security breaches and consumer confidence in the security of transactions over the Internet;

consumer trends and popularity of certain categories of items;

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

seasonal fluctuations; and

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

We believe that our results of operations are somewhat seasonal in nature. Our limited operating history, however, makes it difficult to fully assess the impact of these seasonal factors. In addition, we believe that our rapid growth may have overshadowed whatever seasonal or cyclical factors might have influenced our business to date. We cannot assure you that seasonal or cyclical variations in our operations will not become more pronounced over time or that they will not materially adversely affect our results of operations in the future.

## **Effects of Becoming a Public Company**

After completion of this offering, we will become subject to the periodic reporting requirements of the Exchange Act and the other rules and regulations of the SEC. We will also be subject to various other regulatory requirements, including the Sarbanes-Oxley Act of 2002. In addition, upon completion of this offering, we will become subject to the rules of The Nasdaq Global Market.

We are working with our independent legal, accounting and financial advisors to identify those areas in which changes should be made to our financial and management control systems to manage our growth and our obligations as a public company. These areas include corporate governance, corporate control, internal audit, disclosure controls and procedures and financial reporting and accounting systems. We have made, and will continue to make, changes in these and other areas, including our internal control over financial reporting.

In addition, compliance with reporting and other requirements applicable to public companies will create additional costs for us and will require the time and attention of management. We currently expect to incur an estimated \$1 million of incremental operating expenses in our first year of being a public company and a slightly higher amount per year after that. The incremental costs are estimates, and actual incremental expenses could be materially different from these estimates. We cannot predict or estimate the amount of the additional costs we may incur, the timing of such costs or the degree of impact that our management's attention to these matters will have on our business.

In addition, being a public company could make it more difficult or more costly for us to obtain certain types of insurance and we may be forced to accept reduced policy limits and coverage or



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incur substantially higher costs to obtain the same or similar coverage. The impact of these events could also make it more difficult for us to attract and retain qualified persons to serve on our board of directors, our board committees or as executive officers.

Section 404 of the Sarbanes-Oxley Act requires that we evaluate and determine the effectiveness of our internal control over financial reporting at December 31, 2008. If we or our independent registered public accounting firm determine that we have a material weakness in our internal control over financial reporting, we may not detect errors on a timely basis and our financial statements may be materially misstated. We will be evaluating our internal controls systems to allow management to report on, and our independent auditors to attest to, our internal controls. We will be performing the system and process evaluation and testing (and any necessary remediation) required to comply with the management certification and auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act. While we anticipate being able to fully implement the requirements relating to internal controls and all other aspects of Section 404 by the December 31, 2008 deadlines, we cannot be certain as to the timing of completion of our evaluation, testing and remediation actions or the impact of the same on our operations.

**Liquidity and capital resources**

Our main cash requirements are capital expenditures relating to technology infrastructure and software applications. We also require working capital to fund MercadoPago. Since our inception, we funded our operations primarily through contributions received from our stockholders obtained during the first two years of operations, and cash generated from our operations during the past two years. We have often funded MercadoPago by discounting credit card receivables and through cash advances derived from our MercadoLibre marketplace business. In 2005, we funded the acquisition of certain operations of DeRemate.com Inc. with a \$12 million loan from eBay. 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 December 31, 2006, our principal source of liquidity was \$13.5 million of cash and cash equivalents and short-term investments, as well as cash generated from our operations. We believe that these sources of cash, the proceeds of this offering, plus cash to be generated from future operations will be sufficient to cover current and anticipated capital expenditures and working capital needs.

The following table presents our cash flows from operating activities, investing activities and financing activities for the three years ended December 31, 2004, 2005 and 2006, and for the three months ended March 31, 2006 and 2007:

(in millions)	Year ended December 31,			Three months ended March 31,	
	2004	2005	2006	2006 (unaudited)	2007 (unaudited)
Net cash provided by (used in) operating activities	\$ (1.5)	\$ 3.4	\$ 6.2	\$ (0.8)	\$ 2.4
Net cash provided by (used in) investing activities	7.4	(13.0)	(5.2)	(0.6)	(3.3)
Net cash provided by (used in) financing activities		12.0	(3.0)		
Effect of exchange rate changes on cash and cash equivalents	(0.2)	(0.5)	0.2	0.1	0.2
Total increase (decrease) in cash and cash equivalents	\$ 5.7	\$ 2.0	\$ (1.8)	\$ (1.3)	\$ (0.8)

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***Net cash provided by (used in) operating activities***

Our annual cash flow provided by operating activities was greater than net income for 2006, 2005 and 2004, due primarily to non-cash charges to earnings such as depreciation and amortization on our assets, changes in fair value of warrants, deferred income taxes and realized gains on investments. Net cash provided by operating activities was \$6.2 million for 2006 and \$3.4 million for 2005 compared to net cash used in operating activities of \$1.5 million for 2004 as we improved the profitability of our operations. This improvement was primarily a result of increased net income, increased leverage on our operating expenses, controlled growth in our costs of sales and positive changes in our working capital accounts.

In our MercadoLibre marketplace business, accounts receivable were \$2.0 million and accounts payable and accrued expenses were \$5.7 million at December 31, 2006, primarily because we were able to collect from our users at a faster rate than we paid our suppliers. In our MercadoPago business, funds receivable from customers were \$10.2 million and funds payable and amounts due to customers were \$9.1 million at December 31, 2006. MercadoPago often requires financing through discounting credit card receivables and cash advances derived from our MercadoLibre marketplace business in order to fund working capital requirements.

During the three months ended March 31, 2007, net cash provided by our operating activities was \$2.4 million compared to net cash used in operating activities of \$0.8 million for the same period in 2006, principally as a result of positive changes in our working capital accounts and an increased net income.

***Net cash provided by (used in) investing activities***

Net cash used in investing activities was \$5.2 million for 2006 and \$13.0 million for 2005 compared to a net cash provided by investing activities of \$7.4 million for 2004. For 2006, net cash provided by investing activities resulted primarily from purchases of investments with our cash and cash equivalents, as part of our financial investment strategy. During 2005, net cash provided by investing activities was heavily affected by the acquisition of the DeRemate subsidiaries for \$12.1 million, net of cash and cash equivalents acquired. Net cash provided by investing activities for 2004 was primarily a result of movements of funds from investments to cash and cash equivalents, as part of our financial investment strategy. In all three years, net cash provided by 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 \$2.4 million for 2006, \$2.0 million for 2005 and \$2.1 million for 2004.

During the three months ended March 31, 2007, we used \$3.3 million of net cash in investing activities as compared to \$0.6 for the same period in 2006. During this period our net cash used in investing activities consisted primarily of purchase of investments (primarily debt securities and certificates of deposit) for \$4.9 million which was partially offset by the sale of investments (primarily debt securities and certificates of deposit) for \$2.1 million as part of our investment strategy.

We expect to continue to purchase property and equipment and we may acquire businesses for cash, which would impact our net cash provided by (used in) investing activities.

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### ***Net cash provided by (used in) financing activities***

Net cash used in financing activities was \$3.0 million for 2006 compared to net cash provided by financing activities of \$12.0 million for 2005 and negligible for 2004. Net cash used in financing activities for 2006 was attributable to a partial prepayment of principal of the loan from eBay. Net cash provided by financing activities for 2005 was attributable to the loan received from eBay to fund the acquisition of the DeRemate subsidiaries.

We had no material cash from financing activities during the three months ended March 31, 2007 and 2006.

In the event that we decide to pursue strategic acquisitions in the future, we may fund them with our own resources or we may choose to obtain financing from a third party.

### ***Debt***

We financed the acquisition of DeRemate with a loan from eBay, one of our stockholders, in the amount of \$12.0 million, secured by our assets, including equity interests we have acquired in DeRemate. The loan bears an interest rate of 7% per year, payable in November of each year. The loan matures on the earlier of November 10, 2010, and an issuance of securities, such as this offering. At March 31, 2007, approximately \$9.3 million of principal of and interest on the loan remained outstanding. Upon consummation of this offering we will repay the principal balance of the loan to eBay. Please see *Certain relationships and related transactions Relationship with eBay* for more information.

We do not have any current plans to incur any material debt in the future.

### ***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 were \$2.1 million for 2004, \$2.0 million for 2005 and \$2.4 million for 2006. For each of the three months ended March 31, 2006 and 2007, our capital expenditures were \$0.6 million. We anticipate continued investments in capital expenditures in the future as we strive to maintain our position in the Latin American e-commerce market.

We believe that our existing cash and cash equivalents, the net proceeds from this 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 March 31, 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.

**Table of Contents****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 March 31, 2007 are as follows:

(In millions)	Total	Payment due by period			
		Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-term debt obligations(1)	\$ 9.3	\$ 0.3		\$ 9.0	
Capital lease obligations					
Operating lease obligations(2)	1.2	0.9	0.4		
Purchase obligations	7.0	6.9	0.1		
Other long-term liabilities reflected on our balance sheet under GAAP(3)	1.9			1.9	
Total	\$ 19.4	\$ 8.1	\$ 0.5	\$ 10.9	

(1) Includes amounts outstanding under our loan agreement with eBay. Principal of \$9.0 million is due on November 10, 2010, or upon this offering, whichever happens earlier. Interest of \$0.3 million is due in 2007. We expect to repay the aggregate outstanding principal amount of the loan and accrued interest with the net proceeds of this offering.

(2) Includes leases of office space.

(3) Includes warrants issued in connection with our convertible debt incurred in the year 2000.

Other than the loan from eBay, we do not have any further 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.

