

MERCADOLIBRE INC  
Form 10-Q  
November 05, 2010

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

(Mark One)

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

**For the quarterly period ended September 30, 2010**

**-OR-**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission file number 001-33647**

**MercadoLibre, Inc.**

(Exact name of Registrant as specified in its Charter)

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

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

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

(Registrant's telephone number, including area code)

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

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

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

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

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☒ Smaller reporting company ☐  
(Do not check if a smaller reporting company)

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

**APPLICABLE ONLY TO CORPORATE ISSUERS:**

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

44,131,376 shares of the issuer's common stock, \$0.001 par value, outstanding as of November 2, 2010.

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|                                               | <b>September 30,<br/>2010<br/>(Unaudited)</b> | <b>December 31,<br/>2009<br/>(Audited)</b> |
|-----------------------------------------------|-----------------------------------------------|--------------------------------------------|
| <b>Assets</b>                                 |                                               |                                            |
| Current assets:                               |                                               |                                            |
| Cash and cash equivalents                     | \$ 44,451,900                                 | \$ 49,803,402                              |
| Short-term investments                        | 6,584,453                                     | 14,580,185                                 |
| Accounts receivable, net                      | 11,132,566                                    | 4,868,377                                  |
| Funds receivable from customers               | 4,688,610                                     | 3,785,802                                  |
| Prepaid expenses                              | 681,923                                       | 547,138                                    |
| Deferred tax assets                           | 12,152,785                                    | 5,481,182                                  |
| Other assets                                  | 5,742,932                                     | 3,068,930                                  |
| Total current assets                          | 85,435,169                                    | 82,135,016                                 |
| Non-current assets:                           |                                               |                                            |
| Long-term investments                         | 65,852,573                                    | 26,627,357                                 |
| Property and equipment, net                   | 19,062,411                                    | 5,948,276                                  |
| Goodwill and intangible assets, net           | 64,790,278                                    | 64,338,564                                 |
| Deferred tax assets                           | 4,887,165                                     | 2,897,492                                  |
| Other assets                                  | 705,056                                       | 667,944                                    |
| Total non-current assets                      | 155,297,483                                   | 100,479,633                                |
| Total assets                                  | \$ 240,732,652                                | \$ 182,614,649                             |
|                                               |                                               |                                            |
| <b>Liabilities and Shareholders' Equity</b>   |                                               |                                            |
| Current liabilities:                          |                                               |                                            |
| Accounts payable and accrued expenses         | \$ 14,689,150                                 | \$ 11,599,634                              |
| Funds payable to customers                    | 40,240,198                                    | 31,453,410                                 |
| Payroll and social security payable           | 9,007,823                                     | 7,428,340                                  |
| Taxes payable                                 | 9,927,619                                     | 6,797,516                                  |
| Loans payable and other financial liabilities | 30,905                                        | 3,213,992                                  |
| Total current liabilities                     | 73,895,695                                    | 60,492,892                                 |
| Non-current liabilities:                      |                                               |                                            |
| Payroll and social security payable           | 2,629,779                                     | 1,355,006                                  |
| Loans payable and other financial liabilities | 280,228                                       |                                            |
| Deferred tax liabilities                      | 6,439,580                                     | 5,170,799                                  |
| Other liabilities                             | 1,327,673                                     | 1,402,715                                  |
| Total non-current liabilities                 | 10,677,260                                    | 7,928,520                                  |
| Total liabilities                             | \$ 84,572,955                                 | \$ 68,421,412                              |

Commitments and contingencies (Note 8)

Shareholders' equity:

Common stock, \$0.001 par value, 110,000,000 shares authorized, 44,131,376

and 44,120,269 shares issued and outstanding at September 30, 2010 and

December 31, 2009, respectively

Additional paid-in capital

Retained earnings

Accumulated other comprehensive loss

|    |              |    |              |
|----|--------------|----|--------------|
| \$ | 44,131       | \$ | 44,120       |
|    | 120,366,356  |    | 120,257,998  |
|    | 57,742,063   |    | 17,656,537   |
|    | (21,992,853) |    | (23,765,418) |

Total shareholders' equity

|             |             |
|-------------|-------------|
| 156,159,697 | 114,193,237 |
|-------------|-------------|

Total liabilities and shareholders' equity

|    |             |    |             |
|----|-------------|----|-------------|
| \$ | 240,732,652 | \$ | 182,614,649 |
|----|-------------|----|-------------|

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

**Table of Contents****MercadoLibre, Inc.****Condensed Consolidated Statements of Income****For the three- and nine-month periods ended September 30, 2010 and 2009**

|                                              | <b>Nine Months Ended September<br/>30,</b> |                | <b>Three Months Ended September<br/>30,</b> |               |
|----------------------------------------------|--------------------------------------------|----------------|---------------------------------------------|---------------|
|                                              | <b>2010</b>                                | <b>2009</b>    | <b>2010</b>                                 | <b>2009</b>   |
|                                              | <b>(Unaudited)</b>                         |                | <b>(Unaudited)</b>                          |               |
| Net revenues                                 | \$ 154,399,483                             | \$ 123,823,576 | \$ 55,951,378                               | \$ 50,599,276 |
| Cost of net revenues                         | (32,755,531)                               | (25,620,134)   | (11,450,919)                                | (10,390,671)  |
| Gross profit                                 | 121,643,952                                | 98,203,442     | 44,500,459                                  | 40,208,605    |
| Operating expenses:                          |                                            |                |                                             |               |
| Product and technology development           | (11,425,716)                               | (9,016,061)    | (4,224,476)                                 | (3,295,436)   |
| Sales and marketing                          | (34,863,616)                               | (31,342,260)   | (12,281,672)                                | (11,048,799)  |
| General and administrative                   | (21,725,081)                               | (19,683,004)   | (8,683,605)                                 | (6,882,020)   |
| Total operating expenses                     | (68,014,413)                               | (60,041,325)   | (25,189,753)                                | (21,226,255)  |
| Income from operations                       | 53,629,539                                 | 38,162,117     | 19,310,706                                  | 18,982,350    |
| Other income (expenses):                     |                                            |                |                                             |               |
| Interest income and other financial gains    | 3,073,427                                  | 2,112,180      | 1,361,899                                   | 580,343       |
| Interest expense and other financial charges | (6,919,307)                                | (9,718,003)    | (567,969)                                   | (3,873,230)   |
| Foreign currency gain / (loss)               | 7,275                                      | (2,770,725)    | (354,219)                                   | (3,299,938)   |
| Net income before income / asset tax expense | 49,790,934                                 | 27,785,569     | 19,750,417                                  | 12,389,525    |
| Income / asset tax expense                   | (9,705,408)                                | (5,862,346)    | (959,454)                                   | (2,537,257)   |
| Net income                                   | \$ 40,085,526                              | \$ 21,923,223  | \$ 18,790,963                               | \$ 9,852,268  |

|                                   | <b>Nine Months Ended September 30,</b> |             | <b>Three Months Ended September 30,</b> |             |
|-----------------------------------|----------------------------------------|-------------|-----------------------------------------|-------------|
|                                   | <b>2010</b>                            | <b>2009</b> | <b>2010</b>                             | <b>2009</b> |
|                                   | <b>(Unaudited)</b>                     |             | <b>(Unaudited)</b>                      |             |
| <b>Basic EPS</b>                  |                                        |             |                                         |             |
| Basic net income per common share | \$ 0.91                                | \$ 0.50     | \$ 0.43                                 | \$ 0.22     |
| Weighted average shares           | 44,121,539                             | 44,079,171  | 44,129,762                              | 44,088,936  |

**Diluted EPS**

|                                     |            |            |            |            |
|-------------------------------------|------------|------------|------------|------------|
| Diluted net income per common share | \$ 0.91    | \$ 0.50    | \$ 0.43    | \$ 0.22    |
| Weighted average shares             | 44,144,678 | 44,130,078 | 44,151,367 | 44,138,031 |

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



Table of Contents**MercadoLibre, Inc.****Condensed Consolidated Statements of Changes in Shareholders' Equity****For the nine-month periods ended September 30, 2010 and 2009 (unaudited)**

|                                            | Comprehensive | Common stock | Additional | (Accumulated   | Accumulated     |                               |
|--------------------------------------------|---------------|--------------|------------|----------------|-----------------|-------------------------------|
|                                            | income        | Shares       | paid-in    | deficit) /     | other           |                               |
|                                            |               | Amount       | capital    | Retained       | comprehensive   | Total                         |
|                                            |               |              |            | Earnings       | income /        |                               |
|                                            |               |              |            |                | (loss)          |                               |
| <b>Balance as of</b>                       |               |              |            |                |                 |                               |
| <b>December 31,</b>                        |               |              |            |                |                 |                               |
| <b>2008</b>                                |               | 44,070,367   | \$ 44,071  | \$ 119,807,007 | \$ (15,552,256) | \$ (10,874,841) \$ 93,423,981 |
| Stock options exercised                    |               | 28,807       | 29         | 22,501         |                 | 22,530                        |
| Stock-based compensation stock options     |               |              |            | 1,312          |                 | 1,312                         |
| Stock-based compensation restricted shares |               |              |            | 52,706         |                 | 52,706                        |
| Stock-based compensation LTRP              |               |              |            | 142,120        |                 | 142,120                       |
| Restricted shares issued                   |               | 10,655       | 10         | 171,089        |                 | 171,099                       |
| LTRP shares issued                         |               | 3,600        | 3          | (3)            |                 |                               |
| Net income                                 | \$ 21,923,223 |              |            |                | 21,923,223      | 21,923,223                    |
| Currency translation adjustment            | 2,595,788     |              |            |                | 2,595,788       | 2,595,788                     |
| Unrealized net gains on investments        | 77,193        |              |            |                | 77,193          | 77,193                        |
| Comprehensive income                       | \$ 24,596,204 |              |            |                |                 |                               |
| <b>Balance as of</b>                       |               |              |            |                |                 |                               |
| <b>September 30,</b>                       |               |              |            |                |                 |                               |
| <b>2009</b>                                |               | 44,113,429   | \$ 44,113  | \$ 120,196,732 | \$ 6,370,967    | \$ (8,201,860) \$ 118,409,952 |
| Stock options exercised                    |               | 6,224        | 6          | 5,818          |                 | 5,824                         |

