MERCADOLIBRE INC
Form S-1
January 25, 2008
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As filed with the Securities and Exchange Commission on January 25, 2008

Registration No. 333-

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM S-1

REGISTRATION STATEMENT

Under

The Securities Act of 1933

MERCADOLIBRE, INC.

(Exact name of Registrant as specified in its Charter)

Delaware	**7389**	**98-0212790**
(State or other jurisdiction of incorporation or organization)	**(Primary Standard Industrial Classification Code Number)**	**(I.R.S. Employer Identification Number)**

MercadoLibre, Inc.

Tronador 4890, 8th Floor

Buenos Aires, C1430DNN, Argentina

011-54-11-5352-8000

(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. ¨

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	**Proposed maximum aggregate offering price(1)(2)**	**Amount of registration fee**
Common stock, par value $0.001 per share	$292,140,000	$11,481.10

(1) Estimated pursuant to Rule 457(c) and 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.

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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 jurisdiction where the offer or sale is not permitted.

Subject to completion, dated January 25, 2008

Prospectus

shares

MERCADOLIBRE, INC.

Common stock

We are selling shares of our common stock, par value $0.001 per share, and the selling stockholders identified in this prospectus are selling shares of our common stock. We will not receive any of the proceeds from the shares of common stock being sold by the selling stockholders.

Our common stock is listed on the Nasdaq Global Market under the symbol MELI. On January 24, 2008, the last reported sale price of our common stock on the Nasdaq Global Market was $56.64 per share.

Neither the Securities and Exchange Commission nor any other regulatory body 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
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 exercisable for a period of 30 days from the date of the final prospectus to purchase from us and them an aggregate of up to 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 12 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 , 2008.

JPMorgan **Merrill Lynch & Co.**

, 2008

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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 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, 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*. We are market leaders in e-commerce in each of Argentina, Brazil, Chile, Colombia, Ecuador, Mexico, Peru, Uruguay and Venezuela, based on the number of unique visitors and page views during the first nine months of 2007. 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 nine months ended September 30, 2007, visitors to our website were able to browse an average of over 3.9 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 September 30, 2007, we had 23.3 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 nine months ended September 30, 2007, we had 4.3 million unique buyers, 1.5 million unique sellers and 12.8 million successful items sold.

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.

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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 nine months ended September 30, 2006 and 2007, our gross merchandise volume was $746.3 million and $1,050.5 million, respectively, which represented an increase of 40.8%. For 2006, total payment volume was $89.0 million, an increase of approximately 131.2% over 2005. For the nine months ended September 30, 2007, total payment volume grew approximately 72.7% to $101.2 million from $58.6 million during the same period in 2006. 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 nine months ended September 30, 2007, our net revenues were $58.2 million, which represented an increase of 59.1% compared to the same period in 2006. For 2006, our net income was approximately $1.1 million. For the nine months ended September 30, 2007, our net income was $4.4 million, which represented a growth of $5.1 million from a loss of $(0.8) million during the same period in 2006. The following table sets forth, for the periods indicated, some of our principal consolidated financial and operational indicators:

	Year ended December 31,			Nine months ended September 30,	
				2006	2007
(in millions, except items sold)	**2004**	**2005**	**2006**	**(unaudited)**	**(unaudited)**
Net revenues	$ 12.7	$ 28.2	$ 52.1	$ 36.6	$ 58.2
Income (loss) from operations	$ (3.3)	$ 0.8	$ 5.4	$ 3.4	$ 13.6
Net income (loss)	$ (2.2)	$ 2.4	$ 1.1	$ (0.8)	$ 4.4
Gross merchandise volume(1)	$ 299.3	$ 607.7	$ 1,075.1	$ 746.3	$ 1,050.5
Number of successful items sold(2)	5.1	8.4	13.8	9.8	12.8
Total payment volume(3)	$ 8.9	$ 38.5	$ 89.0	$ 58.6	$ 101.2

(1) Measure of the total value of goods and services sold on 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.

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 8.6% 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 rates in Latin America at November 30, 2007 range from a high of 43.2% for Chile to 22.4% for Brazil and 8.2% for Panama, with an average penetration rate of approximately 21.5%. Between the end of 2000 and November 30, 2007, InternetWorldStats.com estimates that Latin America s Internet user base increased approximately 577.3% with a compounded annual growth rate of 31.7%.

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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 into 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. For the nine months ended September 30, 2007, revenues increased from $36.6 million in the same period of 2006 to $58.2 million, a 59.1% increase, while total costs and operating expenses grew from $33.2 million to $44.6 million, a 34.2% 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 3.9 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

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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 integrated payment platform 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 Bogotá, Buenos Aires, Caracas, Mexico City, Santiago, São Paulo and Zona America. Our 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 and electronic payment service that can improve the quality of life of those who use it, while creating significant value for our stockholders. We serve our buyers by giving them access to a broader and more affordable variety of products and services than those available on other online and offline venues. We serve our sellers by allowing them to reach a larger and more geographically diverse user base at a lower overall cost and investment than offline venues, which enables them to build businesses. At the same time, we provide payment settlement services to facilitate such transactions. More broadly, we strive to turn inefficient markets into more efficient ones and in that process we generate value. 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 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

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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.

Recent developments

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

Acquisition of CMG

On January 22, 2008, we acquired 100% of the issued and outstanding shares of capital stock of CMG Classified Media Group, Inc., or CMG and its subsidiaries. CMG and its subsidiaries operate an online classified advertisements platform primarily dedicated to the sale of automobiles at *www.tucarro.com* in Venezuela, Colombia and Puerto Rico and real estate at *www.tuinmueble.com* in Venezuela, Colombia, Panama, the United States, Costa Rica and the Canary Islands. The purchase price for the shares of CMG and its subsidiaries was $19 million, subject to certain escrows and working capital adjustments.

Management changes

On January 23, 2008, Edgardo Sokolowicz, our Senior Vice President and Chief Technology Officer, informed us of his intention to resign from his position with us due to personal reasons as of March 31, 2008. His role will be divided into two separate positions, senior director of development and senior director of architecture and database pursuant to our succession plan.

On January 24, 2008, our board of directors elected Martin de los Santos as a new director. Mr. de los Santos was appointed as a Class II director and his initial term will expire after our annual meeting of stockholders in 2009. Our board of directors has affirmatively determined that Mr. de los Santos meets the definition of independent director under Rules 4200 and 4350 of the Nasdaq global market listing standards. Mr. de los Santos was appointed to the Audit Committee of our board of directors and Compensation Committee of our board of directors.

Outlook for Fiscal year 2007

Based on currently available information, we estimate net revenues of between $26.0 million and $27.0 million for the three months ended December 31, 2007. We anticipate our operating income margin, defined as income from operations as a percentage of net revenues, for the three months ended December 31, 2007, will decrease compared to operating income margin for the three months ended September 30, 2007.

As of the date of this prospectus, neither the review of our consolidated financial statements for the three months or year ended December 31, 2007 nor the audit as of and for the year ended December 31, 2007 has been completed, and therefore these results are subject to significant adjustments. Although our financial statements for the three months ended December 31, 2007 are not yet available, the information above reflects our preliminary estimates based on currently available information. This information, however, should not be relied upon as being necessarily indicative of future results. As we have not completed closing our books and records, we have not prepared financial statements for the three months or year ended December 31, 2007. Accordingly, management and the board of directors have not completed their review of the financial statements or the information presented above as of or for the three months ended December 31, 2007.