**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.** At March 31, 2007, \$9.3 million of our outstanding debt was denominated in U.S. dollars. In addition, 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 March 31, 2007, the total cash and cash equivalents denominated in foreign currencies totaled \$4.1 million, and accounts receivable and funds receivable from customers in foreign currencies totaled \$12.4 million. To manage exchange rate risk, our treasury policy is that we transfer all cash and cash equivalents in excess of working capital requirements into dollar-denominated accounts in the United States. At March 31, 2007, these dollar-

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denominated cash and cash equivalents totaled \$2.3 million. If the U.S. dollar weakens against foreign currencies, as occurred in many countries where we operate 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. In 2006, 59.1% of our revenues were denominated in Brazilian reais, 15.1% in Argentine pesos and 13.8% in Mexican pesos. We have estimated that the impact of exchange rate fluctuations on our results of operations for the year 2006 relative to 2005 resulted in net higher revenues of approximately \$2.7 million and an increase in aggregate cost of net revenues and operating expenses of approximately \$1.6 million. This calculation was made taking the average monthly exchange rates for each month in 2005 and applying them to the corresponding months in 2006. During the three months ended March 31, 2007, 57.0% of our revenues were denominated in Brazilian reais, 14.7% in Argentine pesos and 14.8% in Mexican pesos. While we have entered in the past into transactions to hedge portions of our foreign currency translation exposure, these are expensive. It is unlikely that we will enter into such hedging in the future due to the cost and because it is not possible to accurately predict or completely eliminate the effects of our foreign currency exposure.

**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. The loan that we borrowed from eBay is a fixed rate loan, and is not affected by interest rate fluctuations. At March 31, 2007, MercadoPago funds receivable from customers totaled approximately \$9.9 million and we had approximately \$1.4 million invested in variable interest rate instruments. We believe that the overall direct impact of significant interest rate variances would not be material and would not cause major disruptions to our operations.

## **Recent accounting pronouncements**

### ***Fair value measurements***

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

### ***Fair value of financial assets and liabilities***

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115." This Statement permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This Statement is

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expected to expand the use of fair value measurement, which is consistent with the Board's long-term measurement objectives for accounting for financial instruments. The adoption of SFAS No. 159 will not to have any material impact on our consolidated financial statements.



**Table of Contents****The Latin American Internet industry****The Latin American market and Internet usage statistics**

Latin America consists of South America, Central America, the Caribbean and Mexico and, with over 550 million people, represents 8.5% of the world's population. Latin America's combined annual gross domestic product in 2006 was estimated to be greater than \$2.9 trillion, representing 6.3% of the estimated world GDP for that year and approximately 8.1% on a purchasing power parity basis. This combined GDP estimate is similar to the GDP of Germany and the United Kingdom combined, as adjusted to reflect purchasing power parity among countries.

The Internet has emerged as a global medium enabling millions of people worldwide to share information, communicate and conduct business electronically. The number of Internet users has grown worldwide from approximately 534 million at the end of 2000 to approximately 1,133 million by May 7, 2007, according to InternetWorldStats.com, a site of the Miniwatts Marketing Group. In Latin America, the number of Internet users has grown from 18.1 to 102.3 million during the same period, representing a compounded annual growth rate of 30.9% compared to 12.5% in North America.

Latin America's approximately 102.3 million Internet users represent 9.0% of the world's Internet user population. Brazil, Mexico and Argentina, our most significant contributors to revenues, have approximately 65.3 million Internet users combined, which represent approximately 63.8% of Latin America's Internet population. Estimates for Internet penetration in Latin America range from a high of 42.4% for Chile and 34.0% for Argentina to 17.2% for Brazil and 6.5% for Panama, with an average penetration of approximately 18.4%, as compared to 69.9% for the United States.

The following table shows the increase in Internet usage worldwide and the percentage of Internet users by region at June 10, 2007.

<b>Region</b>	<b>Population in millions</b>	<b>% of world population</b>	<b>Internet users in millions</b>	<b>Penetration rate</b>	<b>% of users worldwide</b>	<b>Increase in number of users Dec. 2000-June. 2007</b>
Africa	933.4	14.2%	33.4	3.6%	2.9%	640.3%
Asia	3,712.5	56.5	409.4	11.0	36.0	258.2
Europe	809.6	12.3	319.1	39.4	28.2	203.6
Latin America	556.6	8.5	102.3	18.4	9.0	466.2
Middle East	193.5	2.9	19.4	10.0	1.7	491.4
North America	334.5	5.1	231.0	69.0	20.4	113.7
Oceania	34.5	0.5	18.8	54.4	1.7	146.2
World total	6,574.7	100.0%	1,133.4	17.2%	100.0%	214.0%

Source: InternetWorldStats.com.

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The following table shows a ranking of the 12 countries with the highest number of Internet users in Latin America and the corresponding penetration rates at May 7, 2007:

		<b>Number of</b>	
		<b>Internet users</b>	
	<b>Country</b>	<b>in millions</b>	<b>% of population</b>
1	Brazil	32.1	17.2%
2	Mexico	20.2	19.0
3	Argentina	13.0	34.0
4	Chile	6.7	42.4
5	Colombia	6.7	15.8
6	Peru	6.1	21.1
7	Venezuela	3.3	12.8
8	Dominican Republic	1.5	16.2
9	Ecuador	1.0	8.0
10	Guatemala	1.0	7.6
11	Costa Rica	1.0	20.5
12	Uruguay	0.7	20.4
	<b>Total</b>	<b>93.3</b>	

Source: InternetWorldStats.com.

**Internet enabling infrastructure**

The significant growth of the Internet in Latin America has been enabled by a relatively large and growing telecommunications infrastructure. The following chart shows the penetration in certain countries of different devices and services that can be used to connect to the Internet:

Source: Phone lines from Business Monitor and Paul Budde Communication. Cell phones from CIA World Factbook. PCs and broadband from Pyramid Research.

Note: Estimates at December 31, 2006. Cell phone subscribers at December 31, 2005, except for Uruguay and the United Kingdom, which are at December 31, 2004. PC users at December 31, 2004 for Uruguay, Ecuador, Costa Rica, Dominican Republic, Panama and Venezuela.

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By the year 2006, the sum of PCs in the countries where MercadoLibre operates totaled 68.2 million and by the year 2005 the sum of cell phones in those same countries was 219.2 million. Compared to the year 2000, those totals represent an increase of 109% for PCs and 223% for cell phones. We believe that this rate of growth provides us with the opportunity to expand our customer base, and that the foundation for sustained web usage throughout the region has been set.

Factors contributing to the commercialization of Internet services in Latin America include the following:

higher computer penetration in households, workplaces, classrooms and Internet cafes;

increased availability and decreasing prices of broadband Internet, which provides a richer user experience and gives users access to a broader range of services than is possible with slower, dial-up Internet connections;

increased Internet security protection, including telecommunications networks and systems, which has helped promote consumers' confidence in online transactions;

availability of advanced electronic or other payment systems, including credit card, bank transfer and mobile banking systems; and

the improvement of the Internet and communications infrastructure.

We believe that the combination of a large population of potential customers, the still low and untapped Internet penetration, a rapidly expanding base of Internet-enabling devices and inefficiencies associated with traditional trading channels makes Latin America an attractive market for an Internet-based marketplace. Current research suggests the potential of e-commerce in the region. According to an A.C. Nielsen report on worldwide e-commerce, 63% of Internet users in Brazil, Mexico and Chile combined have already purchased an item online at some point in their lives, as compared to 85% in the United States. In their previous three online purchases, Internet users in Brazil, Mexico and Chile reported buying generally the same kinds of products as users in the United States, including books (31% of users in Brazil, Mexico and Chile, and 28% in the United States), videos, DVDs and games (22% of users in Brazil, Mexico and Chile, and 21% in the United States), and apparel (9% of users in Brazil, Mexico and Chile, and 22% in the United States).

Latin America's e-commerce market is still at an early stage of development, but we believe it is evolving rapidly as an increasing number of users seek to purchase products and services on the Internet. According to our estimates based on multiple available sources, approximately \$3,250.0 million were spent on e-commerce in Latin America in 2006. The table below shows the yearly volume of e-commerce transactions in selected Latin American markets.

Year ended December 31,	Compound				
(in millions)	2003	2004	2005	2006	annual growth rate 2003-2006
Argentina	\$ 173.2	\$ 333.2	\$ 479.1	\$ 670.7	57.0%
Brazil	390.5	598.3	1,027.1	2,022.6	73.0
Mexico	118.9	213.9	356.6	558.1	67.5
Total	\$ 682.5	\$ 1,145.5	\$ 1,862.8	\$ 3,251.4	68.3

Sources: Prince Cooke, Factiva, Brazilian Chamber of Electronic Commerce, AMIPCI, and our internal estimates.

With the acceleration of Internet penetration in the region and the increased preference for online shopping, the frequency of e-commerce transactions has increased significantly. According to A.C. Nielsen, during 2006, the average number of online purchases by Internet users in Brazil, Argentina and Mexico in a span of 30 days was 3.1 per Internet user purchasing something

online.

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## Business

### Overview

We host the largest online trading platform in Latin America, called MercadoLibre and located at [www.mercadolibre.com](http://www.mercadolibre.com). We are market leaders in e-commerce in each of Argentina, Brazil, Chile, Colombia, Ecuador, Mexico, Peru, Uruguay and Venezuela, based on unique visitors and page views during 2006. Additionally, we have recently launched online trading platforms in Costa Rica, the Dominican Republic and Panama. With a market of over 550 million people and a region with one of the world's fastest-growing Internet penetration rates, we provide buyers and sellers a robust online trading environment that fosters the development of a large and growing e-commerce community. We offer a technological and commercial solution that addresses the distinctive cultural and geographic challenges of operating an online trading platform in Latin America.