|                                            |               |           |                |               |                 |                |              |
|--------------------------------------------|---------------|-----------|----------------|---------------|-----------------|----------------|--------------|
| Stock-based compensation stock options     |               |           |                | 440           |                 |                | 440          |
| Stock-based compensation restricted shares |               |           |                | 21,676        |                 |                | 21,676       |
| Stock-based compensation LTRP              |               |           |                | 33,333        |                 |                | 33,333       |
| Shares issued                              | 616           | 1         |                | (1)           |                 |                |              |
| Net income                                 | \$ 11,285,570 |           |                |               | 11,285,570      |                | 11,285,570   |
| Currency translation adjustment            | (15,510,353)  |           |                |               | (15,510,353)    |                | (15,510,353) |
| Unrealized net losses on investments       | (49,563)      |           |                |               | (49,563)        |                | (49,563)     |
| Realized net gains on investments          | (3,642)       |           |                |               | (3,642)         |                | (3,642)      |
| Comprehensive income                       | \$ 20,318,216 |           |                |               |                 |                |              |
| <b>Balance as of December 31, 2009</b>     |               |           |                |               |                 |                |              |
|                                            | 44,120,269    | \$ 44,120 | \$ 120,257,998 | \$ 17,656,537 | \$ (23,765,418) | \$ 114,193,237 |              |

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

Table of Contents**MercadoLibre, Inc.****Condensed Consolidated Statements of Changes in Shareholders' Equity****For the nine-month periods ended September 30, 2010 and 2009 (unaudited)**

|                                            | Comprehensive | Common stock |           | Additional     | (Accumulated deficit) / | Accumulated                   |                |
|--------------------------------------------|---------------|--------------|-----------|----------------|-------------------------|-------------------------------|----------------|
|                                            | income        | Shares       | Amount    | paid-in        | Retained                | other                         | Total          |
|                                            |               |              |           | capital        | Earnings                | comprehensive income / (loss) |                |
| <b>Balance as of December 31, 2009</b>     |               | 44,120,269   | \$ 44,120 | \$ 120,257,998 | \$ 17,656,537           | \$ (23,765,418)               | \$ 114,193,237 |
| Stock options exercised                    |               | 7,126        | 7         | 18,192         |                         |                               | 18,199         |
| Stock-based compensation stock options     |               |              |           | 183            |                         |                               | 183            |
| Stock-based compensation restricted shares |               |              |           | 37,696         |                         |                               | 37,696         |
| Stock-based compensation LTRP              |               |              |           | 52,291         |                         |                               | 52,291         |
| LTRP shares issued                         |               | 3,981        | 4         | (4)            |                         |                               |                |
| Net income                                 | \$ 40,085,526 |              |           |                | 40,085,526              |                               | 40,085,526     |
| Currency translation adjustment            | 1,129,724     |              |           |                |                         | 1,129,724                     | 1,129,724      |
| Unrealized net gain on investments         | 670,471       |              |           |                |                         | 670,471                       | 670,471        |
| Realized net gains on investments          | (27,630)      |              |           |                |                         | (27,630)                      | (27,630)       |
| Comprehensive income                       | \$ 41,858,091 |              |           |                |                         |                               |                |
| <b>Balance as of September 30, 2010</b>    |               | 44,131,376   | \$ 44,131 | \$ 120,366,356 | \$ 57,742,063           | \$ (21,992,853)               | \$ 156,159,697 |

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



**Table of Contents****MercadoLibre, Inc.****Condensed Consolidated Statements of Cash Flows****For the nine-month periods ended September 30, 2010 and 2009 (unaudited)**

|                                                                                   | <b>Nine Months Ended September<br/>30,<br/>2010                      2009<br/>(Unaudited)</b> |               |
|-----------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------|---------------|
| Cash flows from operations:                                                       |                                                                                               |               |
| Net income                                                                        | \$ 40,085,526                                                                                 | \$ 21,923,223 |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                                                                               |               |
| Depreciation and amortization                                                     | 3,594,156                                                                                     | 2,959,277     |
| Interest expense                                                                  |                                                                                               | 343,643       |
| Accrued interest                                                                  | (262,088)                                                                                     | (17,293)      |
| Stock-based compensation expense    stock options                                 | 183                                                                                           | 1,312         |
| Stock-based compensation expense    restricted shares                             | 37,696                                                                                        | 52,706        |
| LTRP accrued compensation                                                         | 2,798,656                                                                                     | 1,163,139     |
| Deferred income taxes                                                             | (6,950,762)                                                                                   | (1,200,197)   |
| Changes in assets and liabilities, excluding the effect of acquisitions:          |                                                                                               |               |
| Accounts receivable                                                               | (6,048,287)                                                                                   | (1,537,363)   |
| Funds receivable from customers                                                   | (877,971)                                                                                     | (221,236)     |
| Prepaid expenses                                                                  | (113,329)                                                                                     | (596,311)     |
| Other assets                                                                      | (2,600,348)                                                                                   | (3,078,233)   |
| Accounts payable and accrued expenses                                             | 7,856,387                                                                                     | 104,349       |
| Funds payable to customers                                                        | 7,393,673                                                                                     | 8,169,631     |
| Other liabilities                                                                 | (2,923,832)                                                                                   | (1,102,948)   |
| Net cash provided by operating activities                                         | 41,989,660                                                                                    | 26,963,699    |
| Cash flows from investing activities:                                             |                                                                                               |               |
| Purchase of investments                                                           | (85,338,161)                                                                                  | (45,960,414)  |
| Proceeds from sale and maturity of investments                                    | 51,145,297                                                                                    | 48,348,006    |
| Purchases of intangible assets                                                    | (12,788)                                                                                      | (946,500)     |
| Purchases of property and equipment                                               | (10,554,982)                                                                                  | (2,949,823)   |
| Net cash used in investing activities                                             | (44,760,634)                                                                                  | (1,508,731)   |
| Cash flows from financing activities:                                             |                                                                                               |               |
| Decrease in short term debt                                                       | (2,898,702)                                                                                   | (12,313,161)  |
| Stock options exercised                                                           | 18,199                                                                                        | 22,530        |
| Net cash used in financing activities                                             | (2,880,503)                                                                                   | (12,290,631)  |
| Effect of exchange rate changes on cash and cash equivalents                      | 299,975                                                                                       | 2,694,057     |
| Net (decrease) increase in cash and cash equivalents                              | (5,351,502)                                                                                   | 15,858,394    |
| Cash and cash equivalents, beginning of the year                                  | 49,803,402                                                                                    | 17,474,112    |

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|                                              |               |               |
|----------------------------------------------|---------------|---------------|
| Cash and cash equivalents, end of the period | \$ 44,451,900 | \$ 33,332,506 |
|----------------------------------------------|---------------|---------------|

**Supplemental cash flow information:**

|                            |               |              |
|----------------------------|---------------|--------------|
| Cash paid for interest     | \$ 5,765,634  | \$ 8,895,023 |
| Cash paid for income taxes | \$ 16,603,211 | \$ 7,286,257 |

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

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**MercadoLibre, Inc.**

**Notes to Condensed Consolidated Financial Statements (unaudited)**

**1. Nature of Business**

MercadoLibre Inc. (the Company) is an e-commerce enabler whose mission is to build the necessary online and technology tools to allow practically anyone to trade almost anything, helping to make inefficient markets more efficient in Latin America.

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

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

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

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

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**MercadoLibre, Inc.**

**Notes to Condensed Consolidated Financial Statements (unaudited)**

**1. Nature of Business (Continued)**

In November 2005, the Company acquired certain operations of DeRemate.com Inc., a regional competing online marketplace, including all of its operations in Brazil, Colombia, Ecuador, Mexico, Peru, Uruguay and Venezuela and the majority of the shares of the capital stock of its subsidiaries (except for its Argentine and Chilean subsidiaries, which were operated under the control of one of previous stockholders of DeRemate), for an aggregate purchase price of \$12.1 million, net of cash and cash equivalents acquired.

During 2006, the online classifieds platform was expanded to include the real estate category. Much in the same way as with motor vehicles, vessels and aircrafts, purchases of real estate, require physical inspection of the property and is therefore a business more suited to a classifieds model. For real estate listings, in addition to posting their contact information, individual owners or real estate agents can also upload pictures and videos of the property for sale and include maps of the property's location and layout.

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

In August 2007, the Company successfully completed its initial public offering pursuant to which the Company sold 3,000,000 shares of common stock and certain selling shareholders sold 15,488,762 shares of common stock, resulting in net proceeds for the Company of approximately \$49,573,239.

During 2007 the Company also launched a new and improved version of its MercadoPago payments platform in Chile and Colombia as well as in Argentina during 2008. The new MercadoPago, in addition to improving the ease of use and efficiency of payments for marketplace purchases, also allows for payments outside of the Company's marketplaces. Users are able to transfer money to other users with MercadoPago accounts and to incorporate MercadoPago as a means of payments in their independent commerce websites. In this way MercadoPago 3.0 as it has been called is designed to meet the growing demand for Internet based payments systems in Latin America. In addition, in December 2009, the Company started processing off-MercadoLibre transactions with selected sites in Brazil as a Beta test using its new direct payments product, while maintaining the escrow product for on-MercadoLibre transactions. On March 30, 2010, the Company started processing off-MercadoLibre transactions through its new direct payments product to any site in Brazil which wants to adopt it. On July 16, 2010, the Company launched MercadoPago 3.0 in Brazil for all its marketplace transactions.