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The estimates set forth above may be subject to further adjustments, which adjustments could be material and result in significant changes. As a result, the final financial results could be different than as set forth above and those differences could be material. Our consolidated financial statements for the year ended December 31, 2007 will not be available until after this offering is completed, and consequently will not be available to you prior to investing in our common stock. We do not intend to update or otherwise revise these estimates to reflect future events and do not intend to disclose publicly whether our actual results will vary from our estimates other than through the release of actual results in the ordinary course of business. For additional information regarding the various risks and uncertainties inherent in these estimates, see Forward-looking statements and Risk Factors in this prospectus. You should read the foregoing also in conjunction with Management s discussion and analysis of financial condition and results of operation. The estimates set forth above have been prepared by, and are the responsibility of, our management. You should not put undue reliance on these estimates. Neither our independent registered public accounting firm nor any other public accounting firm has reviewed or audited the estimates set forth above, and accordingly, Price Waterhouse & Co. S.R.L. does not express an opinion or any other form of assurance with respect thereto. The Price Waterhouse & Co. S.R.L. report included in this prospectus relates to our company s historical financial information for prior periods. It does not extend to the estimates provided above and should not be read to do so.

Our corporate information

We are a Delaware corporation incorporated on October 15, 1999. Our registered office is located at 15 East North Street, Dover, Delaware. Our principal executive offices are located at Tronador 4890, 8th floor, Buenos Aires, Argentina, C1430DNN. Our telephone number is +54 11 5352-8000 and our website is located at *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	shares.
Common stock offered by the selling stockholders	shares.
Common stock to be outstanding after this offering	shares (or if the underwriters exercise in full their option to purchase additional shares to cover over-allotments, if any.)(1)
Offering price	$ per share.
Over-allotment option	We and the selling stockholders have granted the underwriters an option exercisable for a period of 30 days from the date of the final prospectus to purchase from us and them an aggregate of up to additional shares of our common stock to cover any over-allotments.
Use of proceeds	We expect to receive net proceeds of approximately $ million from our sale of shares of common stock (or $ million if the underwriters exercise in full their option to purchase from us additional shares to cover any over-allotments) at an assumed public offering price of $ per share, which is the last reported sale price of our common stock on the Nasdaq Global Market on , 2008, after deducting the underwriting discount and estimated offering expenses payable by us. We intend to use the net proceeds of this offering to fund future selective acquisitions of or investments in businesses, technologies or products that are complementary to our business and for general corporate purposes. While we regularly evaluate acquisition opportunities consistent with these strategic goals, we are not currently negotiating or in discussions with respect to any potential acquisitions or investments. 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 proceeds from the sale of common stock by the selling stockholders.
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 are entitled to one vote per share on all matters submitted to a vote of our stockholders.
Nasdaq Global Market symbol	MELI.

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Lock-up agreements	In connection with this offering, we, the selling stockholders, and our directors and executive officers, will enter into lock-up agreements with the underwriters of this offering under which neither we nor they may, for a period of 90 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. 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.

(1) Unless otherwise indicated, all information contained in this prospectus assumes no exercise of the underwriters option to purchase from us up to additional shares of common stock and from the selling stockholders up to additional common shares to cover over-allotments, if any, and that the common stock to be sold in this offering is sold at an assumed offering price of $ per share, which is the last reported sale price of our common stock on the Nasdaq Global Market on , 2008.

Except as otherwise noted, the number of shares of our common stock to be outstanding after this offering (i) includes 2,600 shares of our restricted common stock awarded to our outside directors, which is subject to the vesting requirements described in Compensation discussion and analysis Director compensation, and (ii) excludes 144,174 shares reserved for future issuance upon exercise of outstanding options and 298,437 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 audited consolidated financial statements, and note 8 to our unaudited condensed consolidated financial statements.

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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 September 30, 2007 and for the nine months ended September 30, 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 nine months ended September 30, 2007 are not necessarily indicative of the results that may be expected for the year ended December 31, 2007 or for any other period.

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.

	Year ended December 31,			Nine months ended September 30, 2006	2007
(in millions)	**2004**	**2005**	**2006**	**(unaudited)**	**(unaudited)**
Statement of operations data:					
Net revenues	$ 12.7	$ 28.2	$ 52.1	$ 36.6	$ 58.2
Cost of net revenues	(2.5)	(6.1)	(12.1)	(8.4)	(12.8)
Gross profit	10.2	22.1	40.0	28.2	45.4
Operating expenses:					
Product and technology development	(1.3)	(2.2)	(3.1)	(2.3)	(3.2)
Sales and marketing	(9.1)	(14.7)	(23.4)	(16.6)	(19.6)
General and administrative	(3.1)	(4.4)	(8.2)	(5.9)	(9.0)
Total operating expenses	(13.5)	(21.3)	(34.6)	(24.8)	(31.8)
Income (loss) from operations	(3.3)	0.8	5.4	3.4	13.6
Net income (loss)	$ (2.2)	$ 2.4	$ 1.1	$ (0.8)	$ 4.4

	At December 31,			At September 30, 2007
(in millions)	**2004**	**2005**	**2006**	**(unaudited)**
Balance sheet data:				
Total assets	$ 24.1	$ 44.4	$ 53.8	$ 115.5

Total liabilities	5.1	23.2	30.5	30.0
Mandatorily redeemable convertible preferred stock	63.1	63.6	64.1	
Total stockholders equity (deficit)	(44.1)	(42.4)	(40.7)	85.5

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	Year ended December 31,			Nine months ended September, 30 2007
	2004	**2005**	**2006**	**(unaudited)**
Earnings (loss) per share data:				
Basic net income (loss) available to common stockholders per common share	(0.21)	0.05	0.01	0.10
Diluted net income (loss) per common share		0.05		0.10
Weighted average shares(2):				
Basic	12,739,980	13,065,496	13,149,139	18,214,978(1)
Diluted		13,671,359		18,608,181(1)

(1) Includes the effect of the issuance of 3,000,000 shares of our common stock in connection with our initial public offering in August 2007.

(2) Shares outstanding at September 30, 2007 were 44,226,563.

	Year ended December 31,			Nine months ended September 30,	
				2006	2007
(in millions)	**2004**	**2005**	**2006**	**(unaudited)**	**(unaudited)**
Other data:					
Number of confirmed registered users at end of period(1)	6.5	12.2	18.2	16.5	23.3
Number of confirmed new registered users during period(2)	2.5	5.7	6.0	4.4	5.1
Gross merchandise volume(3)	$ 299.3	$ 607.7	$ 1,075.1	$ 746.3	$ 1,050.5
Number of successful items sold(4)	5.1	8.4	13.8	9.8	12.8
Total payment volume(5)	$ 8.9	$ 38.5	$ 89.0	$ 58.6	$ 101.2
Capital expenditures	$ 2.1	$ 2.0	$ 2.4	$ 1.7	$ 2.1
Depreciation and amortization	$ 1.1	$ 1.6	$ 2.0	$ 1.5	$ 1.7

(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 statements 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. The infrastructure for the Internet may, however, not be able to support continued growth in the number of Internet users, their frequency of use or their bandwidth requirements. In addition, the Internet could lose its viability due to delays in telecommunications technological developments, or due to increased government regulation. If telecommunications services change or are not sufficiently available to support the Internet, response times would be slower, which would adversely affect use of the Internet and our service in particular.