We offer our users two principal services:

*The MercadoLibre marketplace:* The MercadoLibre marketplace is a fully-automated, topically-arranged and user-friendly online trading service. This service permits both businesses and individuals to list items and conduct their sales and purchases online in either a fixed-price or auction-based format. Additionally, through online classified advertisements, our registered users can also list and purchase motor vehicles, vessels, aircraft, real estate and services. Any Internet user can browse through the various products and services that are listed on our 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. During the three months ended March 31, of 2007, visitors to our website were able to browse an average of over 2.9 million total listings per month, organized by country, in over 2,000 different product categories. We believe that we have achieved a critical mass of active buyers, sellers and product listings in most of the countries where we operate and that our business can be readily scaled to handle increases in our user base and transaction volume. At March 31, 2007, we had over 19.7 million confirmed registered MercadoLibre users. During 2006, we had 1.7 million unique sellers, 4.4 million unique buyers and 13.8 million successful items sold. During the three months ended March 31, of 2007 we had 0.6 million unique sellers, 1.7 million unique buyers and 3.9 million successful items sold.

### History of MercadoLibre

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

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

	<b>Country</b>	<b>Launch date</b>	<b>Office opening</b>	<b>MercadoPago</b>
1	Argentina	August 1999	July 1999	November 2003
2	Brazil	October 1999	September 1999	January 2004
3	Mexico	November 1999	October 1999	January 2004
4	Uruguay	December 1999	N/A	N/A
5	Colombia	February 2000	January 2000	Planned launch 2007
6	Venezuela	March 2000	March 2000	April 2005
7	Chile	March 2000	April 2000	Planned launch 2007
8	Ecuador	December 2000	N/A	N/A
9	Peru	December 2004	N/A	N/A
10	Costa Rica	November 2006	N/A	N/A
11	Dominican Republic	December 2006	N/A	N/A
12	Panama	December 2006	N/A	N/A

Our business is organized using the same Internet platform in each country where we operate. However, we run the MercadoLibre marketplace in each country as a separate marketplace with no interaction with the marketplaces of other countries.

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

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

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

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

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DeRemate), for an aggregate purchase price of \$12.1 million, net of cash and cash equivalents acquired. This acquisition increased our user base by approximately 1.3 million confirmed registered users and solidified our market leadership position in Brazil, Mexico, Venezuela, Colombia, Peru, and Uruguay. We financed the acquisition with a loan from eBay, one of our stockholders. Please see [Certain relationships and related transactions](#), [Relationship with eBay](#) and [Use of proceeds](#) for more information.

In February of 2007, investment entities affiliated with Tiger purchased 1.7 million shares of our capital stock from existing stockholders of our company, including Nedasur S.A., a former stockholder of our company which had designated our current director Nicolás Galperín, affiliates of The Goldman Sachs Group Inc., a selling stockholder and in which one of our directors, Timothy Kingston, is an investment banker, and of J.P. Morgan Partners, LLC, an affiliate of J.P. Morgan Securities Inc., a joint book-runner of this offering and an entity formerly affiliated to CCMP Partners LLC, of which one of our directors, Alberto Delgado, is a Principal. Messrs. Kingston and Delgado intend to resign from our board of directors upon completion of this offering. Tiger has expressed interest in acquiring a significant amount of additional shares of our common stock in this offering. See [Underwriting](#).

## **Competitive strengths**

We focus on providing Internet-based trading platforms that enable 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. We believe that our leading position throughout Latin America is primarily attributable to the following strengths:

***We have a strong brand and are one of the leaders in the Latin American e-commerce market.*** We were one of the initial entrants in the Latin American e-commerce market, and we host the leading online trading platform in the region based on unique visitors and page views. We have built strong brand awareness and a growing online community that provides our users with the advantages of a sizable network with a large number of participants in a single marketplace. In some countries, we operate the only large-scale online trading platform that covers a wide range of product and service categories.

***We operate a proven business model.*** Business models similar to ours have been successfully implemented in many countries around the world, most notably by one of our stockholders, eBay Inc., or eBay. We have had the advantage of working closely with eBay in exchanging industry best practices and developing and improving our services and strategy.

***Our business model offers significant economies of scale.*** Since we started operations in 1999, we have shown significant revenue growth from year to year. Our business model has substantial operating leverage because a significant portion of our costs are fixed, such that increases in revenues have resulted in higher margins year after year. From 2004 to 2006, our annual revenues increased from \$12.7 million to \$52.1 million, a 311.1% increase, while total costs and operating expenses grew from \$16.0 million to \$46.7 million, a 191.4% increase.

***Our product range and information is extensive.*** We offer our customers one of the broadest selections of products and product categories among e-commerce sites in Latin America. Our sites offer on average over 2.9 million total listings per month from a selection of over 2,000 different product categories. Our product selection ranges from traditional e-commerce items such as books, music, videos, electronics, computers, hardware, cameras and cellular telephones, to industrial goods and services, to real estate and contractor services. Our website offers an efficient shopping experience with extensive information, ratings and reviews on listed products.

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***We provide creative and innovative solutions.*** We have developed creative and innovative solutions to the challenges of conducting e-commerce in Latin America. For example, in addition to offering sellers an auction-based format to sell an item, the MercadoLibre marketplace also offers a fixed-price alternative to respond to the current preferences in the region for fixed-price listings. In order to address the specific needs of buyers and sellers of motor vehicles, vessels, aircraft, real estate and certain services, items for which buyers will typically require a physical inspection or specific types of interaction, we offer our users an online classified advertisements service that is dedicated to these items. To complement the MercadoLibre marketplace by providing an end-to-end service that facilitates the completion of transactions online, we have developed MercadoPago, which operates as an escrow service that allows our users to make and receive payments efficiently and securely online. In order to meet the demand for product information by potential purchasers, we have launched product content sections on our platform that encourage user ratings and product reviews, and provide product catalogues and purchasing guides. To improve the efficiency of our MercadoLibre marketplace, we launched a relevance-based algorithm to sort listings, which provides users with a superior buying experience by matching supply and demand.

***We have acquired considerable local market expertise.*** As one of the first Internet trading platforms in the countries where we operate, we have developed an understanding of the needs and preferences of our users and customers. We have historically used this expertise to develop services and products that cater to the unique needs of Latin American e-commerce clients.

***We have an experienced and highly qualified team.*** We are led by a team of highly qualified management and information technology professionals who run our business and websites from our offices in Buenos Aires, São Paulo, Mexico City, Caracas, Santiago and Bogotá. Our ten most senior management officers and our four most senior technology professionals joined our team in 2000 or before, which provides us with stable and seasoned leadership. The commitment, knowledge and track record of both our management and technology teams are valuable assets to our company. We believe that our corporate culture contributes to the high level of satisfaction of our employees and to the retention and commitment of our team.

## **Our strategy**

We seek to serve people in Latin America by offering an online marketplace that can improve the quality of life of those who use it, while creating significant value for our stockholders. We serve our buyers by giving them access to a broader and more affordable variety of products and services than those available on other online and offline venues. We serve our sellers by allowing them to reach a larger and more geographically diverse user base at a lower overall cost and investment than offline venues, which enables them to build businesses. More broadly, we strive to turn inefficient markets into more efficient ones and in that process we generate value. To achieve these objectives, we apply the following strategies:

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



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category segments, and, when possible and advantageous, through potential strategic acquisitions of key businesses and assets.

***Increase monetization of our transactions.*** We have focused and will continue to focus on improving the revenue generation capacity of our business by implementing initiatives designed to maximize the revenues we receive from transactions on our platform. Some of these initiatives include increasing our fee structure, introducing listing fees in the countries where we do not currently charge them, and selling advertising and Internet marketing services on our platform. Additionally, we intend to take advantage of the natural synergies that exist between our marketplace and payments service by promoting increased use of MercadoPago so that it becomes the preferred online payment method on and off our platform.

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

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

***Increase operational efficiency.*** We believe that our business model is an advantage in competing with traditional online and off-line retailers as we do not require a physical showroom or storage locations and do not actually process the orders. We plan to maximize this advantage by achieving economies of scale, maintaining controls on overhead costs and reducing variable costs whenever possible.

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

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

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### Using the MercadoLibre marketplace

The MercadoLibre marketplace is an Internet-based trading platform where buyers and sellers can meet, exchange information and complete e-commerce transactions for a wide range of goods and services using either a fixed-price sale or an auction-based format. The MercadoLibre marketplace also allows sellers to list motor vehicles, vessels, aircraft, real estate and services on our online classified advertisements section. Buyers typically want to inspect these higher-value items before purchasing them. The MercadoLibre marketplace offers buyers a large selection of new and used items that are often more expensive or otherwise hard to find through traditional offline sellers, such as brick-and-mortar retail establishments, offline classified advertisements, community bulletin boards, auction houses and flea markets. We believe that the MercadoLibre marketplace allows sellers to reach a large number of potential buyers more cost-effectively than through traditional offline commerce channels.

**Arrival at a country-specific website.** A visitor to our website at [www.mercadolibre.com](http://www.mercadolibre.com) will arrive at a main page that allows the visitor to pick his or her country of residence by clicking on the name of the country or its corresponding flag. After choosing a country, the visitor will be directed to the country-specific Web pages of the MercadoLibre marketplace, all of which have the same look and feel. Alternatively, visitors can enter a country-specific page by typing that country's website address. The main differences between each country-specific Web page consist of the type and number of items available for purchase in each country, the number of confirmed registered users, the name, number and division of categories, the language (in the case of Brazil), and the availability of payment via MercadoPago. We divide our service by country, and most transactions are conducted within each country, although registered users can operate cross-border, subject to certain limitations relating to customs and tariffs. Our decision to favor a country-specific approach over a single pan-regional trading platform responds to consumer preferences in Latin America. Although cross-border trading is permitted and does occur in limited instances, the vast majority of trading remains intra-country. By dividing the service by country, we make searching, finding, pricing and comparing items in a user's own country significantly easier, thus facilitating the shopping experience. In addition, users in Brazil speak Portuguese, and therefore Brazil could not be as easily integrated into a single platform with other countries.