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**MercadoLibre, Inc.**

**Notes to Condensed Consolidated Financial Statements (unaudited)**

**1. Nature of Business (Continued)**

In January 2008, the Company acquired 100% of the issued and outstanding shares of capital stock of Classified Media Group, Inc., or CMG, and its subsidiaries. CMG and its subsidiaries operated an online classifieds platform primarily dedicated to the sale of automobiles at [www.tucarro.com](http://www.tucarro.com) in Venezuela, Colombia and Puerto Rico and real estate at [www.tuinmueble.com](http://www.tuinmueble.com) in Venezuela, Colombia, Panama, the United States, Costa Rica and the Canary Islands. The Company paid for the shares of CMG and its subsidiaries \$19 million, subject to certain escrows and working capital adjustment clauses.

In September 2008, the Company completed the acquisition of DeRemate.com de Argentina S.A., DeRemate.com Chile S.A., Interactivos y Digitales México S.A. de C.V. and Compañía de Negocios Interactiva de Colombia E.U. for an aggregate purchase price of \$37.6 million. The Company also purchased certain URLs, domains, trademarks, databases and intellectual property rights related to those businesses for \$2.4 million. The total purchase price was subject to certain set off rights and working capital adjustment clauses.

Until the second quarter of 2010, the Company had two reportable business segments: marketplace and payments. Since the third quarter of 2010, the Company has redefined its segment reporting eliminating the business segmentation between marketplace and payments segments because management has decided to cease charging to buyers as a separate fee for using the payments platform in Brazil and Argentina, and rather allow all buyers to pay either directly to sellers or through the Company's platform without a special charge. For that reason, since the third quarter of 2010, the Company segment reporting is based on geographic areas, being this the new criteria used by management to evaluate the Company's performance. The MercadoLibre segments include Brazil, Argentina, Mexico, Venezuela and other countries (such as Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Panama, Peru, Portugal and Uruguay). See Note 5 for more detail.

As of September 30, 2010, the Company, through its wholly-owned subsidiaries, operated online commerce platforms directed towards Argentina, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Mexico, Panama, Peru, Portugal, Uruguay and Venezuela, and online payments solutions directed towards Argentina, Brazil, Mexico, Venezuela, Chile and Colombia. In addition, the Company operates a real estate classified platform that covers some areas of Florida, U.S.A.

**2. Summary of Significant Accounting Policies**

**Basis of presentation**

The accompanying unaudited interim condensed consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) and include the accounts of the Company and its wholly-owned subsidiaries. These financial statements are stated in US dollars. All significant intercompany transactions and balances have been eliminated. Certain reclassifications have been made to prior year information to conform to current year presentation.

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**MercadoLibre, Inc.**

**Notes to Condensed Consolidated Financial Statements (unaudited)**

**2. Summary of Significant Accounting Policies (Continued)**

**Basis of presentation (Continued)**

Substantially all revenues and operating costs are generated in the Company's foreign operations, amounting to approximately 99.5% and 99.3% of the consolidated totals during the nine-month periods ended September 30, 2010 and 2009, respectively. Long-lived assets located in the foreign operations totaled \$79,955,185 and \$67,523,246 as of September 30, 2010 and December 31, 2009, respectively (see Note 11 for more detail). Cash and cash equivalents as well as short and long-term investments, totaling \$116,888,926 and \$91,010,944 at September 30, 2010 and December 31, 2009, respectively, are mainly located in the United States of America.

These unaudited interim condensed financial statements reflect the Company's consolidated financial position as of September 30, 2010 and December 31, 2009. These statements also show the Company's consolidated statement of income for the three- and nine-month period ended September 30, 2010 and 2009, its consolidated statement of shareholders' equity and its consolidated statement of cash flows for the nine-month period ended September 30, 2010 and 2009. These statements include all normal recurring adjustments that management believes are necessary to fairly state the Company's financial position, operating results and cash flows.

Because all of the disclosures required by generally accepted accounting principles in the United States of America for annual consolidated financial statements are not included herein, these interim financial statements should be read in conjunction with the audited financial statements and the notes thereto for the year ended December 31, 2009, contained in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission (SEC) on February 26, 2010. The condensed consolidated statements of income, shareholders' equity and cash flows for the periods presented are not necessarily indicative of results expected for any future period.

Management has evaluated subsequent events through November 5, 2010 which is the date the financial statements were issued.

**Foreign Currency Translation**

All of the Company's foreign operations have determined the local currency to be their functional currency, except for Venezuela for the three- and nine-month periods ended September 30, 2010, as described below. Accordingly, these foreign subsidiaries translate assets and liabilities from their local currencies to U.S. dollars using year end exchange rates while income and expense accounts are translated at the average rates in effect during the year. The resulting translation adjustment is recorded as part of other comprehensive income (loss), a component of shareholders' equity (deficit). Gains and losses resulting from transactions denominated in non-functional currencies are recognized in earnings. Net foreign currency transaction losses are included in the consolidated statements of income under the caption Foreign currency gain / (loss) and amounted to \$(354,219) and \$(3,299,938) for the three-month periods ended September 30, 2010 and 2009, respectively.

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**MercadoLibre, Inc.**

**Notes to Condensed Consolidated Financial Statements (unaudited)**

**2. Summary of Significant Accounting Policies (Continued)**

**Foreign Currency Translation (Continued)**

For the nine-month periods ended September 30, 2010 and 2009, Foreign currency gain / (loss) amounted to \$7,275 and \$(2,770,725), respectively.

Until September 30, 2009, the Company translated its Venezuelan subsidiaries assets, liabilities, income and expense accounts at the official rate of 2.15 Bolivares Fuertes per US dollar.

Starting in the fourth quarter of 2009, as a result of the changes in facts and circumstances that affected the Company's ability to convert currency for dividends remittances using the official exchange rate in Venezuela, the Venezuelan subsidiaries assets, liabilities, income and expense accounts were translated using the parallel exchange rate resulting in the recognition in that quarter of a currency translation adjustment of \$16,977,276 recorded in other comprehensive income. The average exchange rate used for translating the fourth quarter results was 5.67 Bolivares Fuertes per US dollar and the year-end exchange rate used for translating assets and liabilities was 6.05 Bolivares Fuertes per US dollar.

As of the date of these interim condensed consolidated financial statements the Company did not buy US dollars at the official rate.

According to US GAAP, we have transitioned our Venezuelan operations to highly inflationary status as of January 1, 2010 considering the US dollar as the functional currency. See Highly inflationary status in Venezuela below.

Therefore, no translation effect was accounted for in other comprehensive income during the three- and nine-month period ended September 30, 2010 related to our Venezuelan operations.

Until May 13, 2010, the only way by which US dollars could be purchased outside the official currency market was using an indirect mechanism consisting in the purchase and sale of securities, including national public debt bonds (DPNs) denominated in Bolivares Fuertes and bonds issued by the government that were denominated in U.S. dollars. This mechanism for transactions in certain securities created an indirect parallel foreign currency exchange market in Venezuela that enabled entities to obtain foreign currency through financial brokers without going through Commission for the Administration of Foreign Exchange ( CADIVI ). Although the parallel exchange rate was higher, and accordingly less beneficial, than the official exchange rate, some entities have used the parallel market to exchange currency because, as it was already mentioned, CADIVI used not to approve in a timely manner the exchange of currency requested by such entities. Until May 13, 2010, our Venezuelan subsidiaries used this mechanism to buy US dollars and accordingly we used the parallel average exchange rate to re-measure those foreign currency transactions.

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**MercadoLibre, Inc.**

**Notes to Condensed Consolidated Financial Statements (unaudited)**

**2. Summary of Significant Accounting Policies (Continued)**

**Foreign Currency Translation (Continued)**

However, on May 14th, 2010, the Venezuelan government enacted reforms to its exchange regulations and close-down such parallel market by declaring that foreign-currency-denominated securities issued by Venezuelan entities were included in the definition of foreign currency, thus making the Venezuelan Central Bank (BCV) the only institution that could legally authorize the purchase or sale of foreign currency bonds, thereby excluding non-authorized brokers from the foreign exchange market.

Trading of foreign currencies was re-opened as a regulated market on June 9, 2010 with the Venezuelan Central Bank as the only institution through which foreign currency-denominated transactions can be brokered. Under the new system, known as the Foreign Currency Securities Transactions System (SITME), entities domiciled in Venezuela can buy U.S. dollar denominated securities only through banks authorized by the BCV to import goods, services or capital inputs. Additionally, the SITME imposes volume restrictions on an entity's trading activity, limiting such activity to a maximum equivalent of \$50,000 per day, not to exceed \$350,000 in a calendar month. This limitation is non-cumulative, meaning that an entity cannot carry over unused volume from one month to the next.

As a consequence of this new system, commencing on June 9, 2010, we have transitioned from the parallel exchange rate to the SITME rate and started re-measuring foreign currency transactions using the SITME rate published by BCV, which was 5.27 Bolivares Fuertes per U.S. dollar as of June 9, 2010.

For the period beginning on May 14, 2010 and ending on June 8, 2010 (during which there was no open foreign currency markets) we applied US GAAP guidelines, which state that if exchangeability between two currencies is temporarily lacking at the transaction date or balance sheet date, the first subsequent rate at which exchanges could be made shall be used.

Accordingly, the June 9, 2010 exchange rate published by the Venezuelan Central Bank has been used to re-measure transactions during the abovementioned period.

The net investment in the Venezuelan subsidiaries, before intercompany eliminations, amounts to \$13,708,259 as of September 30, 2010.

The Company has assessed the new regulations and has concluded that, as currently formulated, there has not been a material impact on the normal running of its business in Venezuela.

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**MercadoLibre, Inc.**

**Notes to Condensed Consolidated Financial Statements (unaudited)**

**2. Summary of Significant Accounting Policies (Continued)**

**Highly inflationary status in Venezuela**

During May 2009, the International Practices Task Force discussed the highly inflationary status of the Venezuelan economy. Historically, the Task Force has used the Consumer Price Index (CPI) when considering the inflationary status of the Venezuelan economy.