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

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

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

Unlike the United States, none of the countries where we operate have specific laws governing the liability of Internet service providers, such as ourselves, for fraud, intellectual property infringement, other illegal activities committed by individual users or third-party infringing content hosted on a provider s servers. This legal uncertainty allows for different judges or courts to decide very similar claims in different ways and establish contradictory jurisprudence. Certain judges may decide that Internet service providers are liable to an intellectual property owner for a user s sale of counterfeit items using our platform, while others may decide that the responsibility lies solely with the offending user. This legal uncertainty allows for rulings against us and could set adverse precedents, which individually or in the aggregate could have a material adverse effect on our business, results of operation and financial condition. In addition, legal uncertainty may negatively affect our clients perception and use of our services.

We are not currently subject to direct government regulation in most of the countries where we operate, other than those regulations applicable to businesses in general. It is not clear how existing laws governing issues such as general commercial activities, property ownership, copyrights and other intellectual property issues, taxation, libel and defamation, obscenity, and personal privacy apply to online businesses. The majority of these laws were adopted before the Internet was available and, as a result, do not contemplate or address the unique issues of the Internet. Due to these areas of legal uncertainty, and the increasing popularity and use of the Internet and other online services, it is possible that new laws and regulations are adopted with respect to the Internet or other online services. These laws and regulations could cover issues such as online commerce, Internet service providers responsibility for third party content hosted in their servers, user privacy, freedom of expression, pricing, content and quality of products and services, taxation (including imposition of value added or sales taxes collection obligations), advertising, intellectual property rights, consumer protection and information security. If these laws are enacted they may have negative effects on our business, results of operation and financial condition.

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

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

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

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

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

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

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

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

We believe that government and consumer protection agencies have received a substantial number of complaints about both the MercadoLibre marketplace and MercadoPago. We believe that these complaints are small as a percentage of our total transactions, but they could become

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large in aggregate numbers over time. In fact, various governmental regulatory agencies have already contacted us from time to time with questions about our operations and may continue to do so. If during these inquiries any of our processes are found to violate laws on consumer protection, or to constitute unfair business practices, we could be subject to an enforcement action, fines or penalties. Such actions or fines could require us to restructure our business processes in ways that would harm our business, and to incur substantial costs.

In addition, our success depends largely upon sellers accurately representing and reliably delivering the listed goods and buyers paying the agreed purchase price. We have received in the past, and anticipate that we will receive in the future, complaints from users who did not receive the purchase price or the goods agreed to be exchanged. While we can suspend the accounts of users who fail to fulfill their delivery obligations to other users, we do not have the ability to require users to make payments or deliver goods sold. We also receive complaints from buyers regarding the quality of the goods purchased or the partial or non-delivery of purchased items. We have tried to reduce our liability to buyers for unfulfilled transactions or other claims related to the quality of the purchased goods by offering a free Buyer Protection program to buyers who meet certain conditions. Although the number of claims that we have paid through this program is not currently significant, and the average claimed transaction size is approximately $81.6 during the nine months ended September 30, 2007 (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 Comrcio Ltda., Sporloisirs S.A., Qix Skateboards Indústria e Comrcio Ltda, Vintage Denim Ltda., Editora COC Empreendimentos Culturais Ltda., Barros Fischer e Associados Ltda., Fallms Distribuição de Fitas Ltda., 100% Nacional Distribuidora de Fitas Ltda., Xuxa Promoções e Produções Artísticas Limitada, Praetorium Instituto de Ensino, Pesquisas e Atividades de Extensão e Direito Ltda., Sette Informações Educacionāis Ltda., and Serāsa S.A. While we have been largely

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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 may not continue to be profitable.

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

Furthermore, as a result of our limited operating history, the emerging nature of the markets in which we compete, the increased variety of services offered on our 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.

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

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

Our success, and in particular our ability to facilitate trades successfully and provide high quality customer service, depends on the efficient and uninterrupted operation of our computer and communications hardware systems. Substantially all of our computer hardware for operating the

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

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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 82.4% for the nine months ended September 30, 2007 (the remainder of our revenues consist of advertising revenues and MercadoPago revenues). Our platform depends upon providing access to a large market at a lower cost than other comparable alternatives. If market conditions force us to substantially lower our listing or final value fees or if we fail to continue to attract new buyers and sellers, and if we are unable to effectively diversify and expand our sources of revenue, our profitability, results of operations and financial condition could be adversely affected.

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

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

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

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

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

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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 nine months ended September 30, 2007, this loss totaled $0.8 million, representing 0.8% of MercadoPago s total payment volume and 7.7% 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. While we have already launched the new fee scale in Colombia and Chile, we anticipate to roll out this new fee scale to all markets where we operate during 2008. Customers may not accept this new fee structure, which could result in decreased use of MercadoPago, and therefore, have the opposite effect as the one intended. In addition, the transition to the new system may not be a smooth one. The occurrence of any of these events could adversely affect our business.

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

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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 72.8% of MercadoPago s payment volume using credit cards during 2006 and the nine months ended September 30, 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 appealed the verdict and judgment in favor of MercExchange, and MercExchange filed a cross-appeal. In May, 2006, following appeals to the U.S. Court of Appeals for the Federal Circuit and the U.S. Supreme Court, the Supreme Court ruled that an outright denial of an injunction in a patent case is not appropriate, and remanded the case to the district court for further proceedings. On August 28, 2006, MercExchange renewed its motion for a permanent injunction in the U.S. District Court for the Eastern District of Virginia. Final briefs on such motion were filed in March 2007, and in July 2007, the U.S. District Court for the Eastern District of Virginia denied MercExchange s motion for permanent injunction. MercExchange subsequently entered a notice of appeal. In December 2007, the court entered judgment for MercExchange for $25 million plus prejudgment and post judgment interest. eBay subsequently entered a notice of appeal.

If eBay is not successful in appealing or modifying the court s ruling, 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 may not succeed in obtaining these trademarks or in our challenges to existing or future applications by other parties. If we are not successful, we could face claims by any future trademark owners. Any past or future claims relating to these issues, whether meritorious or not, could cause us to enter into costly royalty and/or licensing agreements. We may also have to modify our brand name in certain countries if any successful demands against us are too expensive. Any of these circumstances could adversely affect our business, results of operations and financial condition.

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

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

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

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

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

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

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

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

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

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

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

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

Additionally, acquisitions could result in potentially dilutive issuances of equity securities, the incurrence of debt, contingent liabilities and/or amortization expenses related to goodwill and other intangible assets, which could materially adversely affect our business, results of operations and financial condition. Any future acquisitions of other businesses, technologies, services or products might require us to obtain additional equity or debt financing, which might not be available on favorable terms, or at all. If financing is available, it might cause the dilution of our common stock.

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

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

We have spent significant resources to launch and market classified advertisements on the MercadoLibre marketplace, which may not be successful in generating sufficient revenues for us.