In November of 2005, we acquired the operations of DeRemate, a regional competitor, except for its operations in Argentina and Chile. A visitor to the [www.deremate.com](http://www.deremate.com) website will arrive at a main page that asks the visitor to pick his or her country of residence by clicking on the name of the country or its corresponding flag. After choosing a country, the visitor will be directed to the country-specific Web pages of the MercadoLibre marketplace, but such Web page will have the look and feel of a DeRemate Web page. If the visitor picks DeRemate in Argentina or Chile, the visitor will be directed to the DeRemate websites of those two countries, which do not belong to us.

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The following map indicates the countries for which we operate country-specific websites.

**Operational metrics by country.** The following tables show certain metrics for 2006 and for the three months ended March 31, 2007 by which we monitor our business.

Year ended December 31, 2006 (in millions)	Gross merchandise volume(1)	Successful items(2)	Confirmed new registered users	Unique sellers(3)	Unique Buyers(4)
Argentina	\$ 159.7	2.5	0.9	0.3	0.7
Brazil	562.6	7.4	2.8	0.7	2.3
Mexico	154.1	1.8	0.9	0.2	0.6
Other	198.6	2.2	1.4	0.4	0.8
Total	\$ 1,075.1	13.8	6.0	1.7	4.4

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Three months ended March 31, 2007 (in millions)	Gross merchandise volume(1)	Successful items(2)	Confirmed new registered users	Unique sellers(3)	Unique Buyers(4)
Argentina	\$ 45.0	0.7	0.2	0.1	0.3
Brazil	152.2	2.1	0.7	0.2	0.9
Mexico	46.5	0.6	0.2	0.1	0.2
Other	68.9	0.6	0.4	0.2	0.3
Total	312.5	3.9	1.6	0.6	1.7

(1) Gross merchandise volume is the value of items listed on the MercadoLibre marketplace that were successfully sold, excluding motor vehicles, vessels, aircraft and real estate.

(2) Successful items is the number of items listed on the MercadoLibre marketplace that were successfully sold.

(3) Unique sellers is the number of sellers that list an item for sale, without regard for the number of items sold.

(4) Unique buyers is the number of individual buyers that purchase an item, without regard for the number of items purchased.

**Registration.** Although any visitor to the MercadoLibre marketplace can browse through our trading platform and view the listed items, both prospective buyers and sellers must first register before purchasing or bidding for an item, listing an item for sale or posting content on our website. Users register by completing a short online form, accepting our terms and conditions and confirming their submission from a valid e-mail address and can then purchase or bid for an item or list an item for sale. Once registered, as long as they have a good transaction history and credit profile, users can buy and sell in any of our country-specific Web pages, except for our Web pages in Costa Rica, the Dominican Republic, Ecuador, Panama, Peru and Uruguay, which are not integrated with the rest of the countries due to the fact that they are relatively new markets compared to our more established markets and therefore customers in those countries are charged lower fees and monitoring efforts are in their early stages of deployment. Cross-border transactions are an immaterial percentage of all transactions on our websites. The registration process allows us to have a database with specified information for each user, which is useful in a number of areas, such as activity and success tracking, fraud prevention, measurement of operational metrics and content personalization. The registration process is integrated, so that registration for the MercadoLibre marketplace is also valid for MercadoPago.

**Buying on the MercadoLibre marketplace.** Each country-specific home page contains a listing of product and service categories that allows for easy browsing of the items listed for sale in that country-specific page. Bidders can search for specific items by browsing through items within a category. Bidders can also search specific categories or the entire database of listings using keywords to describe the types of products or services in which they are interested. For each keyword search, our search engine will generate a list of relevant listings and items with links to the detailed descriptions. Each item is assigned a unique identifier so that users can easily search for and track specific items. Users can also search for a particular bidder or seller by name in order to review his or her listed items and feedback history. We often feature the most visited and popular items listed on our platform. Users can also sort listings based on the type of listing (fixed-price or auction-based), the time remaining on the listing, price, type of seller, and other filters. Sorted items are ordered according to an automated relevance algorithm. This algorithm results in a better buyer experience because it helps buyers find the most attractive items for sale faster.

Once a buyer has found an item of interest and registered with the MercadoLibre marketplace, that buyer may purchase the item immediately, or, in the case of an auction, the buyer can enter the maximum amount it is willing to pay at that time. Buyers wanting additional information about a listed item can ask the seller through a public question and answer message board that is located at the bottom of every item description page. This board is available to all other users

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who access that listing. We believe that this interaction between buyers and sellers increases the amount of information that users have about each item and each seller's level of customer service, which we believe is an important part of the MercadoLibre marketplace experience. In the case of auctions, the bidder with the highest bid at the time the auction expires becomes the buyer. Sellers and bidders/buyers are notified of a number of actions that their counterparts take on the MercadoLibre marketplace, such as when a bid is placed, when a question is asked regarding an item, when a question is answered and when feedback on a user is submitted, via e-mails that are automatically sent by our software. Buyers are not charged for making bids or purchases through our MercadoLibre platform, as fees are charged to sellers and MercadoPago users.

Buyers interested in finding certain items can use our MercadoAlerta function, which is a free alert service that any user can activate to have our system to notify the user by e-mail of any listings that fit the criteria that the user has specified, such as keyword, price range, location, category of listing, etc.

Buyers can also search MercadoLibre's online classified advertisements for motor vehicles, vessels and aircraft by manufacturer, model, year and price; for real estate that is offered for sale or for rent by type, location and price; and for services by type and location. For these items, 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. Buyers typically 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 our traditional online purchase method.

***Selling on the MercadoLibre marketplace.*** A seller that is registered with us can list a product or service in any of our country-specific Web pages by completing an online form. The seller can enter the item description, including up to six photographs, the selling price and the length of time for which the item will be available for sale. In the case of auction-based sales, the seller also selects a starting price for the opening bid for the item. Additionally, a seller may select a reserve price for an item, which is the minimum price at which the seller is willing to sell the item and is typically higher than the starting price set for opening bids. The reserve price is not disclosed to bidders. A seller can also elect to sell items in individual auctions or, if he or she has multiple identical items, can elect to hold a Dutch Auction. For example, an individual wishing to sell ten identical watches could hold ten individual auctions or hold a Dutch Auction in which the ten highest bidders would each receive a watch and all lower bids would be rejected. Auction-based sales, however, account only for 11% of all sales on our platform, as sellers prefer to sell their items in a fixed-price format.

In each of Argentina, Brazil, Colombia, Mexico and Venezuela, sellers pay a listing fee. The listing fee in these countries varies by country from 0.5% to 1% of the listing price of each item (in the case of auctions it is between 0.5% and 1% of the starting price of the auction, and in the case of e-shops fees are as described in E-shops, below.) Listing fees are subject to a maximum cap of approximately \$15. In the case of auctions with a reserve price, if the maximum bid does not meet the reserve price, we charge the seller a fee of 1% of the reserve price in addition to the listing fee.

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To draw attention to and enhance a listed item, sellers can elect to purchase one or more of the following optional features:

featuring a listing on a page with high traffic, such as our home page or a category home page;

preferential order of a listing in a list of items;

a listing appearing highlighted;

a listing appearing in bold face letters;

inclusion of a picture for an item on search results pages;

automatic slideshow of all the pictures in an item page; and

a combination of features at a discounted price.

Optional feature fees range from approximately \$0.25 up to approximately \$25.00.

In order to list motor vehicles, vessels, aircraft and real estate using classified advertisements, sellers pay a listing fee ranging from approximately \$5.00 to \$10.00 depending on the country. We offer car dealerships the ability to purchase monthly packages that allow them to list multiple motor vehicles for a discounted monthly flat fee ranging from approximately \$50.00 to \$100.00, depending on the country, for up to 30 vehicles and from approximately \$100.00 to \$200.00, depending on the country, for up to 300 vehicles. In the case of services, the cost of a basic listing varies from approximately \$6.00 to \$50.00 depending on the duration of the listing. The cost of a service listing with optional features ranges from \$15.00 to \$100.00, also depending on its duration.

**How transactions are completed on the MercadoLibre marketplace.** In the case of fixed-price items, at any time a buyer clicks on the purchase button and confirms its intention to purchase an item for sale, we automatically notify the buyer and seller via e-mail and make each of their respective contact information available to the other party. In the case of auctions, at the end of an auction period, we automatically notify the highest bidder (in the event the bid exceeds the reserve price if the seller set one) and seller via e-mail. Once the transaction is successfully concluded, we charge the seller a final value fee that ranges from approximately 4% to 10% of the closing price of each item sold, depending on the country and category where the transaction is completed, with a minimum fee of approximately \$0.30 and a maximum fee of approximately \$125.00. In e-shops, the fee structure is slightly different, as explained in E-shops, below. We do not take possession of the item being sold at any point during the process. The buyer and seller must independently arrange for the shipment and payment of the item.

A buyer can view the seller's feedback rating and then determine the manner of payment, such as cash, personal check, cashier's check, or credit card, whether to use MercadoPago (which can be funded with these same direct payment methods) and also agree with the seller whether the item will be shipped before or after the payment is received. In the case of MercadoPago, the item is shipped after the buyer makes the payment to MercadoPago and before the payment is released to the seller. See Business The MercadoPago online payments solution.

We do not facilitate the completion of transactions online for motor vehicles, vessels, aircraft, services, and real estate, which are listed on the classified advertisements section of the MercadoLibre marketplace. This is because buyers and sellers of these items will typically inspect the listed item and make payment arrangements independently from our platform, and in some



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instances, they may even decide not to consummate the transaction after inspection. Although we do not require that sellers who list motor vehicles, vessels, aircraft and real estate on the MercadoLibre marketplace report to us the completion of their sales, some sellers who list these items do report them to us, in which case we will charge that seller a final value fee of approximately \$0.60 up to \$1.00, and we will allow the buyer and seller to submit feedback (see [User feedback](#), below).