The CPI has existed since 1984. However, the CPI covers only the cities of Caracas and Maracaibo. Commencing on January 1, 2008, the National Consumer Price Index (NCPI) has been developed to cover the entire country of Venezuela. Since inflation data is not available to compute a cumulative three year inflation rate for the entire country solely based on the NCPI, the Company uses a blended rate using the NCPI and CPI to calculate Venezuelan inflation rate.

The cumulative three year inflation rate as of December 31, 2009 was calculated using the CPI information for periods before January 1, 2008 and NCPI information for the periods after January 1, 2008. The blended CPI/NCPI three-year inflation index (23 months of NCPI and 13 months of CPI) as of November 30, 2009 exceeded 100%. According to US GAAP, calendar year-end companies should apply highly inflationary accounting as from January 1, 2010. Therefore, the Company has transitioned its Venezuelan operations to highly inflationary status as of January 1, 2010 considering the US dollar as the functional currency.

**Taxes on revenues**

The Company's subsidiaries in Brazil, Argentina, Venezuela and Colombia are subject to certain taxes on revenues which are classified as cost of revenues. Taxes on revenues totaled \$3,893,210 and \$3,171,840 for the three-month periods ended September 30, 2010 and 2009, respectively. Taxes on revenues totaled \$10,518,144 and \$7,413,281 for the nine-month periods ended September 30, 2010 and 2009, respectively.

**Income Tax**

From fiscal year 2008 to fiscal year 2018, the Company's Argentine subsidiary is a beneficiary of a software development law. Part of the benefits obtained from being a beneficiary of the aforementioned law is a relief of 60% of total income tax determined in each year, during these 10 years. Aggregate tax benefit totaled \$1,250,042 and \$761,319 for the three-month periods ended September 30, 2010 and 2009, respectively. Aggregate tax benefit totaled \$3,220,530 and \$2,151,110 for the nine-month periods ended September 30, 2010 and 2009, respectively. Aggregate per share effect of the Argentine tax holiday amounts to \$0.03 and \$0.02 for the three-month periods ended September 30, 2010 and 2009, respectively. Aggregate per share effect of the Argentine tax holiday amounts to \$0.07 and \$0.05 for the nine-month periods ended September 30, 2010 and 2009, respectively. If the Company had not been granted the Argentine tax holiday, the Company would have pursued an alternative tax planning strategy and, therefore, the impact of not having this particular benefit would not necessarily be the abovementioned dollar and per share effect.

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**MercadoLibre, Inc.**

**Notes to Condensed Consolidated Financial Statements (unaudited)**

**2. Summary of Significant Accounting Policies (Continued)**

**Income Tax**

As of September 30, 2010 and December 31, 2009, MercadoLibre, Inc has included in the non-current deferred tax assets line the foreign tax credits related to the dividend distributions received from its subsidiaries for a total amount of \$4,378,303 and \$2,879,999, respectively. Those foreign tax credits will be used to offset the future domestic income tax payable.

During the three-month period ended September 30, 2010, the Company reduced its Brazilian valuation allowance for a total amount of \$4,634,587 as a consequence of the Company's tax planning strategies implemented to more efficiently use its accumulated tax loss carryforward credits from acquired companies.

**Use of estimates**

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

**Comprehensive Income**

Comprehensive income is comprised of two components, net income and other comprehensive income (loss), and defined as all other changes in equity of the Company that result from transactions other than with shareholders. Other comprehensive income (loss) includes the cumulative translation adjustment relating to the translation of the financial statements of the Company's foreign subsidiaries and unrealized gains on investments classified as available-for-sale securities. Total comprehensive income for the three-month periods ended September 30, 2010 and 2009 amounted to \$22,447,005 and \$11,889,818, respectively and for the nine month periods ended September 30, 2010 and 2009 amounted to \$41,858,091 and \$24,596,204 respectively.

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**MercadoLibre, Inc.**

**Notes to Condensed Consolidated Financial Statements (unaudited)**

**2. Summary of Significant Accounting Policies (Continued)**

**Recent Accounting Pronouncements**

**Accounting for stock-based compensation**

On April 16, 2010, the FASB issued an amendment to the accounting of stock-based compensation related to the effect of Denominating the Exercise Price of a Share-Based Payment Award in the Currency of the Market in Which the Underlying Equity Security Primarily Trades. The amendment clarifies that a share-based payment award with an exercise price denominated in the currency of a market in which a substantial portion of the entity's equity securities trades must not be considered to contain a market, performance, or service condition. Therefore, an entity should not classify such an award as a liability if it otherwise qualifies for classification in equity. The new accounting guidance is effective for interim and annual periods beginning on or after December 15, 2010, and will be applied prospectively. Management estimates that the implementation of the new accounting guidance will not have significant effect on the company's financial statements.

**Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses**

On July 21, 2010, the FASB issued ASU 2010-20, which amends ASC 310 by requiring more robust and disaggregated disclosures about the credit quality of an entity's financing receivables and its allowance for credit losses. The objective of enhancing these disclosures is to improve financial statement users' understanding of (1) the nature of an entity's credit risk associated with its financing receivables and (2) the entity's assessment of that risk in estimating its allowance for credit losses as well as changes in the allowance and the reasons for those changes. The new and amended disclosures that relate to information as of the end of a reporting period will be effective for the first interim or annual reporting periods ending on or after December 15, 2010. The disclosures that include information for activity that occurs during a reporting period will be effective for the first interim or annual periods beginning after December 15, 2010. Those disclosures include (1) the activity in the allowance for credit losses for each period and (2) disclosures about modifications of financing receivables. Management estimates that there will be no significant effect on the company's financial statements.

**3. Net income per share**

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

The Company's restricted shares granted to its outside directors were participating securities. Accordingly, net income available to common stockholders for the nine-month periods ended September 30, 2010 and 2009 and the three-month period ended September 30, 2009, was allocated between unvested restricted shares and common stock under the two class method for purposes of computing basic and diluted earnings per share.

**Table of Contents****MercadoLibre, Inc.****Notes to Condensed Consolidated Financial Statements (unaudited)****3. Net income per share (Continued)**

Diluted earnings per share for the Company's common stock assume the exercise of outstanding stock options and vesting restricted shares, additional shares and shares granted under the 2008 Long Term Retention Plan under the Company's stock based employee compensation plans.

The following table shows how net income available to common shareholders is allocated using the two-class method, for the three-month periods ended September 30, 2010 and 2009:

|                                                                                        | <b>Three Months Ended September 30,<br/>2010</b> |               | <b>2009</b>  |              |
|----------------------------------------------------------------------------------------|--------------------------------------------------|---------------|--------------|--------------|
|                                                                                        | Basic                                            | Diluted       | Basic        | Diluted      |
| Net income                                                                             | \$ 18,790,963                                    | \$ 18,790,963 | \$ 9,852,268 | \$ 9,852,268 |
| Net income available to common shareholders attributable to unvested restricted shares |                                                  |               | \$ 1,866     | \$ 1,866     |
| Net income available to common shareholders attributable to common stock               | \$ 18,790,963                                    | \$ 18,790,963 | \$ 9,850,402 | \$ 9,850,402 |

The following table shows how net income available to common shareholders is allocated using the two-class method, for the nine-month periods ended September 30, 2010 and 2009:

|                                                                                        | <b>Nine Months Ended September 30,<br/>2010</b> |               | <b>2009</b>   |               |
|----------------------------------------------------------------------------------------|-------------------------------------------------|---------------|---------------|---------------|
|                                                                                        | Basic                                           | Diluted       | Basic         | Diluted       |
| Net income                                                                             | \$ 40,085,526                                   | \$ 40,085,526 | \$ 21,923,223 | \$ 21,923,223 |
| Net income available to common shareholders attributable to unvested restricted shares | 4,474                                           | 4,474         | \$ 1,703      | \$ 1,703      |
| Net income available to common shareholders attributable to common stock               | \$ 40,081,052                                   | \$ 40,081,052 | \$ 21,921,520 | \$ 21,921,520 |



**Table of Contents****MercadoLibre, Inc.****Notes to Condensed Consolidated Financial Statements (unaudited)****3. Net income per share (Continued)**

Net income per share of common stock is as follows for the three-month periods ended September 30, 2010 and 2009:

|                                                              | <b>Three Months Ended September 30,<br/>2010</b> |         | <b>2009</b> |         |
|--------------------------------------------------------------|--------------------------------------------------|---------|-------------|---------|
|                                                              | Basic                                            | Diluted | Basic       | Diluted |
| Net income available to common shareholders per common share | \$ 0.43                                          | \$ 0.43 | \$ 0.22     | \$ 0.22 |

**Numerator:**

|                                             |               |               |              |              |
|---------------------------------------------|---------------|---------------|--------------|--------------|
| Net income available to common shareholders | \$ 18,790,963 | \$ 18,790,963 | \$ 9,850,402 | \$ 9,850,402 |
|---------------------------------------------|---------------|---------------|--------------|--------------|

**Denominator:**

|                                                                                      |            |            |            |            |
|--------------------------------------------------------------------------------------|------------|------------|------------|------------|
| Weighted average of common stock outstanding for Basic earnings per share            | 44,129,762 | 44,129,762 | 44,088,936 | 44,088,936 |
| Adjustment for stock options                                                         |            | 12,949     |            | 34,813     |
| Adjustment for shares granted under LTRP                                             |            | 8,656      |            | 7,814      |
| Adjustment for Additional Shares                                                     |            |            |            | 6,468      |
| Adjusted weighted average of common stock outstanding for Diluted earnings per share | 44,129,762 | 44,151,367 | 44,088,936 | 44,138,031 |

Net income per share of common stock is as follows for the nine-month periods ended September 30, 2010 and 2009:

|                                                              | <b>Nine Months Ended September 30,<br/>2010</b> |         | <b>2009</b> |         |
|--------------------------------------------------------------|-------------------------------------------------|---------|-------------|---------|
|                                                              | Basic                                           | Diluted | Basic       | Diluted |
| Net income available to common shareholders per common share | \$ 0.91                                         | \$ 0.91 | \$ 0.50     | \$ 0.50 |

**Numerator:**

|                                             |               |               |               |               |
|---------------------------------------------|---------------|---------------|---------------|---------------|
| Net income available to common shareholders | \$ 40,081,052 | \$ 40,081,052 | \$ 21,921,520 | \$ 21,921,520 |
|---------------------------------------------|---------------|---------------|---------------|---------------|

**Denominator:**

|                                                                           |            |            |            |            |
|---------------------------------------------------------------------------|------------|------------|------------|------------|
| Weighted average of common stock outstanding for Basic earnings per share | 44,121,539 | 44,121,539 | 44,079,171 | 44,079,171 |
| Adjustment for stock options                                              |            | 14,821     |            | 45,891     |
| Adjustment for shares granted under LTRP                                  |            | 8,318      |            | 4,113      |
| Adjustment for Additional Shares                                          |            |            |            | 903        |
|                                                                           | 44,121,539 | 44,144,678 | 44,079,171 | 44,130,078 |

Adjusted weighted average of common stock  
outstanding for Diluted earnings per share

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**MercadoLibre, Inc.**

**Notes to Condensed Consolidated Financial Statements (unaudited)**

**3. Net income per share (Continued)**

The calculation of diluted net income per share excludes all anti-dilutive shares. During the three- and nine-month periods ended September 30, 2010 and 2009, there were no anti-dilutive shares.