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

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

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

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

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Our direct competitors include various online sales and auction services, including DeRemate in Chile and Argentina, MasOportunidades.com in Argentina, and a number of other small services, including those that serve specialty markets. We also compete with business-to-consumer online e-commerce services, such as B2W Inc. in Brazil and with shopping comparison sites, such as Buscap and Bondfaro, located throughout Latin America. In addition, we compete with online communities that specialize in classified advertisements. We face competition from a number of large online communities and services that have expertise in developing online commerce and facilitating online interaction. Certain of these competitors, including Google, Amazon.com, Microsoft and Yahoo! currently offer a variety of business-to-consumer trading services, searching services and classified advertising services, and certain of these companies may introduce broader online trading to their large user populations. Other large companies with strong brand recognition and experience in online commerce, such as large newspaper or media companies also compete in the online listing market. We also compete with traditional brick-and-mortar retailers to the extent buyers choose to purchase products in a physical establishment as opposed to on our platform. Any or all of these companies could create competitive pressures, which could have a material adverse effect on our business, results of operations and financial condition.

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

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

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.

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

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

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

Governments in Latin America frequently intervene in the economies of their respective countries and occasionally make significant changes in policy and regulations. Governmental actions to control inflation and other policies and regulations have often involved, among other measures, price controls, currency devaluations, capital controls and limits on imports. Our business, financial condition, results of operations and prospects may be adversely affected by changes in government policies or regulations, including such factors as: exchange rates and exchange control policies; inflation rates; interest rates; tariff and inflation control policies; import duties on information technology equipment; liquidity of domestic capital and lending markets; electricity rationing; tax policies; and other political, diplomatic, social and economic developments in or affecting the countries where we operate. An eventual reduction of foreign investment in any of the countries where we operate may have a negative impact on such country s economy, affecting interest rates and the ability of companies such as ourselves to access financial markets.

Latin America has experienced adverse economic conditions.

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

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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 86.7% for the nine months ended September 30, 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, 2006, and the nine months ended September 30, 2007, the Brazilian *real* appreciated against the U.S. dollar by 8.1%, 11.7%, 5.0% and 14.0%, 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 businesses to honor their foreign currency denominated debt, led to very high inflation initially, significantly reduced real wages, had a negative impact on businesses whose success is dependent on domestic market demand, and adversely affected the government s ability to honor its foreign debt obligations. On the other hand, the appreciation of local currencies against the U.S. dollar may lead to the deterioration of the public accounts and balance of payments of the countries where we operate, as well as to a lower economic growth related to exports.

We may be subject to exchange control regulations which might restrict our ability to convert local currencies into U.S. dollars. For example, in 2001 and 2002, Argentina imposed exchange controls and transfer restrictions substantially limiting the ability of companies to retain foreign currency or make payments abroad. These restrictions have been substantially eased, including those requiring the Central Bank s prior authorization for the transfer of funds abroad in order to pay principal and interest on debt obligations. In addition, Brazilian law provides that whenever there is a serious imbalance in Brazil s balance of payments or reason to foresee a serious imbalance, the Brazilian government may impose temporary restrictions on the remittance to foreign investors of the proceeds of their investments in Brazil. Currently, Venezuela has certain exchange control regulations in place that restrict our ability to convert local currency into U.S. dollars. Any additional imposition of exchange controls could adversely affect our company.

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

We are subject to increased risks relating to foreign currency exchange rate fluctuations. Because we conduct our business outside the United States and receive almost all of our revenues in currencies other than the U.S. dollar, but report our results in U.S. dollars, we face exposure to adverse movements in currency exchange rates. The currencies of certain countries where we operate, including most notably Brazil, Argentina and Mexico, have historically experienced significant devaluations. The results of operations in the countries where we operate are exposed to foreign exchange rate fluctuations as the financial results of the applicable subsidiaries are translated from the local currency into U.S. dollars upon consolidation. If the U.S. dollar weakens against foreign currencies, as occurred in 2004, 2005 and 2006, the translation of these foreign-currency-denominated transactions will result in increased net revenues, operating expenses, and

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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 nine months ended September 30, 2007, 58.6% of our revenues were denominated in Brazilian reais, 15.0% in Argentine pesos and 13.2% 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. The fluctuations in foreign currency exchange rates in the nine months ended September 30, 2007 relative to the same period during 2006 resulted in higher net revenues of approximately $3.1 million and an increase in aggregate cost of net revenues and operating expenses of approximately $2.3 million. While we have entered in the past into transactions to hedge portions of our foreign currency translation exposure, these are expensive, and in addition it is impossible to perfectly predict or completely eliminate the effects of this exposure.

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

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

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

We conduct significant operations in Venezuela, offering both our MercadoLibre marketplace and MercadoPago online payments solution, and have 19 employees who work in the country. Additionally, with the acquisition of CMG, we now have more significant operations in Venezuela. Recently, the political and economic conditions have become increasingly volatile and unstable. We cannot predict the impact of any future political and economic events on our business. Also, the Venezuelan National Assembly has granted President Hugo Chávez the power to rule by decree and allowed him the power to carry out the nationalization of certain businesses in the electricity, energy and telecommunication sectors and the Venezuelan government has already nationalized Venezuela s largest telecommunications company. We cannot predict the economic and regulatory impact of President Chávez s initiatives, or whether the Venezuelan government will extend nationalization to e-commerce or other businesses that could impact our business and results of operations. Nationalization of telecommunications, electrical or other companies could reduce our or our customers access to our website or our services or increase the costs of providing or accessing our services.

In addition, the Venezuelan government has imposed foreign exchange and price controls on the local currency. These foreign exchange controls increase our costs to, and also limit our ability to, convert local currency into U.S. dollars and transfer funds out of Venezuela, and may have an

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adverse effect on our Venezuelan customers. For the nine months ended September 30, 2007, we incurred foreign currency loss related to Venezuelan revenue of approximately $1.3 million, compared to approximately $0.2 million for the corresponding period in 2006, due to the increased costs of transferring funds out of Venezuela. We cannot predict the long-term effects of exchange controls on our ability to process payments from Venezuelan customers or on the Venezuelan economy in general. Recent political events have also resulted in significant civil unrest in the country. Continuation or worsening of the political and economic conditions in Venezuela could materially and adversely impact our future business, financial condition 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

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

Our common stock commenced trading on the Nasdaq Global Market on August 9, 2007. The trading price of our common stock may be highly volatile and could be subject to wide fluctuations in response to factors, many of which are beyond our control, including those described above under Risks related to our business.

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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 and the value of our common stock could be negatively effected by any significant disposition of our shares by any of these stockholders.

Several stockholders own a significant percentage of our common stock. As of September 30, 2007, eBay owned approximately 8.1 million shares of our common stock (which represents % of our outstanding common stock upon completion of this offering, assuming the underwriters do not exercise their over-allotment option. Certain members of our management also hold a significant percentage of our common stock. Investment entities affiliated with General Atlantic LLC, collectively, General Atlantic, and investment entities affiliated with Tiger Global, L.P., collectively, Tiger, beneficially own approximately 3.9 million and 4.3 million shares of our common stock, respectively as of September 30, 2007 (which represent % and %, respectively of our outstanding common stock upon completion of this offering, assuming the underwriters do not exercise their over-allotment option). These stockholders retain the power to influence the outcome of important corporate decisions or matters submitted to a vote of our stockholders. The interests of these stockholders may conflict with, or differ from, the interests of other holders of our common shares. For example, these stockholders could cause us to make acquisitions that increase the amount of our indebtedness or outstanding shares of common stock, sell revenue-generating assets or inhibit change of control transactions that benefit other stockholders. They may also pursue acquisition opportunities that may be complementary to our business, and as a result, those acquisition opportunities may not be available to us. So long as these stockholders continue to own a substantial number of shares of our common stock, they will significantly influence all our corporate decisions and together with other stockholders may be able to effect or inhibit changes in control of our company. Additionally, the actual sale or communicated intention to sell any significant amount of our common stock by one or more of these stock holders could negatively impact the market value of our common stock.