Under the terms of our user agreement, if a seller receives an offer to buy an item that the seller listed in a fixed-price or auction format (or a bid above the reserve price, if one was set), the seller is obligated to complete the transaction. However, we have no means to force the seller and buyer to complete the transaction other than to suspend the user from our platform. In order to discourage high levels of incomplete transactions, we charge an administrative fee to sellers who have monthly ratios of non-completed to completed transactions that are significantly higher than the average and median of all other sellers. These administrative charges are calculated as a percentage of the commissions that would have been charged on the transactions. In the event a buyer and seller are unable to complete a certain transaction on the MercadoLibre marketplace, we generally credit the seller the amount of the final value fee, depending on the circumstances that prevented the parties from completing the transaction and the transaction history of the parties involved. Invoices for listing fees, optional feature fees and final value fees are sent via e-mail to sellers every two weeks. See [Billing and collections](#).

***What can be purchased or sold on the MercadoLibre marketplace.*** The MercadoLibre marketplace currently has over 2,000 product and service categories. Products and services are listed within a country-specific Web page. As the number of product and service categories grows, we periodically reorganize the categories under different headings to reflect the major types of items listed and the way a user would typically search for an item online and offline. Categories are organized slightly differently in the different country-specific websites to account for differences in the popularity of certain items and the availability of those items in a particular category in each country. Each category may have a number of different subcategories.

At March 31, 2007, the most important product and service categories were organized under the following headings:

Art and Antiques	Domestic Appliances	Music and Movies
Baby Products	Electronics, Audio and Video	Musical Instruments
Books, Magazines	Health and Beauty	Real Estate
Cellular Telephones	Home and Furnishings	Services
Clothing and Accessories	Industry and Office	Sports and Fitness
Collectibles and Hobbies	Jewelry and Watches	Toys and Games
Computers	Motor Parts	Video Games
Digital Cameras and Photo	Motor Vehicles	

At March 31, 2007, we offered a selection of over 1,150,585 different listings available at any given point in time in all countries combined. The number of available items varies by country and is significantly higher than the number of listings because several fixed-price listings contain multiple units of the same item available for sale. For the year 2006, excluding transactions relating to motor vehicles, vessels, aircraft, services, and real estate, approximately 79.1% of the transactions completed on the MercadoLibre marketplace related to new items and approximately 88.8% were completed using a fixed-price format. For the three months ended March 31, 2007, 77.3% of these transactions related to new items and 88.6% were completed using a fixed-price format. Our most popular items listed throughout the countries where we



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operate are computers and electronics and other items that are relatively standard or can be well-represented with a picture and a description, can be effectively evaluated without a physical inspection, are small, and can be easily shipped. As our community grows and additional items are listed, we intend to continue to create additional categories to respond to the needs of our users.

We have implemented policies based on our terms of use and local regulations that explain to our users that the sale of certain items on our platform is restricted or prohibited. Listings that violate our policies may result in disciplinary action against the responsible sellers, such as formal warnings, termination of a listing in violation of the policy and temporary or permanent suspension of a user from our platform.

**E-shops.** We offer sellers the possibility of opening their own store, or e-shop, within our platform. E-shops are a useful alternative for higher volume individual sellers or small businesses that seek to have a stronger brand presence on the MercadoLibre marketplace. Sellers can personalize their e-shop by having a Web page address that includes their MercadoLibre user ID, with their logo on the Web page and customizing its design and look and feel. Additionally, items listed in e-shops have a different fee structure from those listed ordinarily on the MercadoLibre marketplace. Listing fees for e-shop users are very low, at less than \$0.01 per item; final value fees are higher, at 6.5% to 10.0% of the closing price, with a maximum fee of approximately \$175.00; and the listing time is longer (up to 120 days as opposed to up to 30 days for regular users). This fee structure makes e-shops especially attractive for listing a large variety of products with a low selling price, such as movies, music or books, or items with a high price and a longer turn-around time, such as very expensive plasma television sets, plotters and medical equipment. Items listed in e-shops will appear in the e-shop section of the MercadoLibre marketplace and also below regular listings in search result pages. The monthly cost of having an e-shop is approximately \$7.00 for a basic type and approximately \$20.00 for a featured one. E-shops were introduced during the first quarter of 2006 and are currently available in Argentina, Brazil, Chile, Colombia, Mexico and Venezuela.

**User feedback.** We have implemented a user feedback system on the MercadoLibre marketplace to facilitate the establishment of online reputations within our community by encouraging users to record comments about other users with whom they have interacted with on our platform. Every registered user has an available trading profile. Users who have transacted or interacted with a registered user may submit positive, neutral or negative feedback on a user's profile. This profile includes the feedback rating for the user and shows comments from other MercadoLibre users who have transacted with that user in the past. Users who have developed positive reputations over time will have a star symbol displayed next to their username, which is color- and shape-coded to indicate the number of positive reviews, net of negative reviews, received by that user. Our users may review a particular user's feedback profile to check on that user's reputation within our community before deciding to bid on an item listed by that user or in determining how to complete the payment for and delivery of that item. We make this feedback publicly available only after two parties have rated each other or the time for providing feedback has expired, in order to minimize retaliatory feedback. In this way, we believe that our feedback system allows for more honest and unbiased feedback from all users. We believe that our user ratings system helps generate trust and ease among our users and allows them to trade with a higher degree of comfort with parties with whom they have not interacted before.

**MercadoLider status.** A user can become a MercadoLider (MarketLeader), MercadoLider Gold or MercadoLider Platinum user based on a combination of the following: (1) the amount billed to

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that user in a particular time period, (2) the time that the user has been registered with us, (3) the number of sales that the user conducts per month, and (4) the percentage of positive feedback from other users. Users with MercadoLider status are sellers who are very active and receive a high number and percentage of positive reviews, which makes them important members of our community. We believe that buyers recognize the importance of the MercadoLider status and have a higher degree of confidence when buying from sellers with this status. Sellers who obtain MercadoLider status enjoy several exclusive benefits, such as promotions that include only their listings, receiving information regarding what categories will be promoted, previews of new features on our platform, invitations to events and training sessions, and certain discounts. Sellers with MercadoLider Gold status receive a basic e-shop, and those with MercadoLider Platinum status receive a featured e-shop, in each case free of the monthly maintenance charge. The MercadoLider status is available in each country where we operate, although not all levels are available for certain operations.

***Other online community and support features.*** We offer a variety of other community and support features that are designed to contribute to the growth of the MercadoLibre marketplace and to build user affinity for and loyalty to our brand and platform. The MercadoLibre marketplace facilitates communications between our buyers and sellers through an online question and answer board related to each listing and offers category-specific online bulletin boards, e-mails alerting our users to the listing of items that they want, an announcements section that covers new features on the MercadoLibre marketplace or other MercadoLibre news, and other online customer support and suggestions boards. We also offer personalized areas for our users such as My Reputation, My Sales, My Items and My Purchases, which permits users to have access to a summarized report of their recent activity on our platform, including bidding activity, selling activity, account balances, favorite categories and recent feedback. Users with their own Web pages can also post hyperlink buttons from that user's Web page to our website and to a list of items the user has listed on the MercadoLibre marketplace.

## **The MercadoPago online payments solution**

Our online payments service is called MercadoPago and is currently available to MercadoLibre users in each of Argentina, Brazil, Mexico and Venezuela. MercadoPago was launched in Argentina in November of 2003 and then was gradually introduced in Brazil, Mexico and Venezuela, and is currently being introduced in Chile and Colombia, in that order. During 2006, our users paid approximately \$89.0 million for items by using MercadoPago, which represented 8.3% of our gross merchandise volume for that year. For the three months ended March 31, 2007, payments for items using MercadoPago totaled \$26.6 million, which represented 8.5% of our gross merchandise volume for that period. MercadoPago enables any individual or business registered with MercadoLibre to securely and easily send and receive payments online for MercadoLibre marketplace items.

MercadoPago provides an escrow service where, after initiating a transaction on the MercadoLibre marketplace, a buyer will deposit money (typically by bank transfer, credit card payment or cash deposit) to be held by MercadoPago. Upon notice that the buyer has paid MercadoPago for the listed item, the seller will then ship that item to the buyer and once the buyer receives the item, the buyer will authorize MercadoPago to release the sale amount of the purchased item to the seller's MercadoPago account.

In exchange for providing MercadoPago, we receive a commission from the buyer when the buyer funds MercadoPago. Our commission rates average approximately 8.0% of the sales price

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of a listed item. Our rates will vary depending on whether a buyer makes payments through MercadoPago by credit card, debit card, check, cash or bank transfer, except in Argentina where in May of 2006 we made our commission uniform at 6.49%. For cash, bank deposits, checks and electronic transfers, our commission rates range from 1.99% to 3.99% depending on the funding method and country, with a minimum of approximately \$1.00. For credit card payments, our commission rate ranges from 6.49% of the payment amount for a single lump-sum payment, up to approximately 43.99% of the payment amount (which includes any applicable interest charged) for an eighteen-month installment plan.

During 2006, MercadoPago processed 0.9 million transactions in all MercadoPago countries. During the three months ended March 31, 2007, the number of transactions processed was 263,752. During 2006, the preferred method of funding MercadoPago was by credit card, which represents approximately 60.8% of the transactions processed, followed by off-line funding alternatives (such as bank deposits or collection agents) with 22.2% and online bank transfers with 16.8%. Buyers often favor credit cards to fund MercadoPago because they can use them to finance their purchases and pay in installments in most countries, and do so conveniently and safely.