**4. Business Combinations, Goodwill and Intangible Assets**

**Business Combinations**

On September 5, 2008, the Company completed, through one of its subsidiaries, Hammer.com, LLC, the acquisition of all of the issued and outstanding shares of capital stock of DeRemate.com de Argentina S.A., a company organized under the laws of Argentina ( DR Argentina ), DeRemate.com Chile S.A., a company organized under the laws of Chile ( DR Chile ), Interactivos y Digitales México S.A. de C.V., a company organized under the laws of Mexico ( ID Mexico ) and Compañía de Negocios Interactiva de Colombia E.U., a company organized under the laws of Colombia ( CNI Colombia and together with DR Argentina, DR Chile, and ID Mexico, the Acquired Entities ). Also, on September 5, 2008, the Company entered into an asset purchase agreement to acquire certain URLs, domain names, trademarks, databases and intellectual property rights that are used or useful in connection with the online platforms of the Acquired Entities. The Acquired Entities operate online trading platforms in Argentina (www.deremate.com.ar), Chile (www.deremate.cl), Mexico (www.dereto.com.mx) and Colombia (www.dereto.com.co)

The aggregate purchase price paid by the Company to the Sellers for the shares of capital stock of the Acquired Entities and the related assets was \$40,000,000. The Company paid the Sellers \$22,000,000 in cash. In addition, on September 5, 2008, the Company issued to the Sellers ten (10) unsecured promissory notes having an aggregate principal amount of \$18,000,000, \$8,000,000 of which are subject to set-off rights in favor of the Company for working capital adjustments and liabilities relating to the assumption of certain contracts by the Company, \$4,000,000 of which are subject to set-off rights in favor of the Company for indemnification obligations of the Sellers and the remaining \$6,000,000 are not subject to set-off rights. Each of the promissory notes have a one-year term, bear interest at 3.17875% plus 1.5% for the first four months, 2.0% for the second four months and 2.5% for the third four months and can be prepaid by the Company without penalty. Pursuant to the terms of each promissory note, until the principal amount plus interest is repaid, the Company may not incur indebtedness in excess of \$55,000,000 in the aggregate.

On February 12, 2009, the Company agreed to modify the maturity conditions of the promissory note as follows: (i) \$3,000,000 on June 5, 2009 (ii) \$9,000,000 on September 5, 2009 (iii) \$3,000,000 on December 5, 2009 and (iv) \$3,000,000 on March 5, 2010. The promissory notes bear interest at 3.17875% plus 1.5% for the first four months, 2.0% for the second four months and 2.5% for the remaining period up to its maturity. In addition, on that date the Company finished the purchase price allocation period and the Company agreed with the Sellers a working capital adjustment for \$480,912 to be paid by the Sellers to the Company.

**Table of Contents****MercadoLibre, Inc.****Notes to Condensed Consolidated Financial Statements (unaudited)****4. Business Combinations, Goodwill and Intangible Assets (Continued)****Business Combinations (Continued)**

On June 3, 2009, the Company paid to the Sellers \$3,113,203 including principal plus accrued interest.

On August 31, 2009, the Company paid to the Sellers \$9,470,222 including principal plus accrued interest.

On December 4, 2009, the Company paid to the Sellers \$3,018,893 including principal plus accrued interest, net of certain working capital adjustments.

On March 4, 2010, the Company paid the final amount to the Sellers \$3,242,395 including principal plus accrued interest.

As of September 30, 2010, the Company has paid all the promissory notes related to DeRemate acquisition.

**Goodwill and Intangible Assets**

The composition of goodwill and intangible assets is as follows:

|                               | <b>September 30,<br/>2010</b> | <b>December 31,<br/>2009</b> |
|-------------------------------|-------------------------------|------------------------------|
| Indefinite lived assets       |                               |                              |
| - Goodwill                    | \$ 60,449,360                 | \$ 59,822,746                |
| - Trademarks                  | 2,505,798                     | 2,415,874                    |
| Amortizable intangible assets |                               |                              |
| - Licenses and others         | 2,583,648                     | 2,227,315                    |
| - Non-compete agreement       | 1,227,150                     | 1,218,393                    |
| - Customer list               | 1,599,427                     | 1,593,861                    |
| Total intangible assets       | \$ 68,365,383                 | \$ 67,278,189                |
| Accumulated amortization      | (3,575,105)                   | (2,939,625)                  |
|                               | \$ 64,790,278                 | \$ 64,338,564                |

**Table of Contents****MercadoLibre, Inc.****Notes to Condensed Consolidated Financial Statements (unaudited)****4. Business Combinations, Goodwill and Intangible Assets (Continued)****Goodwill**

The changes in the carrying amount of goodwill for the nine-month period ended September 30, 2010 and the year ended December 31, 2009, are as follows:

**Nine Months Ended September 30, 2010**

|                                    | <b>Brazil</b> | <b>Argentina</b> | <b>Chile</b> | <b>Mexico</b> | <b>Venezuela</b> | <b>Colombia</b> | <b>Other Countries</b> | <b>Total</b>  |
|------------------------------------|---------------|------------------|--------------|---------------|------------------|-----------------|------------------------|---------------|
| Balance, beginning of year         | \$ 12,565,062 | \$ 24,446,463    | \$ 6,734,405 | \$ 4,770,560  | \$ 4,846,030     | \$ 5,100,939    | \$ 1,359,287           | \$ 59,822,746 |
| - Effect of exchange rates changes | 348,576       | (987,736)        | 326,521      | 215,438       |                  | 692,466         | 31,349                 | 626,614       |
| Balance, end of the period         | \$ 12,913,638 | \$ 23,458,727    | \$ 7,060,926 | \$ 4,985,998  | \$ 4,846,030     | \$ 5,793,405    | \$ 1,390,636           | \$ 60,449,360 |

**Year Ended December 31, 2009**

|                                    | <b>Brazil</b> | <b>Argentina</b> | <b>Chile</b> | <b>Mexico</b> | <b>Venezuela</b> | <b>Colombia</b> | <b>Other Countries</b> | <b>Total</b>  |
|------------------------------------|---------------|------------------|--------------|---------------|------------------|-----------------|------------------------|---------------|
| Balance, beginning of year         | \$ 9,361,697  | \$ 26,903,145    | \$ 5,365,727 | \$ 4,517,690  | \$ 13,636,502    | \$ 4,647,681    | \$ 1,220,332           | \$ 65,652,774 |
| - Effect of exchange rates changes | 3,203,365     | (2,456,682)      | 1,368,678    | 252,870       | (8,790,472)      | 453,258         | 138,955                | (5,830,028)   |
| Balance, end of the year           | \$ 12,565,062 | \$ 24,446,463    | \$ 6,734,405 | \$ 4,770,560  | \$ 4,846,030     | \$ 5,100,939    | \$ 1,359,287           | \$ 59,822,746 |

**Amortizable intangible assets**

Amortizable intangible assets are comprised of customer lists and user base, trademarks and trade names, non-compete agreements, acquired software licenses and other acquired intangible assets including developed technologies. Aggregate amortization expense for intangible assets totaled \$236,637 and \$148,602 for the three-month periods ended September 30, 2010 and 2009, respectively. Aggregate amortization expense for intangible assets totaled \$616,984 and \$428,080 for the nine-month periods ended September 30, 2010 and 2009, respectively.

Expected future intangible asset amortization from acquisitions completed as of September 30, 2010 is as follows:

|                                                    |            |
|----------------------------------------------------|------------|
| For year ended 12/31/2010 (remaining three months) | \$ 241,148 |
| For year ended 12/31/2011                          | 741,909    |
| For year ended 12/31/2012                          | 676,260    |

For year ended 12/31/2013

175,803

\$ 1,835,120

## 5. Segments

Reporting segments are based upon the Company's internal organizational structure, the manner in which the Company's operations are managed, the criteria used by management to evaluate the Company's performance, the availability of separate financial information, and overall materiality considerations.

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**MercadoLibre, Inc.**

**Notes to Condensed Consolidated Financial Statements (unaudited)**

**5. Segments (Continued)**

Until the second quarter of 2010, the Company had two reportable business segments: marketplace and payments. The payments segment included charges for the use of the payments platform that allowed buyers to use credit cards for payments, and a financial charge when payments in installments were chosen. Since the third quarter of 2010, the Company has redefined its segment reporting eliminating the business segmentation between marketplace and payments segments because management has decided to cease charging to buyers as a separate fee for using the payments platform in Brazil and Argentina, and rather allow all buyers to pay either directly to sellers or through the Company's platform without a special charge. As a result, most of the revenue that used to derive from our payments segment is no longer billed to buyers, and so management ceased the monitoring of the payment platform activity as a separate segment. Consequently, segment reporting has been redefined by considering geography as the main basis of segment breakdown to reflect the new evaluation of the Company's performance defined by the management. MercadoPago continues charging a specific fee to its users when their payments are not related to a MercadoLibre marketplace transactions and a financing charge when the installment-payment option is chosen by marketplace and non-marketplace users. The MercadoLibre segments include Brazil, Argentina, Mexico, Venezuela and other countries (such as Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Panama, Peru, Portugal and Uruguay). Direct contribution consists of net revenues from external customers less direct costs. Direct costs include specific costs of net revenues, sales and marketing expenses, and general and administrative expenses over which segment managers have direct discretionary control, such as advertising and marketing programs, customer support expenses, allowances for doubtful accounts, headcount compensation, third party fees. All corporate related cost have been excluded from the Company's direct contribution.