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

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

advance notice requirements for stockholder proposals and director nominations;

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- 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 this offering, and this additional capital may not be available on acceptable terms or at all.

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

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

The market price of our common stock could decline as a result of sales of a large number of shares of our common stock in the market 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 shares of our common stock outstanding. Subject to the lock-up agreements described below, the shares of common stock sold in this offering (shares if the underwriters exercise their over-allotment option in full) will be freely tradable without restriction or further registration under the Securities Act

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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. Lock-up agreements entered into in connection with our initial public offering expire on February 6, 2008, resulting in approximately shares of our common stock becoming available for sale in the open market, excluding approximately shares of our common stock that have already been released by J.P. Morgan Securities Inc. and Merrill Lynch, Pierce, Fenner and Smith Incorporated for sale in this offering. In addition, each of General Atlantic and Tiger agreed that, in respect of the shares each purchased in our initial public offering, neither of them would, without our prior written consent, transfer or dispose of directly or indirectly, any of its shares of our common stock or securities convertible into or exchangeable into or exercisable for our shares, for a period of 18 months following the closing of our initial public offering that closed in August 2007. 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, 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 90 days after the date of this prospectus without the prior consent of J.P. Morgan Securities Inc. 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. 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 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 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 $ in net tangible book value per share, at an assumed public offering price of $ per share, which is the last reported sale price of our common stock on the Nasdaq Global Market on , 2008. 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.

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

In connection with our initial public offering, we became subject to the periodic reporting requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act, and the other rules and regulations of the SEC and the Nasdaq Global Market. We are also subject to various other regulatory requirements, including the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act. Section 404 of the Sarbanes-Oxley Act requires that we evaluate and determine the effectiveness of our internal control over financial reporting by December 31, 2008. If we 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, in connection with our initial public offering in August 2007, we became subject to the rules of the Nasdaq Global Market. Our compliance with these rules and regulations have and will continue to increase our legal and financial compliance costs and to make some activities more time-consuming and costly.

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

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

Although we are a Delaware corporation, our subsidiaries and most of our assets are located outside of the United States. Furthermore, most of our directors and officers and some experts named in this 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 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, pla estimate, target, project, should, may, could, will and similar words and expressions are intended to identify forward-lookin 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, and in particular, Venezuela.

Many of these risks are beyond our ability to control or predict. All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements contained throughout this 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 $ million from our sale of shares of common stock (or $ million if the underwriters exercise in full their option to purchase from us additional shares to cover any over-allotments) at an assumed public offering price of $ per share, which is the last reported sale price of our common stock on the Nasdaq Global Market on , 2008, and after deducting the underwriting discount and estimated offering expenses payable by us. A $1.00 increase (decrease) in the assumed public offering price of $ per share would increase (decrease) the net proceeds to us from this offering by approximately $ 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 expenses payable by us.

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

We intend to use the net proceeds from this offering to fund future selective acquisitions of or investments in businesses, technologies or products that are complementary to our business and for general corporate purposes, including for working capital requirements. While we regularly evaluate acquisition opportunities consistent with these strategic goals, we are not currently negotiating or in discussions with respect to any potential acquisitions or investments. 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.

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Capitalization

The following table sets forth our cash, cash equivalents, short and long term investments, current debt and capitalization at September 30, 2007:

(i) on an actual basis; and

(ii) on an as adjusted basis to give effect to (a) our sale of shares of common stock in this offering at an assumed public offering price of $56.64 per share, which is the last reported sale price of our common stock on the Nasdaq Global Market on January 24, 2008, and after deducting the underwriting discount and estimated offering expenses payable by us and (b) application of the net proceeds to us as described in Use of proceeds .

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

September 30, 2007		
(in millions)	**Actual**	**As adjusted**
		(unaudited)
Assets:		
Cash and cash equivalents and short and long term investments	64.4	
Borrowings:		
Debt, current portion	3.1	
Debt, long-term portion		
Total debt	3.1	
Stockholders equity:		
Common stock, par value $0.001 per share, 110,000,000 shares authorized; 44,226,563 shares issued and outstanding, at September 30, 2007 (actual)		
Common stock, par value $0.001 per share, 110,000,000 shares authorized; shares issued and outstanding, as adjusted(1)		
Additional paid-in capital	121.9	
Accumulated deficit	(39.7)	
Accumulated other comprehensive income	3.2	
Total stockholders equity	85.5	
Total capitalization(2)	88.5	

(1) Assumes no exercise of the underwriters option to purchase shares from us to cover over-allotments, if any. Excludes (i) 147,111 shares reserved for future issuance upon exercise of outstanding options and (ii) shares available for future awards under our stock option plan and 2,000 restricted shares, which were issued on September 17, 2007 to Emiliano Calemzuk and Veronica Allende Serra as part of their director compensation.

(2) Total capitalization (actual and as adjusted) includes total debt plus stockholders equity.

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Comparative per share market price data and dividend policy

Our common stock has been trading on the Nasdaq Global Market under the trading symbol MELI since our initial public offering on August 9, 2007. As of September 30, 2007 we had 44,226,563 shares of common stock issued and outstanding and there were approximately 62 holders of record.

The following table sets forth, for the periods indicated, the high and low closing prices of our common stock as reported on the Nasdaq Global Market:

	Closing stock price		Cash dividends declared per share
	High	Low	
2007:			
3rd quarter	$ 41.06	$ 18.00	
4th quarter	$ 78.81	$ 35.18	
2008:			
1st quarter (through January 24, 2008)	$ 70.10	$ 45.41	

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

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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 following selected financial data for the nine months ended September 30, 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 nine months ended September 30, 2007 are not necessarily indicative of the results that may be expected for the year ended December 31, 2007 or for any other period.

The following summary financial and other data is qualified by reference to and should be read in conjunction with Capitalization, 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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	Year ended December 31,					Nine months ended September 30,	
						2006	2007
(in millions)	**2002**	**2003**	**2004**	**2005**	**2006**	**(unaudited)**	**(unaudited)**
Statement of operations data:							
Net revenues	$ 1.7	$ 5.6	$ 12.7	$ 28.2	$ 52.1	$ 36.6	$ 58.2
Cost of net revenues	(0.7)	(1.1)	(2.5)	(6.1)	(12.1)	(8.4)	(12.8)
Gross profit	1.0	4.5	10.2	22.1	40.0	28.2	45.4
Operating expenses:							
Product and technology development	(0.7)	(1.0)	(1.3)	(2.2)	(3.1)	(2.3)	(3.2)
Sales and marketing	(2.3)	(4.9)	(9.1)	(14.7)	(23.4)	(16.6)	(19.6)
General and administrative	(1.0)	(2.1)	(3.1)	(4.4)	(8.2)	(5.9)	(9.0)
Total operating expenses	(4.0)	(8.0)	(13.5)	(21.3)	(34.6)	(24.8)	(31.8)
Income (loss) from operations	(2.9)	(3.5)	(3.3)	0.8	5.4	3.4	13.6
Other income (expenses):							
Interest income	0.3	0.2	1.2	0.4	0.5	0.2	0.9
Interest expense and other financial charges		(0.1)	(0.3)	(0.5)	(1.7)	(1.3)	(1.2)
Foreign currency (loss) gain	(0.1)	0.2	0.2	0.3	(0.4)	(0.1)	(1.8)
Other expenses, net				(0.3)	(1.5)	(1.3)	(3.0)
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	0.8	8.5
Income and asset tax (expense) benefit				1.4	(1.2)	(1.6)	(4.1)
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	(0.8)	4.4
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	(0.8)	4.4
Accretion of preferred stock	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(0.4)	(0.3)
Net income (loss) available to common stockholders	$ (3.0)	$ (3.7)	$ (2.7)	$ 1.9	$ 0.6	$ (1.1)	$ 4.1