**The buyer funds  
MercadoPago**

**The seller ships  
the item**

**The buyer receives  
the item**

**The seller receives payment  
from MercadoPago**

We believe that MercadoPago makes online commerce more efficient and more secure as compared to traditional offline payment methods such as checks, money orders and credit cards via merchant accounts. Traditional offline payment methods can place several obstacles in the online commerce process, including lengthy processing times, general inconvenience, undesired disclosure of personal information and risk of non-delivery. We believe that MercadoPago is well-suited for small businesses, online merchants and individuals by enabling them to send and receive payments securely, conveniently and more cost-effectively. With MercadoPago, individual sellers can offer a much broader array of payment options to buyers without the need of having a credit card merchant account or collection accounts with different banks. MercadoPago enables buyers to have their payments released only after they have received a purchased item. Our MercadoPago user network builds on the existing financial infrastructure of our users' bank accounts, credit card relationships and the corresponding network of payment mechanisms to create what we believe is an efficient, cost-effective and relatively secure online payments solution.

***MercadoPago strategy***

We seek to increase the percentage of completed MercadoLibre marketplace transactions that are paid for using MercadoPago and introduce MercadoPago outside the MercadoLibre marketplace. To achieve this objective, we will focus on the following:

*Increase adoption of MercadoPago among MercadoLibre marketplace users.* In the countries where MercadoPago was available, during 2006 approximately 43.8% of the MercadoLibre marketplace's listings accepted MercadoPago for payments and 8.3% of our gross merchandise volume (excluding motor vehicles, vessels, aircraft and real estate) was completed through

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MercadoPago. For the three months ended March 31, 2007, these figures were 46.6% and 8.4%, respectively. In order to strengthen MercadoPago's penetration into the online payments activity of the MercadoLibre marketplace, we will continue our marketing efforts on our website, further integrate MercadoPago payment options into MercadoLibre marketplace listings and develop new product features to enhance our users' experience.

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

*Foster adoption of MercadoPago payments outside the MercadoLibre platform.* We will seek to expand the market for MercadoPago by creating additional payment services. These new products may not be related to online retail, and/or could allow us to provide services to two users who simply wish to transfer money to each other.

We are currently in the final stages of development of an improved version of MercadoPago. This version of MercadoPago, which is slated for roll-out during late 2007, will allow users who are not registered with MercadoLibre to send and receive payments to each other as long as they register on MercadoPago. Furthermore, this new version of MercadoPago will offer online sellers who accept MercadoPago as a means of payment on their websites the ability to provide to their customers a MercadoPago shopping cart that streamlines the shopping, billing and payment processes. We believe that the ease of use, safety and efficiency that the MercadoPago shopping cart offers will allow us to generate additional business from Web merchants that sell items outside the MercadoLibre marketplace. We believe that there is a significant business opportunity to increase adoption of MercadoPago as a payment mechanism outside of the MercadoLibre marketplace. However, a low market acceptance of these new MercadoPago features and functionality could have an adverse effect on our business.

In addition to increased functionality, the new version of MercadoPago will also have a different pricing structure from the current one. Pricing for purchases made in single installments will be charged to the seller instead of the buyer. The commission charged will vary by country, ranging from 7.0% to 10.0%. For purchases made in installments, the seller will be charged the single installment fee, but in addition to that the buyer will be charged approximately between 5.0% and 42.0% of the purchase price as a financing fee (depending on the country and number of installments).

### ***MercadoPago services and integration with the MercadoLibre marketplace***

MercadoLibre users have an integrated MercadoLibre marketplace/MercadoPago account, so that any user already registered with the MercadoLibre marketplace can start using MercadoPago by simply accepting MercadoPago's terms and conditions. See [Business The MercadoLibre marketplace Registration](#) for information on registration with the MercadoLibre marketplace. Sellers may accept MercadoPago payments by checking a box when listing an item. Buyers can make payments using MercadoPago when they purchase items on the MercadoLibre marketplace from a seller that accepts MercadoPago payments. The following steps occur when a buyer pays for an item on the MercadoLibre marketplace using MercadoPago in each of the countries where we operate (unless we state otherwise):

a buyer will select an item for purchase on the MercadoLibre marketplace;

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the buyer will enter his/her username and password and will confirm the shipping and payment information to authorize the payment, at which time we will charge the buyer our commission for using MercadoPago;

MercadoPago will debit the funds from that buyer's MercadoPago balance or credit card account (as the buyer instructs). The buyer may also choose to fund transactions from that buyer's bank account or pay cash in bank branches;

once the payment is processed or, in the case of a check payment, once the funds have cleared the buyer's bank account (which may take two to five business days depending on the country), we notify the seller of receipt of payment;

the seller will then ship the item;

once the buyer receives the item, payment is released to the seller. Payment is also automatically released to the seller 14 days after the transaction unless the buyer asks us to hold the payment;

at the time the funds are released to the seller, we will deduct applicable MercadoLibre marketplace selling fees. We then credit the remaining balance to the seller's MercadoPago account; and

once the seller receives the payment to its MercadoPago account, it can make payments to others, pay MercadoLibre marketplace fees, or withdraw funds at any time via electronic funds transfer (at no charge in Argentina, Mexico and Venezuela, and for a fee of approximately \$2.00 in Brazil).

We do incur transaction costs on payments at different levels in the MercadoPago payment structure based on whether the source of a payment is due from a credit card or debit card where transaction costs are significantly higher than bank account or balance-funded payments. Financial institutions and credit card companies bear the credit risk of each MercadoPago transaction paid in installments, while we only facilitate completion of these transactions. However, we do bear the risk of charge-backs from credit card companies in the event that buyers deny charges related to MercadoPago transactions. See Risk factors Risks related to our business MercadoPago is susceptible to illegal uses, and we could potentially face liability for any illegal use of MercadoPago.

We do not charge foreign exchange fees for any items listed in foreign currency, because payment for a purchased item has to be made in the local currency of each country (and if listed in another currency, at the exchange rate on the purchase date, as determined by us). We do not charge our users any fees for maintaining balances over a period of time in their MercadoPago accounts.

## **Customer support**

We devote significant resources to providing personalized and responsive customer service and support to our MercadoLibre marketplace and MercadoPago users. Our customer support operations are focused on ensuring our customers' satisfaction in order to maximize trading among community members, build strong customer loyalty, drive repeat usage and grow revenue opportunities.

We provide users with different support options including:

web-based self-help content available 24 hours a day;

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e-mail support;

a telephone customer service center for all MercadoPago users that operates daily from 8 a.m. to 10 p.m., Argentina time; and

a chat-based customer service center for MercadoLíderes that operates daily from 8 a.m. to 10 p.m., Argentina time.

These customer service options are organized by user profile and type of support required, which allows us to offer specialized account representatives to users who generate high revenues or have critical problems. Customer service representatives are available to customers for e-mail support, daily from 7:00 a.m. to 12:00 a.m. (local time of the customer service center) almost 365 days a year (except for certain holidays, which vary depending on the country). We manage customer support contacts via e-mail with our own customer relationship management software, which allows seamless integration with information from our trading platform. This ensures a more user-friendly and intuitive customer support experience for our users with offerings such as self-help menus, automated web-forms that guide them through the customer service process and integration with their transaction history. We manage our customer support services from our service centers in Buenos Aires, Argentina for all Spanish-speaking users and in Santana do Parnaíba, Brazil for our Portuguese-speaking users. In addition to the scale-related benefits of centralized customer service centers, we have selected these locations, in the case of Buenos Aires to minimize our labor costs, due to the fact our headquarters are located in Buenos Aires, and in the case of Santana do Parnaíba to serve our Portuguese-speaking customers and due to certain tax incentives.

During 2006, approximately, 3.5 million and for the three months ended March 31, 2007, approximately 1.0 million customer e-mails were processed in our support centers. A dedicated team of approximately 425 customer support and trust & safety representatives handle these e-mails. 81.3% (during 2006) and 85.2% (during the three months ended March 31, 2007) of those e-mails were answered within the established 24-hour response time target. Customer satisfaction index surveys show that during the year 2006, approximately 85.0% of all users that interacted with our customer support services rated their experience as either good, very good or excellent and 85.6% did so during the three months ended March 31, 2007.

## **Transaction safety programs**

We have developed certain transaction safety programs in an effort to provide our users with solutions to problems that are common in online trading. We organize all these initiatives under our MercadoSeguro program.

Our MercadoSeguro program is a comprehensive set of initiatives aimed at achieving safe and secure transactions on the MercadoLibre marketplace and MercadoPago, and includes our Intellectual Property Protection program and Buyer Protection program. This set of initiatives provides guidelines for safe online trading, makes information available to help resolve user disputes, responds to reports of misuses of our platform, mediates disputes between our users and runs preventive site monitoring to detect suspicious activity.

MercadoSeguro includes certain transaction safety initiatives to detect and deter possible instances of fraudulent transactions before they are completed. The initiatives employ preventive modeling techniques, automated transaction profile filters, account restrictions and limits, user verification and account investigations that are designed to detect and address fraudulent transactions before they affect users. In 2006 and during the three months ended March 31,

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2007, less than 0.05% of successful items sold were confirmed as fraudulent. In these limited number of cases where preventive actions are not successful at deterring fraudulent activity on our platform, our Buyer Protection program covers users for losses up to \$600 incurred in the transaction if the buyer meets certain conditions. See Buyer protection program.

We also conduct, whenever possible, additional monitoring and automated filtering of listings on the MercadoLibre marketplace to assure that items offered for sale comply with applicable laws, regulations and our MercadoLibre terms and conditions of use of our platform. We identify high-risk transactions with the use of automatic filters that detect regulated items such as medicines, health supplements and weapons, and transaction safety employees will check if the listing must be removed. We employ over 150 employees in our transaction safety operations centers, which are located in Buenos Aires, Argentina and Santana do Parnaíba, Brazil, and serve all countries in proportion to each country's market size and level of fraudulent activity.