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

**Table of Contents****MercadoLibre, Inc.****Notes to Condensed Consolidated Financial Statements (unaudited)****5. Segments (Continued)**

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

| <b>Three Months Ended September 30, 2010</b>          |               |                  |               |                  |                        |               |
|-------------------------------------------------------|---------------|------------------|---------------|------------------|------------------------|---------------|
|                                                       | <b>Brazil</b> | <b>Argentina</b> | <b>Mexico</b> | <b>Venezuela</b> | <b>Other Countries</b> | <b>Total</b>  |
| Net revenues                                          | \$ 31,077,653 | \$ 10,802,682    | \$ 4,722,635  | \$ 5,762,290     | \$ 3,586,118           | \$ 55,951,378 |
| Direct costs                                          | (19,235,066)  | (5,353,452)      | (2,914,273)   | (2,653,357)      | (2,230,064)            | (32,386,212)  |
| Direct contribution                                   | 11,842,587    | 5,449,230        | 1,808,362     | 3,108,933        | 1,356,054              | 23,565,166    |
| Operating expenses and indirect costs of net revenues |               |                  |               |                  |                        | (4,254,460)   |
| Income from operations                                |               |                  |               |                  |                        | 19,310,706    |
| Other income (expenses):                              |               |                  |               |                  |                        |               |
| Interest income and other financial gains             |               |                  |               |                  |                        | 1,361,899     |
| Interest expense and other financial results          |               |                  |               |                  |                        | (567,969)     |
| Foreign currency losses                               |               |                  |               |                  |                        | (354,219)     |
| Net income before income / asset tax expense          |               |                  |               |                  |                        | \$ 19,750,417 |

| <b>Three Months Ended September 30, 2009</b> |               |                  |               |                  |                        |               |
|----------------------------------------------|---------------|------------------|---------------|------------------|------------------------|---------------|
|                                              | <b>Brazil</b> | <b>Argentina</b> | <b>Mexico</b> | <b>Venezuela</b> | <b>Other Countries</b> | <b>Total</b>  |
| Net revenues                                 | \$ 27,206,864 | \$ 7,512,544     | \$ 4,119,973  | \$ 8,833,848     | \$ 2,926,047           | \$ 50,599,276 |
| Direct costs                                 | (13,420,722)  | (3,209,448)      | (2,510,417)   | (4,169,920)      | (1,574,540)            | (24,885,047)  |
| Direct contribution                          | 13,786,142    | 4,303,096        | 1,609,556     | 4,663,928        | 1,351,507              | 25,714,229    |



|                                                       |               |
|-------------------------------------------------------|---------------|
| Operating expenses and indirect costs of net revenues | (6,731,879)   |
| Income from operations                                | 18,982,350    |
| Other income (expenses):                              |               |
| Interest income and other financial gains             | 580,343       |
| Interest expense and other financial results          | (3,873,230)   |
| Foreign currency losses                               | (3,299,938)   |
| Net income before income / asset tax expense          | \$ 12,389,525 |

**Nine Months Ended September 30, 2010**

|                                                       | <b>Brazil</b> | <b>Argentina</b> | <b>Mexico</b> | <b>Venezuela</b> | <b>Other Countries</b> | <b>Total</b>   |
|-------------------------------------------------------|---------------|------------------|---------------|------------------|------------------------|----------------|
| Net revenues                                          | \$ 88,210,536 | \$ 28,609,190    | \$ 13,861,921 | \$ 13,705,926    | \$ 10,011,910          | \$ 154,399,483 |
| Direct costs                                          | (50,090,123)  | (13,985,689)     | (8,544,912)   | (6,759,831)      | (5,694,502)            | (85,075,057)   |
| Direct contribution                                   | 38,120,413    | 14,623,501       | 5,317,009     | 6,946,095        | 4,317,408              | 69,324,426     |
| Operating expenses and indirect costs of net revenues |               |                  |               |                  |                        | (15,694,887)   |
| Income from operations                                |               |                  |               |                  |                        | 53,629,539     |
| Other income (expenses):                              |               |                  |               |                  |                        |                |
| Interest income and other financial gains             |               |                  |               |                  |                        | 3,073,427      |
| Interest expense and other financial results          |               |                  |               |                  |                        | (6,919,307)    |

|                                              |               |
|----------------------------------------------|---------------|
| Foreign currency gains                       | 7,275         |
| Net income before income / asset tax expense | \$ 49,790,934 |

**Table of Contents****MercadoLibre, Inc.****Notes to Condensed Consolidated Financial Statements (unaudited)****5. Segments (Continued)****Nine Months Ended September 30, 2009**

|                                                             | <b>Brazil</b> | <b>Argentina</b> | <b>Mexico</b> | <b>Venezuela</b> | <b>Other<br/>Countries</b> | <b>Total</b>   |
|-------------------------------------------------------------|---------------|------------------|---------------|------------------|----------------------------|----------------|
| Net revenues                                                | \$ 63,645,669 | \$ 19,023,431    | \$ 11,001,205 | \$ 23,049,806    | \$ 7,103,465               | \$ 123,823,576 |
| Direct costs                                                | (34,980,292)  | (8,688,409)      | (6,876,084)   | (11,646,551)     | (4,172,062)                | (66,363,398)   |
| Direct contribution                                         | 28,665,377    | 10,335,022       | 4,125,121     | 11,403,255       | 2,931,403                  | 57,460,178     |
| Operating expenses<br>and indirect costs<br>of net revenues |               |                  |               |                  |                            | (19,298,061)   |
| Income from<br>operations                                   |               |                  |               |                  |                            | 38,162,117     |
| Other income<br>(expenses):                                 |               |                  |               |                  |                            |                |
| Interest income and<br>other financial<br>gains             |               |                  |               |                  |                            | 2,112,180      |
| Interest expense<br>and other financial<br>results          |               |                  |               |                  |                            | (9,718,003)    |
| Foreign currency<br>losses                                  |               |                  |               |                  |                            | (2,770,725)    |
| Net income before<br>income / asset tax<br>expense          |               |                  |               |                  |                            | \$ 27,785,569  |

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

|                                            | <b>September 30,<br/>2010</b> | <b>December 31,<br/>2009</b> |
|--------------------------------------------|-------------------------------|------------------------------|
| US long-lived tangible assets              | \$ 3,890,489                  | \$ 2,746,059                 |
| Other countries long-lived tangible assets |                               |                              |
| Argentina (*)                              | 12,670,365                    | 1,978,652                    |
| Brazil                                     | 2,183,983                     | 883,712                      |
| Mexico                                     | 71,882                        | 71,064                       |
| Venezuela                                  | 153,029                       | 196,846                      |

|                                  |               |              |
|----------------------------------|---------------|--------------|
| Other countries                  | 92,662        | 71,943       |
|                                  | \$ 15,171,921 | \$ 3,202,217 |
| Total long-lived tangible assets | \$ 19,062,411 | \$ 5,948,276 |

(\*) See Note 11 for more detail.

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

|                                                | <b>September 30,<br/>2010</b> | <b>December 31,<br/>2009</b> |
|------------------------------------------------|-------------------------------|------------------------------|
| US intangible assets                           | \$ 7,014                      | \$ 17,535                    |
| Other countries goodwill and intangible assets |                               |                              |
| Argentina                                      | 25,048,610                    | 26,188,435                   |
| Brazil                                         | 12,923,804                    | 12,597,173                   |
| Mexico                                         | 5,008,070                     | 4,818,438                    |
| Venezuela                                      | 6,596,469                     | 6,602,677                    |
| Other countries                                | 15,206,312                    | 14,114,306                   |
|                                                | \$ 64,783,265                 | \$ 64,321,029                |
| Total goodwill and intangible assets           | \$ 64,790,278                 | \$ 64,338,564                |

**Table of Contents****MercadoLibre, Inc.****Notes to Condensed Consolidated Financial Statements (unaudited)****6. Fair Value Measurement of Assets and Liabilities**

The following table summarizes the Company's financial assets and liabilities measured at fair value on a recurring basis as of September 30, 2010 and December 31, 2009:

| <b>Description</b>            | <b>Balances as of September 30, 2010</b> | <b>Quoted Prices in active markets for identical Assets (Level 1)</b> | <b>Balances as of December 31, 2009</b> | <b>Quoted Prices in active markets for identical Assets (Level 1)</b> |
|-------------------------------|------------------------------------------|-----------------------------------------------------------------------|-----------------------------------------|-----------------------------------------------------------------------|
| <b>Assets</b>                 |                                          |                                                                       |                                         |                                                                       |
| Cash and Cash Equivalents:    |                                          |                                                                       |                                         |                                                                       |
| Money Market Funds            | \$ 5,335,071                             | \$ 5,335,071                                                          | \$ 26,298,189                           | \$ 26,298,189                                                         |
| <b>Investments:</b>           |                                          |                                                                       |                                         |                                                                       |
| Asset backed securities       | 12,589,614                               | 12,589,614                                                            |                                         |                                                                       |
| Sovereign Debt Securities     | 9,828,929                                | 9,828,929                                                             |                                         |                                                                       |
| Corporate Debt Securities     | 10,791,153                               | 10,791,153                                                            | 8,045,048                               | 8,045,048                                                             |
| <b>Total financial Assets</b> | <b>\$ 38,544,767</b>                     | <b>\$ 38,544,767</b>                                                  | <b>\$ 34,343,237</b>                    | <b>\$ 34,343,237</b>                                                  |

The Company's financial assets are valued using market prices on active markets (level 1). Level 1 instrument valuations are obtained from real-time quotes for transactions in active exchange markets involving identical assets. As of September 30, 2010 and December 31, 2009, the Company did not have any assets obtained from readily-available pricing sources for comparable instruments (level 2) or without observable market values that would require a high level of judgment to determine fair value (level 3).