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(in millions)	At December 31, 2002	2003	2004	2005	2006	At September 30, 2007 (unaudited)
Balance sheet data:						
Total assets	$ 27.3	$ 24.1	$ 24.1	$ 44.4	$ 53.8	$ 115.5
Total liabilities	1.9	2.4	5.1	23.2	30.5	30.0
Net assets	25.3	21.7	19.0	21.2	23.3	85.5
Mandatorily redeemable convertible preferred stock	62.1	62.6	63.1	63.6	64.1	
Common stock	0.1	0.1	0.1	0.1	0.1	
Stockholders equity (deficit)	$ (36.8)	$ (40.9)	$ (44.1)	$ (42.4)	$ (40.7)	$ 85.5

	Year Ended December 31, 2004	2005	2006	Nine months ended September 30, 2007 (unaudited)
Earnings (loss) per share data:				
Basic net income (loss) available to common stockholders per common share	$ (0.21)	$ 0.05	$ 0.01	$ 0.10
Diluted net income (loss) per common share		$ 0.05		$ 0.10
Weighted average shares(2):				
Basic	12,739,980	13,065,496	13,149,139	18,214,978(1)
Diluted		13,671,359		18,608,181(1)

(1) Includes the effect of the issuance of 3,000,000 shares of our common stock in connection with our initial public offering in August 2007.

(2) Shares outstanding at September 30, 2007 were 44,226,563.

(in millions)	Year ended December 31, 2002	2003	2004	2005	2006	Nine months ended September 30, 2006	2007
Other data:							
Number of confirmed registered users at end of period(1)	2.5	4.0	6.5	12.2	18.2	16.5	23.3
Number of confirmed new registered users during period(2)	1.3	1.5	2.5	5.7	6.0	4.4	5.1

Gross merchandise volume(3)	$ 55.4	$ 164.3	$ 299.3	$ 607.7	$ 1,075.1	$ 746.3	$ 1,050.5
Number of successful items sold(4)	1.4	3.1	5.1	8.4	13.8	9.8	12.8
Total payment volume(5)		$ 0.1	$ 8.9	$ 38.5	$ 89.0	$ 58.6	$ 101.2
Capital expenditures	$ 0.5	$ 0.9	$ 2.1	$ 2.0	$ 2.4	$ 1.7	$ 2.1
Depreciation and amortization	$ 0.6	$ 0.8	$ 1.1	$ 1.6	$ 2.0	$ 1.5	$ 1.7

(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 and nine months ended September 30, 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 1999 and introduced websites in Argentina, Brazil, Mexico, Colombia, Chile, Uruguay and Venezuela by April 2000. In order to build a critical mass of customers, we initially offered our services free of charge in all of these markets.

In May 2000, we obtained significant financing and reached gross merchandise volume of $14.3 million. In 2001 we launched a new version of our site and brand and launched our operations in Ecuador. Our gross merchandise volume for the year ending December 31, 2001 grew to $21.3 million. Our gross merchandise volume reached $55.4 million for 2002, $164.3 million for 2003 and $299.3 million for 2004. In 2005, we acquired certain operations of

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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 $746.3 million for the nine months ended September, 2006 and $1,050.5 million for the same period in 2007.

We offer our users two principal services:

The MercadoLibre marketplace: The MercadoLibre marketplace is a fully-automated, topically-arranged and user-friendly online trading service. This service permits both businesses and individuals to list items and conduct their sales and purchases online in either a fixed-price or auction-based format. Additionally, through online classified advertisements, our registered users can also list and purchase motor vehicles, vessels, aircraft, real estate and services. Any Internet user can browse through the various products and services that are listed on our 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 nine months ended September 30, 2007, visitors to our website were able to browse an average of over 3.9 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 September 30, 2007, we had 23.3 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. For the nine months ended September 30, 2007, we have 4.3 million unique buyers, 1.5 million unique sellers and 12.8 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 nine months ended September 30, 2007, our net revenues were $58.2 million, of which approximately 83.2% were attributable to MercadoLibre marketplace listing, optional feature, final value and advertisement fees. The remaining 16.8% of revenues were attributable to MercadoPago fees.

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

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

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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 83.2 for the nine months ended September 30, 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 nine months ended September 30, 2006, 58.6% of marketplace revenues were generated in Brazil, 15.4% in Argentina, 13.7% in Mexico, and the remainder, or 12.2%, in Venezuela, Colombia, Chile, Peru, Ecuador and Uruguay. For that same period in 2007, 54.3% of marketplace revenues were generated in Brazil, 16.2% in Argentina, 14.3% in Mexico and 15.2% in the remaining countries (which in 2007 also includes Panama, Costa Rica and the Dominican Republic).

The breakdown for these MercadoLibre 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 MercadoLibre marketplace revenues by type of fee for the nine months ended September 30, 2007 was 27.8% listing fees, 29.6% optional feature fees, 41.7% final value fees and 0.9% sale of advertising.

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

	Year ended December 31,			Nine months ended September 30,	
				2006	2007
(% of total MercadoLibre marketplace net revenues)	**2004**	**2005**	**2006**	**(unaudited)**	**(unaudited)**
Brazil	60.2%	61.2%	57.2%	58.6%	54.3%
Argentina	22.3	18.7	15.7	15.4	16.2
Mexico	8.8	11.1	13.9	13.7	14.3
Other	8.7	9.0	13.3	12.2	15.2

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 nine months ended September 30, 2006, the MercadoPago business represented 13.5% of our total net revenues, and 16.8% for the same period in 2007. These revenues were attributable to commissions charged to buyers for the use of MercadoPago.

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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 nine months ended September 30, 2006 and 2007, no single customer accounted for more than 10.0% 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 six countries (Argentina, Brazil, Chile, Colombia, Mexico and Venezuela). The functional currency in each country s operations is the local currency. Therefore, our net revenues are generated in multiple foreign currencies and then translated into U.S. dollars at the average monthly exchange rate.

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

	Year ended December 31,			Nine months ended September 30,	
				2006	2007
(% of total consolidated net revenues)	2004	2005	2006	(unaudited)	(unaudited)
Brazil	60.4%	61.9%	59.1%	60.1%	58.6%
Argentina	22.4	18.2	15.1	14.9	15.0
Mexico	8.8	11.6	13.8	13.7	13.2
Other	8.3	8.3	12.1	11.2	13.3

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 and 5.8% for the nine months ended September 30, 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.

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

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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 and asset tax

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

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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 nine months ended September 30, 2006 and 2007.