**Intellectual Property Protection program.** We have taken steps to protect the intellectual property rights of third parties, which MercadoLibre users could potentially infringe. In 2001, we established the *Programa de Protección de Propiedad Intelectual* (Intellectual Property Protection Program, or IPP Program), a program that enables owners of intellectual property rights to identify and report listings on the MercadoLibre marketplace that offer allegedly infringing items. The program is available free of charge to any claimant. In order to use the program, a claimant must submit to us via e-mail a Notice of Claimed Infringement form. Our IPP Program team will remove the infringing item after investigating the claim. Approximately 700 entities and individuals currently utilize the IPP Program to protect several types of intellectual property rights. In applying the IPP Program, we remove reported infringing listings and suspend repeat offenders.

**Buyer Protection program.** The MercadoLibre Buyer Protection program covers qualified purchases that a buyer pays for and does not receive. The coverage is provided at no cost for up to approximately \$600 of qualified purchases on the MercadoLibre marketplace, depending on the country (the program is available in Argentina, Brazil, Colombia, Chile, Mexico and Venezuela) and whether the seller is a MercadoLider Platinum, MercadoLider Gold, MercadoLider or a regular user. A purchase is eligible for coverage if the item purchased is a tangible good, the buyer uses a payment system that provides proof that the payment was made, and the buyer uses seller information that is associated with the listing. The range of coverage, depending on the factors previously listed, has a cap of \$85.00 in the cases of sellers that are regular users, and the cap increases with the status of the seller. Although we do not charge for the program, we deduct an administrative fee of between \$15.00 and \$25.00 on payments that are made to eligible buyers. Under the Buyer Protection Program a buyer has 30 days from the purchase date to file a claim through our website. Each time a buyer files a claim through the MercadoLibre Buyer Protection program, we first make sure that the buyer and the transaction are eligible for coverage. If so, we notify the buyer by email and the buyer must file a coverage claim through our site within 30 days. Then, we work with both the buyer and the seller to gather the details of the transaction in question. Our transaction safety team is in charge of the investigation and resolution process. We investigate the facts of the case by contacting both the buyer and seller and reviewing the history of the transaction. We then evaluate the facts and the status of the buyer and seller in the MercadoLibre community. Finally, we come to a conclusion based on all the information reviewed. If the coverage is granted, the buyer will have to file, sign and mail to us a reimbursement agreement within 60 days, and the payment will be made. Buyers are limited to one Buyer Protection program refund every six months. In 2006, the total amount of payments

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under the Buyer Protection program, net of administrative fee charges, was \$43,000. For the three months ended March 31, 2007, the total amount of these payments was \$9,615.

We treat this program as a marketing program, and not as insurance. Therefore, we have not purchased any reinsurance to protect us against payouts on the Buyer Protection Program. However, we believe that our fraud detection and prevention tools and processes provide us with adequate protection.

## **Marketing**

Our marketing strategy is to promote the *MercadoLibre* brand and grow our platform by attracting new users and promoting more frequent trading by our existing users. To this end, we employ various means of advertising, including leading portals, our affiliates program, cable television, paid positioning in leading search engines, search engine optimization and off-line events. Our investment in online and offline marketing activities was \$6.1 million for 2004, \$9.2 million for 2005, \$13.9 million for 2006 and \$3.8 million during the three months ended March 31, 2007.

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

Negotiating and signing agreements with portals and websites that we believe could reach our target audience. These agreements allow us to purchase online advertising positions where we can market ourselves and show our promotions to potential users. During 2006, we entered into arrangements with most of the leading portals throughout Latin America, including MSN, Yahoo!, Google and UOL.

Actively managing our MercadoSocios program, an affiliates program that financially rewards site owners for directing new users to our platform who ultimately register with and conduct transactions on MercadoLibre. The MercadoSocios program is available in all countries where we operate, except Ecuador, Uruguay, Costa Rica, Dominican Republic and Panama. With our MercadoSocios program any site owner can place a link to our website with a pre-approved icon that we provide. If an Internet user clicks on the link, arrives at our website, registers as a user and completes transactions on our platform, we compensate the site owner. For each new registered user that completes a transaction on our platform, we pay the site owner that directed the user to us a fee of approximately \$2.5, and we pay the site owner 20.0% of the commissions that that user pays us for transactions carried out in the first 30 days after that user registered.

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

Structuring our website so that it appears among the top natural results for certain keyword searches. Since 2005, we have been running an annual cable television commercial campaign on a regional basis to increase brand awareness and recognition. We believe that cable television subscribers in Latin America offer an interesting demographic group based on both socio-economic profiling and the high penetration of Internet usage among cable television subscribers. During 2006, our cable media campaign ran from March to May and then from August through December. We did not run cable media advertisement during the first quarter of 2007.



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In addition to online and television advertising, we seek to reinforce our brand and increase transaction levels within the existing MercadoLibre user base through activities such as permission-based e-mail marketing and special promotions on our website. We utilize information regarding our users' past bids, sales and purchases in order to better target the messages that we communicate through these activities.

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

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

## **Operations and technology**

We believe that we have built a scalable user interface and transaction processing system that is based for the most part on internally-developed software. Our information technology platform has been designed in a horizontal architecture, which allows us to increase our processing capacity by adding more hardware which is parallel to the existing one. In this way, as our business grows, we can grow our platform with minimal disruption to the operation of our website and without having to replace equipment with more powerful and expensive hardware. Our system consists of Oracle RAC database servers running one application in one single multi-site, multi-currency, multi-look and multi-language database. We have developed in-house our own application software in Java and PL/Sql. Our operating system is Red Hat Linux.

During 2006, the MercadoLibre platform processed an average of over 17,000 database requests per second, and received an average of over 20,000 new listings and 85,000 bids per day. We also sent out an average of more than 26 million registration and transaction-related e-mails per month to our users.

We believe that our security measures reasonably assure that our systems and data are protected from third-party intrusions. A firewall protects our servers from unauthorized access, and an intrusion prevention system blocks Web attacks to our sites.

Our platform also handles all other aspects of the buying and selling process including notifying our users via e-mail of their interactions with our system. Furthermore, the system may send daily status updates to any active sellers that wish to receive a summary of activity related to their listings rather than one notification for each event. The system maintains user registration information, billing accounts, current listings and historical listings. All our data is regularly archived to our main database and to a stand-by database (in case the main one encounters an operating problem), which is updated with a lag of up to two hours of the main one. Listings of

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items for sale are generated upon demand. Our information technology system updates a text-based search engine every minute with the titles and descriptions of new items, as well as pricing and bidding updates for active items. Every time an item is listed on our service or a listing enhancement option is selected by a seller, our system makes an entry into the seller's billing account. In the case of purchased items, the entry into the seller's billing account occurs only after the parties have rated each other through our feedback system or when the time for feedback submission has expired. Our system sends electronic invoices to all sellers via e-mail every two weeks. For convenience, sellers may place a credit card account number on file with us and their account balance is billed directly. In addition to these features, we also support a number of community bulletin boards where users can interact with each other and with our support personnel.

Our system has been designed around industry standard architectures and has been designed to reduce downtime in the event of outages or catastrophic occurrences. Our MercadoLibre platform provides 24 hour, seven-day-a-week availability, subject to a short maintenance period of approximately 90 minutes every month between 3 A.M. and 6 A.M. (Argentina time) in every country. Our system hardware is hosted at the Savvis Datacenter facility in Sterling, Virginia, which provides redundant communications lines and emergency power backup. Additionally, we have a remote duplicate database in the Savvis Datacenter facility in Miami, Florida as a back-up in case the main hosting facility encounters a failure. The Savvis Datacenter also provides us with Internet connectivity, through two different Internet links. We have an additional Internet service provider (ISP). Having these different ISPs allows us to offer Internet users alternative and redundant points of access to our websites.

Due to the financial nature of MercadoPago and the online payment interface that allows users to pay for MercadoLibre marketplace commissions via credit card over the Internet, we seek to offer a high level of data security in order to build customer confidence and to protect our users' private information. We have designed the security infrastructure for MercadoPago with the objective of protecting data from unauthorized access, both physically and over the Internet. We have incorporated multiple layers of network security and network intrusion detection devices in order to further enhance the security of MercadoPago. Components of MercadoPago communicate with each other via Secure Sockets Layer, or SSL, an industry-standard communications security protocol that require mutual authentication. We store all data relating to MercadoPago users that we deem private or sensitive in encrypted form on our database. We decrypt data relating to MercadoPago users only on an as-needed basis, using a specially designated component of the system that requires authentication before fulfilling a decryption request. Our virtual private network uses Triple Data Encryption Standard (TDES) encrypting algorithms, which provide a three step method for encrypting information.

We believe our proprietary technology infrastructure is an important asset due to its robustness, cost-effectiveness and scalability. We will constantly evaluate, research and develop new hardware and software alternative techniques to further solidify our technological infrastructure.

## **Product development**

At March 31, 2007, we had 72 employees on our information technology and product development staff, including those who work in our MercadoPago operations. We incurred product development expenses (including salaries) in the amount of \$1.3 million for 2004, \$2.2 million for 2005, \$3.1 million for 2006 and \$1.0 million for the three months ended March 31, 2007. We also incurred information technology capital expenditures, including software licenses, of \$1.9 million

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for 2004, \$1.9 million for 2005, \$2.2 million for 2006 and \$0.5 million for the three months ended March 31, 2007.

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

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

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

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

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

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

We anticipate that we will continue to devote significant resources to product development in the future as we add new features and functionality to our services. The market in which we compete is characterized by rapidly changing technology, evolving industry standards, frequent new service and product announcements, introductions and enhancements and changing customer demands. Accordingly, our future success will depend on our ability to adapt to rapidly changing technologies, to adapt our services to evolving industry standards and to continually improve the performance, features and reliability of our service in response to competitive service and product offerings and evolving demands of the marketplace. In addition, the widespread adoption of new Internet, networking or telecommunications technologies or other

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technological changes could require us to make substantial expenditures to modify or adapt our services or infrastructure. See Risk Factors Risks related to our business Our future success depends on our ability to expand and adapt our operations to meet rapidly changing industry and technology standards in a cost-effective and timely manner, and on the continued market acceptance of our products and services.