The unrealized net gains on short term and long term investments are reported as a component of accumulated other comprehensive income. The Company does not anticipate any significant realized losses associated with those investments in excess of the Company's historical cost.

As of September 30, 2010 and December 31, 2009, the Company has financial assets measured at fair value on a recurring basis for \$38,544,767 and \$34,343,237, respectively.

In addition, as of September 30, 2010, the Company had \$39,227,330 of short-term and long-term investments, which consisted of time deposits considered held to maturity investments. As of December 31, 2009, the Company had \$25,993,069 of short-term and long-term investments, which consisted of time deposits and corporate debt securities considered held to maturity securities. Those investments are accounted for at amortized cost which, as of September 30, 2010 and December 31, 2009, approximates their fair values.



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**MercadoLibre, Inc.**

**Notes to Condensed Consolidated Financial Statements (unaudited)**

**6. Fair Value Measurement of Assets and Liabilities (Continued)**

As of September 30, 2010 and December 31, 2009, the carrying value of the Company's cash and cash equivalents approximated their fair value which was held primarily in bank deposits. For the three- and nine-month periods ended September 30, 2010 and 2009, the Company held no direct investments in auction rate securities, collateralized debt obligations, structured investment vehicles.

As of September 30, 2010 and December 31, 2009, the Company does not have any non-financial assets or liabilities measured at fair value.

**7. Compensation Plan for Outside Directors**

The Company compensated its outside directors through the payment of cash fees and, from time to time, through the issuance of equity awards. In 2009 and through June 10, 2010, each director was entitled to receive an annual cash retainer of \$30,000. Additionally, the Chair of the Company's Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee and the lead independent director of the Company were entitled to receive additional annual cash retainers of \$15,000, \$12,000, \$5,000 and \$10,000, respectively.

On June 10, 2009, the Company issued an aggregate of 2,305 shares of common stock and 8,350 restricted shares of common stock (the "Restricted Shares") to our outside directors. The Restricted Shares vested in full in June 2010. Restricted Shares awarded to employees and directors are measured at their fair market value using the grant-date price of the Company's shares. For the three-month periods ended September 30, 2010 and 2009, the Company recognized nil and \$21,675, respectively, of compensation expense related to these awards, which are included in operating expenses in the accompanying condensed consolidated statement of income. For the nine-month periods ended September 30, 2010 and 2009, the Company recognized \$37,696 and \$52,706, respectively, of compensation expense related to these awards, which are included in operating expenses in the accompanying condensed consolidated statement of income.

For the nine-month periods ended September 30, 2010 and 2009, the Company also recognized nil and \$27,944, respectively, of compensation expense related to prior awards of restricted shares to the outside directors, which amounts are included in operating expenses in the accompanying condensed consolidated statement of income. For the three-month periods ended September 30, 2010 and 2009, the Company did not recognize any charge of compensation expense related to prior awards of restricted shares to the outside directors.

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**MercadoLibre, Inc.**

**Notes to Condensed Consolidated Financial Statements (unaudited)**

**7. Compensation Plan for Outside Directors (Continued)**

On June 25, 2010, the Board of Directors of the Company (the Board), upon the recommendation of the Compensation Committee of the Board, adopted The MercadoLibre, Inc. 2010 Director Compensation Program (the Plan) for outside directors which is effective as of June 10, 2010. Under the terms of the plan, each outside director will receive an annual fee for services provided to the Company from June 10, 2010 to June 9, 2011 payable as follows: (a) a Non-Adjustable Board Service Award which means a fixed cash payment of \$32,436 and (b) an Adjustable Award which means a fixed cash amount of \$43,248 multiplied by the average closing sale price of the Company's share during the last 30-trading day period as of the date of the next Annual Meeting divided by the average closing sale price of the Company's share during the last 30-trading day period as of the date of the prior year's Annual Meeting. The plan also included a Non-Adjustable Chair Service Award for services provided to the Company from June 10, 2010 to June 9, 2011. Under the terms of the plan, the Chair of the Company's Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee and the lead independent director of the Company are entitled to receive annual cash compensation in addition to existing director compensation in the amount of \$16,218, \$12,974, \$5,406 and \$10,812, respectively. The total accrued compensation cost for the three- and nine-month periods ended September 30, 2010 amounts to \$132,718 and \$158,086, respectively.

**8. Commitments and Contingencies**

**Litigation and Other Legal Matters**

The Company has certain contingent liabilities with respect to existing or potential claims, lawsuits and other proceedings. The Company accrues liabilities when it considers probable that future costs will be incurred and such costs can be reasonably estimated. The proceeding-related reserve is based on developments to date and historical information related to actions filed against the Company. As of September 30, 2010, the Company had established reserves for proceeding-related contingencies of \$1,253,486 to cover legal actions against the Company. As of September 30, 2010 no loss amount has been accrued for over 1,291 legal actions for the aggregate amount up to \$3,783,942 because a loss is not considered probable.

At the beginning of 2010, the Brazilian subsidiary of the Company had 295 cases in litigation in ordinary courts, 8 of which (QIX Skateboards Industria e Comercio Ltda., Editora COC Empreendimentos Culturais Ltda., Vintage Denim Ltda., Fallms Distribuição de Fitas Ltda.e 100% Nacional Distribuidora de Fitas Ltda., Xuxa Promoções e Produções Artísticas Ltda., Praetorium Instituto de Ensino, Pesquisas e Atividades de Extensão e Direito Ltda., Botelho Indústria e Distribuição Cinematográfica Ltda. and SERASA S.A) were related to alleged intellectual property infringement.

During the three- and nine-month period ended September 30, 2010, the Brazilian subsidiary of the Company was sued in 46 and 118 cases in ordinary courts, respectively. In most of these cases the plaintiffs asserted that the Company was responsible for fraud committed against them, or responsible for damages suffered when purchasing an item on the Company's website, when using MercadoPago, or when the Company invoiced them.



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**MercadoLibre, Inc.**

**Notes to Condensed Consolidated Financial Statements (unaudited)**

**8. Commitments and Contingencies (Continued)**

**Litigation and Other Legal Matters (Continued)**

As of September 30, 2010, 341 legal actions were pending in the Brazilian ordinary courts, 9 of which (Editora COC Empreendimentos Culturais Ltda., Vintage Denim Ltda., Fallms Distribuição de Fitas Ltda. e 100% Nacional Distribuidora de Fitas Ltda., Xuxa Promoções e Produções Artísticas Ltda., Praetorium Instituto de Ensino, Pesquisas e Atividades de Extensão e Direito Ltda., Botelho Indústria e Distribuição Cinematográfica Ltda., SERASA S.A., Citizen Watch do Brasil S/A and Tellerina Comercio de Presentes e Artigos para Decoração S/A) were related to alleged intellectual property infringement. In addition, during the three- and nine-month period ended on September 30, 2010, the Brazilian subsidiary of the Company received approximately 515 and 1,460 summons of legal actions filed in Brazilian consumer courts, respectively, where a lawyer is not required to file or pursue a claim. In most of the cases, the plaintiffs asserted that the Company was responsible for fraud committed against them, or responsible for damages suffered when purchasing an item on the Company's website, when using MercadoPago, or when the Company invoiced them. As of September 30, 2010, there were more than 1,550 cases still pending in Brazilian consumer courts.

Other third parties have from time to time claimed, and others may claim in the future, that the Company was responsible for fraud committed against them, or that the Company has infringed their intellectual property rights. The underlying laws with respect to the potential liability of online intermediaries like the Company are unclear in the jurisdictions where the Company operates. Management believes that additional lawsuits alleging that the Company has violated copyright or trademark laws will be filed against the Company in the future.

Intellectual property claims, whether meritorious or not, are time consuming and costly to resolve, could require expensive changes in the Company's methods of doing business, or could require the Company to enter into costly royalty or licensing agreements. The Company may be subject to patent disputes, and be subject to patent infringement claims as the Company's services expand in scope and complexity. In particular, the Company may face additional patent infringement claims involving various aspects of the Payments businesses.

From time to time, the Company is involved in other disputes or regulatory inquiries that arise in the ordinary course of business. The number and significance of these disputes and inquiries are increasing as the Company's business expands and the Company grows larger.

Any claims or regulatory actions against the Company, whether meritorious or not, could be time consuming, result in costly litigation, require significant amounts of management time, and result in the diversion of significant operational resources.

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**MercadoLibre, Inc.**

**Notes to Condensed Consolidated Financial Statements (unaudited)**

**8. Commitments and Contingencies (Continued)**

**Litigation and Other Legal Matters (Continued)**

On June 12, 2007, a state prosecutor of the State of São Paulo, Brazil presented a claim against the Company's Brazilian subsidiary. The state prosecutor alleges that the Company's Brazilian subsidiary should be held joint and severally liable for any fraud committed by sellers on the Brazilian version of its website, or responsible for damages suffered by buyers when purchasing an item on the Brazilian version of the MercadoLibre website. The Company was summoned on December 12, 2007 and presented its defense on January 4, 2008. On June 26, 2009, the Judge sentenced in favor of the State of São Paulo Public Prosecutor in all his claims. On June 29, 2009 a recourse to the lower court was presented by the Company. On September 29, 2009 the Company presented an appeal and requested to suspend effects of the sentence issued by the lower court until the appeal is decided. On November 2009, the suspension of the effects of the ruling was granted, however the appeal is still pending.