	Year ended December 31,			Nine months ended September 30,	
				2006	2007
(in millions)	**2004**	**2005**	**2006**	**(unaudited)**	**(unaudited)**
Income tax current					
Federal		$	$	$	$
Foreign		0.8	1.9	1.3	3.5
Total		0.8	1.9	1.3	3.5
Income tax deferred					
Federal					
Foreign		(2.2)	(0.7)	0.2	0.6
Total		(2.2)	(0.7)	0.2	0.6
Total current and deferred		(1.4)	1.2	1.5	4.1
Asset tax					
Federal					
Foreign		0.1	0.1		
Total		0.1	0.1		
Total income and asset tax expense (benefit)	$	$ (1.4)	$ 1.2	$ 1.6	$ 4.1

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.

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Impairment of long-lived assets and goodwill

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

Goodwill is reviewed at least annually for impairment. Impairment of goodwill is tested at the reporting unit level by comparing the reporting unit s carrying amount, including goodwill, to the fair value of the reporting unit. The fair values of the reporting units are estimated using a combination of the income or discounted cash flows approach and the market approach, which utilizes comparable companies data. If the carrying amount of the reporting unit exceeds its fair value, goodwill is considered impaired and a second step is performed to measure the amount of impairment loss, if any. No impairments were recognized during the reporting periods.

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

Provision for doubtful accounts

We are exposed to losses due to uncollectible accounts and credits to sellers. Provisions for these items represent our estimate of future losses based on our historical experience. Our provision for doubtful accounts amounts to $2.9 million at December 31, 2005, $4.6 million at December 31, 2006 and $6.2 million at September 30, 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 nine months ended September 30, 2006 and 2007:

	Year ended December 31,			Nine months ended September 30,	
				2006	2007
(in millions, except percentages)	**2004**	**2005**	**2006**	**(unaudited)**	**(unaudited)**
Net revenues	$ 12.7	$ 28.2	$ 52.1	$ 36.6	$ 58.2
Bad debt charges	1.6	3.4	6.2	4.5	4.6
Bad debt charges as a percentage of net revenues	12.4%	12.1%	11.9%	12.4%	7.9%

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.

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Legal Contingencies

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

From time to time, we are involved in disputes that arise in the ordinary course of business, and we do not expect this trend to change in the future. We are currently involved in certain legal proceedings as discussed in Business Legal Proceedings, in Note 14 to our audited consolidated financial statements and in Note 9 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 September 30, 2007, we had a valuation allowance on certain foreign net operating losses based on our assessment that it is more likely than not that the deferred tax asset will not be realized. To the extent we establish a valuation allowance or change the allowance in a period, we reflect the change with a corresponding increase or decrease in our tax provision in our consolidated statement of income.

The following table sets forth the effective tax rates for 2004, 2005, and 2006, and for the nine months ended September 30, 2006 and 2007:

		Year ended December 31,		Nine months ended September 30,	
				2006	2007
(in millions, except percentages)	2004	2005	2006	(unaudited)	(unaudited)
Income and asset tax (expense) benefit		$ 1.4	$ (1.2)	$ (1.6)	$ (4.1)
As a percentage of income before income and asset tax	(1.6)%	205.8%	(53.7)%	(195.4)%	(48.4%)

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.

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Stock-based compensation

On January 1, 2006, we adopted Statement of Financial Accounting Standard No. 123(R), Share-Based Payment (SFAS 123(R)), which requires the measurement and recognition of compensation expense for all share-based payment awards based on estimated fair values. No stock option equity grants were made during 2007. However, on September 17, 2007 we granted our outside directors 2,000 restricted shares. In accordance to SFAS 123(R) these non-vested share awards are measured at their value by the grant-date price of our shares as if they were vested and issued on the grant date. Based on the fair value of our shares at the grant date, total compensation cost for the 2,000 restricted shares awarded amounted to $55,500. For the nine and three months ended September 30, 2007, we recognized $1,977 of compensation expense related to these awards, which are included in operating expenses in the accompanying consolidated statements of operations.

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

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

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

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

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

We recognize stock-based compensation expense based on the estimated portion of the awards that are expected to vest. Stock-based compensation expense recognized for the nine month period ended September 30, 2007 and the year ended December 31, 2006 were $20,434 and $33,233, respectively which consisted of stock-based compensation expense related to stock

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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 audited consolidated financial statements and note 8 to our unaudited condensed 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 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 $18.00 initial public offering price in August 2007 related to improvements in our financial performance, improved prospects as we increase in size and scope, appreciation of the currencies in the countries in which we operate versus the U.S. dollar resulting in increased revenues and profits measured in U.S. dollars, and other factors that were relevant in setting initial our public offering price in August 2007 but that were not necessarily considered in the determination of the fair value of our common stock pursuant to SFAS 123(R), such as improved multiples of comparable publicly-traded companies and then prevailing market conditions for public offerings of equity securities. The fair value of our common stock at the October 1, 2006 grant date, the last date we awarded an option, was $9.64 per share. Factors affecting our October 2006 estimate of the fair value of our common stock pursuant to SFAS 123(R) that we had not considered in setting our initial public offering price in August 2007 include: (1) a discount rate of 19.2% applied in October 2006 versus a rate of 16.0% that we would have applied if we were to perform the same analysis as of the date of the initial public offering prospectus (the reduced applicable rate resulting primarily from lower current interest rates in the countries in which we operate and the lower estimated risk associated with our company given our increased profitability and scale of operations since October 2006), (2) the fact that the October 2006 discounted cash flow model had a starting date nine months or more prior to the one that would be applied if we were to have performed the same analysis as of the date of the initial public offering prospectus, which starting dates have a substantial impact on valuation in a business with significantly increasing profitability like ours, (3) a 10.0% discount related to the lack of liquidity of our shares of common stock in October 2006 and (4) an approximately 8.0% discount related to the negative effect of preferred stock liquidation preferences (upon completion of our initial public offering in August 2007, all of our outstanding shares of preferred stock were converted into shares of common stock). The public offering price for this offering will be determined by negotiation between us and the underwriters, but it will be based on the last reported closing price of our common stock on the Nasdaq Global Market on the day of pricing.

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

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Recent acquisitions

On January 22, 2008, we acquired 100% of the issued and outstanding shares of capital stock of CMG and its subsidiaries. CMG and its subsidiaries operate an online classified advertisements platform primarily dedicated to the sale of automobiles at *www.tucarro.com* in Venezuela, Colombia and Puerto Rico and real estate at *www.tuinmueble.com* in Venezuela, Colombia, Panama, the United States, Costa Rica and the Canary Islands. The purchase price for the shares of CMG and its subsidiaries was $19 million, subject to certain escrows and working capital adjustment.

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

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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 audited consolidated financial statements and our unaudited condensed consolidated financial statements and the notes to those statements included elsewhere in this prospectus.