## **Billing and collections**

Although billing is performed on a daily basis, each user is billed approximately twice every month, depending on the user's activity level and the user's billing calendar. We have developed a credit policy to determine different credit levels for each user depending on their payment history. Based on this policy, a user will have higher credit with us depending on the number of invoices that the user has paid on time. This is particularly important because it allows new users to start selling on the MercadoLibre marketplace without placing a credit card number on file while limiting our exposure to bad debt. The billing and collections practices are substantially the same in each country where we operate.

Bills are due five days after the issue date. We send invoices, due dates and overdue invoice reminders via e-mail, and our local collection teams in each country perform telephone reminders and follow up on large invoices. If an invoice remains unpaid for more than five days after the due date, we block the user from selling on the MercadoLibre marketplace and suspend the user's outstanding listings until the invoice is paid. We submit invoices that are more than 45 days past-due to an external collection agency that conducts the collections process on our behalf. For invoices that are more than 240 days past-due, we proactively offer payment plans and discounts in an effort to gain the customer back. These processes allowed us to improve our collection rates over time and achieve a bad debt rate of approximately 11.9% of net revenues for 2006, and 10.2% for the three months ended March 31, 2007. Our accounts receivable at March 31, 2007 represented 13 days of our March 2007 net revenues.

Our Finance and Administration department utilizes software from SAP, AG in its accounting operations for processing accounts payable, and exercising controls of fixed assets, among other tasks. In September of 2004, we began using the SAP R/3 Enterprise program in a centralized and integrated way for all our operations. We have adapted this software to local accounting and legal norms in each of the countries where we operate.

## **Seasonality**

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

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

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### **Competition**

The market for trading over the Internet is rapidly evolving and highly competitive, and we expect competition to intensify even further in the future. Barriers-to-entry for large, established Internet companies are relatively low, and current and new competitors can launch new sites at a relatively low cost using commercially available software. We currently or potentially compete with a number of other companies. Our direct competitors include various online sales and auction services, including DeRemate in Chile and Argentina, MasOportunidades.com in Argentina, and a number of other small services, including those that serve specialty markets. We also compete with businesses that offer business-to-consumer online e-commerce services such as B2W in Brazil, and with shopping comparison sites, such as Buscape and Bondfaro, located throughout Latin America.

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

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

### **Intellectual property**

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

We pursue the registration of our trademarks and service marks in each country where we operate, in the United States and in certain other Latin American countries. Generally, we register the name MercadoLibre, MercadoLivre, MercadoPago and MercadoSocios as well as our handshake logo, in each country where we operate. As part of our acquisition of DeRemate, we acquired the trademarks of DeRemate throughout the countries where it operates, except for Chile and Argentina, as well as certain other jurisdictions.

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

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take actions that could materially adversely affect the value of our proprietary rights or reputation. We also rely on certain technologies that we license from third parties, such as Oracle Corp., SAP AG, and Salesforce.com, the suppliers of key database technology, the operating system and specific hardware components for our services.

Third parties have from time to time claimed, and others may claim in the future, that we have infringed their intellectual property rights by allowing sellers to list certain items on MercadoLibre. See [Legal Proceedings](#) below and [Risk Factors](#) [Risks Related to our Business](#). We could potentially face legal and financial liability for the sale of items that infringe on the intellectual property rights of others and for information disseminated on the MercadoLibre marketplace.

**Privacy policy**

We believe that issues relating to privacy and use of personal information relating to Internet users are becoming increasingly important as the Internet and its commercial use continue to grow. We have adopted what we believe is a detailed privacy policy that complies with local legal requirements and outlines the information that we collect concerning our users and how we use it, and the extent to which other registered MercadoLibre users may have access to this information. Users must acknowledge and expressly agree to this policy when registering with the MercadoLibre marketplace. Our privacy protection practices have been certified by TRUSTe, a third party certification provider.

Although we send marketing communications to our users periodically, we ensure that they respect users' notification preferences. When users register with us, they can opt out of receiving marketing e-mails from us. They can modify their notification preferences at any time in the [My MercadoLibre](#) section of our website. As with our privacy practices, we have also certified our direct marketing practices with TRUSTe.

We do not sell or rent any personally identifiable information about our users to any third party. However, we do disclose information to our sellers, buyers and winning bidders that contains the seller's, buyer's and winning bidder's name, e-mail address and telephone number. We also use information about our users for internal purposes only in order to improve marketing and promotional efforts, and to improve our content, product offerings and site layout. We may also disclose information about our users in response to legal requirements. All information is stored on our servers located in the United States.

**Employees**

The following tables show the number of employees we had at March 31, 2007.

	<b>Number of</b>
<b>Country</b>	<b>employees</b>
Argentina	446
Brazil	265
Colombia	10
Chile	11
Mexico	29
Venezuela	14
<b>Total</b>	<b>775</b>

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

Our employees in Brazil are represented by an Information Technology Companies Labor Union in the State of São Paulo ( *Sindicato dos Trabalhadores nas Empresas e Cursos de Informática do Estado de São Paulo* ) and during 2007, our customer service employees in Argentina might become members of the Retail Employees Labor Union. We consider our relations with our employees to be good and we implement a variety of human resources practices, programs and policies that are designed to hire, retain, develop and compensate our employees.

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

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

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Our principal administrative, marketing and product development facilities are located in our offices in Buenos Aires, Argentina; Santana do Parnaíba and São Paulo, Brazil; Mexico City, Mexico; Caracas, Venezuela; Bogotá, Colombia; and Santiago, Chile. Currently, all of our offices are occupied under lease agreements. Other than the Venezuelan office lease, the leases for our facilities do not provide for renewal options. After expiration of these leases, we can renegotiate the leases with our current landlords, or move to another location. The following table shows the location of our offices and centers, and the term of the leases under which they operate.

<b>City and Country</b>	<b>Facility</b>	<b>Address</b>	<b>Approximate square meters</b>	<b>Lease term</b>
Buenos Aires, Argentina	Corporate headquarters, Argentina operation & Customer service center	Tronador 4890 floors 6 and 8 <sup>th</sup> , Buenos Aires, 1430 Argentina	1,826	March 2010
Buenos Aires, Argentina	Customer service center	Av. Costanera Rafael Obligado y Geronimo Salguero, Buenos Aires, Argentina	1,740	January 2012
San Luis, Argentina	Technology Development center	Av. Universitaria s/n, Ciudad de la Punta, San Luis, Argentina	158	February 2008
São Paulo, Brazil	Brazil operation	Rua Gomes de Carvalho, 1306 Vila Olimpia, Cep 04547-005 São Paulo, Brazil	598	December 2007
Santana do Parnaíba, Brazil	Brazilian Customer service center	Rua Yojiro Takaoka, 4350 Cep 06541-038 Santana do Parnaíba, São Paulo, Brazil	673	October 2009
Bogotá, Colombia	Colombia operation	Calle 93 B # 17-25 Ofc.406, Bogotá, Colombia	107	April 2008
Santiago, Chile	Chile operation	Coronel Pereira 72, oficina 301, Las Condes, Santiago, Chile	131	April 2009
Mexico City, Mexico	Mexico operation	Ibsen 43-101, Colonia Polanco, Miguel Hidalgo, Código Postal 11650, México D.F. México	147	December 2008
Caracas, Venezuela	Venezuela operation	Oficina A del Piso 5 del Centro Gerencial Mohedano, Calle Los Chaguaramos con Avenida Mohedano de la Urbanización La Castellana, Municipio Chacao, Estado Miranda, Venezuela	220	February 2008

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



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### **Government regulation**

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

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

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

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

### **Legal proceedings**

From time to time, we are involved in disputes that arise in the ordinary course of our business. The number and significance of these disputes is increasing as our business expands and our company grows. Any claims against us, whether meritorious or not, are time consuming, can result in costly litigation, require significant amounts of management time, and can result in the diversion of significant operational resources. We are subject to various tax, labor, social security and civil lawsuits and administrative proceedings which involve amounts totaling approximately \$3.0 million.

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At December 31, 2006, we had 68 cases in litigation against our Brazilian subsidiary in the Brazilian ordinary courts. In addition, at December 31, 2006 our Brazilian subsidiary had more than 670 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 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.

At March 31, 2007, our total provisions for proceeding-related contingencies were approximately \$0.4 million for 157 legal actions against us where a loss is probable. We do not reserve provisions for possible and remote losses.

On March 28, 2003, Qix Skateboards Indústria e Comércio Ltda., or Qix, sued MercadoLivre.com Atividades de Internet Ltda., our Brazilian subsidiary, in the 3<sup>rd</sup> 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. We believe that we have meritorious defenses, and we intend to continue defending this action.

On November 5, 2003, Editora COC Empreendimentos Culturais Ltda., or Editora COC, sued our Brazilian subsidiary in the 3<sup>rd</sup> 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, and we intend to continue defending this action.

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 29<sup>th</sup> 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 amount of

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10,000 Brazilian *reais* per defendant per day of non-compliance. We appealed the decision, but the preliminary injunction was not lifted. We intend to present 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 300,000 Brazilian *reais* was imposed on these 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 6.5 million Brazilian *reais* (approximately \$3.3 million) against us, which represents 10,000 Brazilian *reais* 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 believe that we have meritorious defenses, and we intend to continue defending this action.

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 350 Brazilian *reais*, to 1,000 Brazilian *reais* per day of non-compliance, 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. We believe that we have meritorious defenses and we intend to continue defending this action.