	Year ended December 31,			Nine months ended September 30,	
				2006	2007
(in millions)	**2004**	**2005**	**2006**	**(unaudited)**	**(unaudited)**
Statement of operations data:					
Net revenues	$ 12.7	$ 28.2	$ 52.1	$ 36.6	$ 58.2
Cost of net revenues	(2.5)	(6.1)	(12.1)	(8.4)	(12.8)
Gross profit	10.2	22.1	40.0	28.2	45.4
Operating expenses:					
Product and technology development	(1.3)	(2.2)	(3.1)	(2.3)	(3.2)
Sales and marketing	(9.1)	(14.7)	(23.4)	(16.6)	(19.6)
General and administrative	(3.1)	(4.4)	(8.2)	(5.9)	(9.0)
Total operating expenses	(13.5)	(21.3)	(34.6)	(24.8)	(31.8)
Income (loss) from operations	(3.3)	0.8	5.4	3.4	13.6
Other income (expenses):					
Interest income	1.2	0.4	0.5	0.2	0.9
Interest expense and other financial charges	(0.3)	(0.5)	(1.7)	(1.3)	(1.2)
Foreign currency (loss) gain	0.2	0.3	(0.4)	(0.1)	(1.8)
Other expenses, net		(0.3)	(1.5)	(1.3)	(3.0)
Net income (loss) before income and asset tax and cumulative effect of change in accounting principle	(2.2)	0.7	2.3	0.8	8.5
Income and asset tax (expense) benefit		1.4	(1.2)	(1.6)	(4.1)
Net income (loss) before cumulative effect of change in accounting principle	(2.2)	2.0	1.1	(0.8)	4.4
Cumulative effect of change in accounting principle		0.3			
Net income (loss)	(2.2)	2.4	1.1	(0.8)	4.4
Accretion of preferred stock	(0.5)	(0.5)	(0.5)	(0.4)	(0.3)
Net income (loss) available to common stockholders	$ (2.7)	$ 1.9	$ 0.6	$ (1.1)	$ 4.1

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(% of net revenues)	Year ended December 31, 2004	2005	2006	Nine months ended September 30, 2006 (unaudited)	2007 (unaudited)
Statement of operations data:					
Net revenues	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of net revenues	(19.7)	(21.7)	(23.2)	(23.0)	(22.0)
Gross profit	80.3	78.3	76.8	77.0	78.0
Operating expenses:					
Product and technology development	(10.5)	(7.7)	(5.9)	(6.2)	(5.4)
Sales and marketing	(72.1)	(52.2)	(44.9)	(45.5)	(33.7)
General and administrative	(24.2)	(15.5)	(15.7)	(16.1)	(15.4)
Total operating expenses	(106.8)	(75.4)	(66.4)	(67.7)	(54.5)
Income (loss) from operations	(26.4)	2.9	10.4	9.2	23.4
Other income (expenses):					
Interest income	9.8	1.2	1.0	0.5	1.5
Interest expense and other financial charges	(2.6)	(1.6)	(3.3)	(3.5)	(2.1)
Foreign currency (loss) gain	1.7	0.9	(0.8)	(0.3)	(3.1)
Other expenses, net	(0.2)	(1.0)	(2.8)	(3.7)	(5.2)
Net income (loss) before income and asset tax and cumulative effect of change in accounting principle	(17.7)	2.4	4.4	2.2	14.6
Income and asset tax (expense) benefit	0.3	4.8	(2.4)	(4.3)	(7.1)
Net income (loss) before cumulative effect of change in accounting principle	(17.4)	7.2	2.1	(2.1)	7.5
Cumulative effect of change in accounting principle		1.1			
Net income (loss)	(17.4)	8.3	2.1	(2.1)	7.5
Accretion of preferred stock	(3.9)	(1.8)	(1.0)	(1.0)	(0.5)
Net income (loss) available to common stockholders	(21.3)%	6.6%	1.1%	(3.1)%	7.0%

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 nine months ended on September 30, 2006 to the same period in 2007, our gross merchandise volume increased 40.8%, our successful items increased by 30.6% and total payment volume increased by 72.7%.

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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 nine months ended September 30, 2007 compared to the same period in 2006 was 59.1%. 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 nine months ended September 30, 2007 in which gross profit margins improved to 78.0% from 77.0% for the same period in 2006, even though net revenues from MercadoPago for these periods as a percentage of net revenues increased from 13.5% to 16.8%.

Operating income margins. We have generated economies of scale in operating expenses. 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 23.4% for the nine months ended September 30, 2007, mostly as a result of the impact of these economies of scale. We anticipate, however, that as our business grows it will become increasingly difficult to sustain growth in operating income margins.

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

Statement of operations data

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

Other Data

(in millions)	Nine months ended September 30, 2007 (unaudited)	Nine months ended September 30, 2006 (unaudited)	Three months ended September 30, 2007	Three months ended September 30, 2006 (unaudited)
Number of confirmed registered users at end of period(1)	23.3	16.5	23.3	16.5
Number of confirmed new registered users during period(2)	5.1	4.4	1.7	1.6
Gross merchandise volume(3)	$ 1,050.5	$ 746.3	$ 394.9	$ 283.7
Number of successful items sold(4)	12.8	9.8	4.6	3.7
Total payment volume(5)	$ 101.2	$ 58.6	$ 43.6	$ 23.1
Purchase of intangible assets, property and equipment(6)	$ 2.1	$ 1.7	$ 0.1	$ 0.2

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

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

3 Measure of the total U.S. dollar sum of all transactions completed through the MercadoLibre marketplace, excluding motors, real estate and services.

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

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

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Net revenues

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

Growth in the MercadoLibre marketplace was attributable primarily to gross merchandise volume growth of 40.8% for the nine months ended September 30, 2007, and from an increase in our take rate, defined as MercadoLibre marketplace revenues as a percentage of gross merchandise volume, from 4.2% to 4.6%. Growth in MercadoPago was attributable to a 72.7% growth in total payments volume for that same period, and from an increase in our take rate, defined as payments revenues as a percentage of total payment volume, from 8.4% to 9.7%.

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

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

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

For the three months ended September 30, 2007 net revenue growth compared to the same period of 2006 was attributable primarily to increases of $3.5 million, or 55.6% in our Marketplace in Brazil, $1.2 million, or 58.5% in our Marketplace in Argentina, $0.9 million, or 57.2% in our Marketplace in Mexico, $1.3 million or 87.4% from Marketplaces in all other countries and $2.7 million, or 141.8% from our MercadoPago payments platform.

Cost of net revenues

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

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

Product and technology development

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

The growth in product and technology development expenses was primarily attributable to an increase in compensation costs of 74.2% and 80.0% for the nine and three months ended September 30, 2007, respectively, over the same periods for 2006. These added compensation expenses, growing at a faster rate than net revenues, where primarily related to the addition of engineers as we continue to invest in talent to develop enhancements and new features across our trading platforms.

Sales and marketing

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

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

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charges increased by 1.6% for the nine months ended September 30, 2007 when compared to the same period in 2006 and decreased by 6.3% for the three months ended September 30, 2007 when compared to the same period in 2006.

General and administrative

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

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

Other income (expenses)

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

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Income and asset tax

For the nine months ended September 30, 2007 reported tax expense was $4.1 million compared to $1.6 million for the same period in 2006, an increase of $2.5 million, or 159.4%. Our reported income and asset tax expense for the three months ended September 30, 2007 was $1.4 million compared to a reported tax expense of $0.4 million for the same period in 2006, an increase of $1.0 million, or 226.7%. Our effective tax rate as a percentage of income before income and asset tax was 48.4% and 195.4% for the nine months ended September 30, 2007 and 2006, respectively, and 33.5% and 92.0% for the three months ended September 30, 2007 and 2006, respectively.

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.

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.

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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.