On August 12, 2009 the case filed by a state prosecutor of the State of Minas Gerais, city of Uberlandia, Brazil against our Brazilian subsidiary was settled. The settlement was homologated on August 17, 2009.

**Litigation after September 30, 2010**

After September 30, 2010 and up to the date of issuance of these consolidated financial statements, the Company was sued in 3 cases in ordinary courts (all of which correspond to the Brazilian subsidiary) and 100 new cases in consumer courts (74 of which correspond to the Brazilian subsidiary). No loss amount has been accrued in connection with these actions because a loss is not considered probable.

On October 22, 2010 the injunction granted to Citizen enjoining the sale of Citizen-branded watches on the MercadoLibre marketplace with a \$6,000 daily non-compliance penalty was suspended.

**Other contingencies**

As of September 30, 2010, the Company had reserved \$71,322 against some tax contingencies (other than income tax), identified in some of its subsidiaries.

**Other Commitments**

On June 19, 2008, the Company's Argentine subsidiary agreed to participate in a real estate trust for the construction of an office building located in the City of Buenos Aires, buying 5,340 square meters divided into 5 floors and 70 parking spaces, where the Company plans to move its headquarters and Argentine operation offices. As of September 30, 2010, the Argentine subsidiary has invested \$8,889,167 and is expected to invest an additional \$416,649 in the following 3 months. Since August 31, 2010, this investment is accounted for as Property and Equipment. See Note 11 for more detail.

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**MercadoLibre, Inc.**

**Notes to Condensed Consolidated Financial Statements (unaudited)**

**9. Long Term Retention Plan**

On August 8, 2008, the Board of Directors approved an employee retention program that will be payable 50% in cash and 50% in shares, in addition to the annual salary and bonus of certain executives. Payments will be made in the first quarter on annual basis according to the following vesting schedule:

Year 1 (2008): 17%

Year 2 (2009): 22%

Year 3 (2010): 27%

Year 4 (2011): 34%

In March 2009, the abovementioned 17% related to Year 1 was paid. In April 2010, the Company paid the 22% related to the Year 2.

In addition, the 2008 Long Term Retention Plan (the 2008 LTRP ) has a performance condition which has been achieved at the date of these financial statements and also requires the employee to stay in the Company at the payment date. The compensation cost is recognized in accordance with the graded-vesting attribution method and is accrued up to each payment date.

The total compensation cost of the 2008 LTRP amounts to approximately \$1.6 million including cash and shares. The 21,591 shares granted were valued at the grant-date fair market value of \$36.8 per share. For the three-month period ended September 30, 2010, the related accrued compensation expense was \$46,523 corresponding \$14,504 to the share portion of the award credited to Additional Paid-in Capital and \$32,019 to the cash portion included in the Balance Sheet as Social security payable.

For the nine-month period ended September 30, 2010, the related accrued compensation expenses was \$182,142 corresponding \$78,516 to the share portion of the award credited to Additional Paid-in Capital and \$103,626 to the cash portion included in the Balance Sheet as Social security payable.

For the three-month period ended September 30, 2009, the related accrued compensation expense was \$121,330 corresponding \$46,479 to the share portion of the award credited to Additional Paid-in Capital and \$74,850 to the cash portion included in the Balance Sheet as Social security payable.

For the nine-month period ended September 30, 2009, the related accrued compensation expense was \$322,732 corresponding \$127,174 to the share portion of the award credited to Additional Paid-in Capital and \$195,558 to the cash portion included in the Balance Sheet as Social security payable.

**Table of Contents****MercadoLibre, Inc.****Notes to Condensed Consolidated Financial Statements (unaudited)****9. Long Term Retention Plan (Continued)**

The following table summarizes the number of shares for each of the following groups:

| <b>Number of Shares</b>                          | <b>September<br/>30,<br/>2010</b> | <b>December<br/>31,<br/>2009</b> |
|--------------------------------------------------|-----------------------------------|----------------------------------|
| Granted                                          | 21,591                            | 21,591                           |
| Non-vested at the beginning of the period / year | 15,015                            | 21,591                           |
| Non-vested at the end of the period / year       | 10,163                            | 15,015                           |
| Forfeited                                        | 3,847                             | 2,976                            |
| Vested and paid to the employees                 | 7,581                             | 3,600                            |
| Outstanding                                      | 10,163                            | 15,015                           |

The following table details the aggregate intrinsic value and weight-average remaining contractual life of the shares at September 30, 2010:

|                    | <b>September 30, 2010</b>                |                                                                        |
|--------------------|------------------------------------------|------------------------------------------------------------------------|
|                    | <b>Aggregate<br/>Intrinsic<br/>value</b> | <b>Weighted-average<br/>remaining<br/>contractual<br/>life (years)</b> |
| Shares outstanding | 733,594                                  | 1.06                                                                   |
| Shares paid        | 191,920                                  |                                                                        |

The aggregate intrinsic value of the shares paid on March 13, 2009 and March 31, 2010 under the 2008 LTRP amounts to \$61,740 and \$191,920 respectively, at each date.

On June 10, 2009, the Compensation Committee of the Board of Directors approved the 2009 employee retention program ( the 2009 LTRP ). The award under the 2009 LTRP will be fully payable in cash in addition to the annual salary and bonus of each employee.

The 2009 LTRP will be paid in 8 equal annual quotas (12.5% each) commencing on March 31, 2010. Each quota will be calculated as follows:

- 6.25% of the amount will be calculated in nominal terms ( the nominal basis share ),
- 6.25% will be adjusted by multiplying the nominal amount by the average closing stock price for the last 60 trading days of the year previous to the payment date and divided by the average closing stock price for the last 60 trading days of 2008 which is \$13.81 ( the variable share ).

As of June 10, 2009, the grant date, the total compensation cost of the 2009 LTRP amounts to approximately \$3.5 million including the nominal and variable basis cost and the average grant-date fair market value was \$22.1 per share.

**Table of Contents****MercadoLibre, Inc.****Notes to Condensed Consolidated Financial Statements (unaudited)****9. Long Term Retention Plan (Continued)**

In addition, the 2009 LTRP has performance conditions to be achieved at December 31, 2009 and also requires the employee to stay in the Company at the payment date. The compensation cost related to the nominal basis share is recognized in straight line basis using the equal annual accrual method. The compensation cost related to the variable share is recognized in accordance with the graded-vesting attribution method and is accrued up to each payment date. On July 15, 2009, the Board of Directors, upon the recommendation of the compensation committee of the Board, adopted the 2009 Long Term Retention Plan (the 2009 LTRP ) in the form as described above.

As of September 30, 2010, the total compensation cost of the 2009 LTRP amounts to approximately \$7.2 million and the related accrued compensation expense for the three- and nine-month period ended September 30, 2010 was \$673,842 and \$1,382,883, respectively.

The following table details the aggregate intrinsic value and weight-average remaining contractual life of the shares at September 30, 2010:

|  | <b>September 30, 2010</b>                |                                                                        |
|--|------------------------------------------|------------------------------------------------------------------------|
|  | <b>Aggregate<br/>Intrinsic<br/>value</b> | <b>Weighted-average<br/>remaining<br/>contractual<br/>life (years)</b> |

|             |           |      |
|-------------|-----------|------|
| Outstanding | 5,194,694 | 3.50 |
|-------------|-----------|------|

On June 25, 2010, the Board of Directors, upon the recommendation of the compensation committee of the Board, adopted the 2010 Long Term Retention Plan (the 2010 LTRP ) in the form as described above. The award under the 2010 LTRP will be fully payable in cash in addition to the annual salary and bonus of each employee.

In order to receive an award under the 2010 LTRP, the executive must satisfy the Minimum Eligibility Conditions applicable to determine eligibility for annual cash bonuses. If these Minimum Eligibility Conditions are satisfied, the executive will, subject to his continued employment as of each applicable payment date, receive the target amount of his 2010 LTRP bonus.

The 2010 LTRP will be paid in 8 equal annual quotas (12.5% each) commencing on March 31, 2011. Each quota will be calculated as follows:

- 6.25% of the amount will be calculated in nominal terms ( the nominal basis share ),
- 6.25% will be adjusted by multiplying the nominal amount by the average closing stock price for the last 60 trading days of the year previous to the payment date and divided by the average closing stock price for the last 60 trading days of 2009 which is \$45.75 ( the variable share ).

**Table of Contents****MercadoLibre, Inc.****Notes to Condensed Consolidated Financial Statements (unaudited)****9. Long Term Retention Plan (Continued)**

As of June 25, 2010, the grant date, the total compensation cost of the 2010 LTRP amounts to approximately \$6.1 million including the nominal and variable basis cost and the average grant-date fair market value was \$52.10 per share.

In addition, the 2010 LTRP has performance conditions to be achieved at December 31, 2010 and also requires the employee to stay in the Company at the payment date. The compensation cost related to the nominal basis share is recognized in straight line basis using the equal annual accrual method. The compensation cost related to the variable share is recognized in accordance with the graded-vesting attribution method and is accrued up to each payment date.

As of September 30, 2010, the total compensation cost of the 2010 LTRP amounts to approximately \$7.4 million and the related accrued compensation expense for the three- and nine-month periods ended September 30, 2010 was \$598,709 and \$1,258,700, respectively.

The following table details the aggregate intrinsic value and weight-average remaining contractual life of the shares at September 30, 2010:

|             | <b>September 30, 2010</b>                |                                                                        |
|-------------|------------------------------------------|------------------------------------------------------------------------|
|             | <b>Aggregate<br/>Intrinsic<br/>value</b> | <b>Weighted-average<br/>remaining<br/>contractual<br/>life (years)</b> |
| Outstanding | 4,366,740                                | 4.00                                                                   |

**10. Share Repurchase Plan**

On November 14, 2008, the Company announced that its board of directors approved a share repurchase plan authorizing the Company to repurchase, from available capital, up to \$20 million of the Company's outstanding common stock from time to time through November 13, 2009. The timing and amount of any share repurchase under the share repurchase plan were determined by management of the Company based on market conditions and other considerations, and repurchases may be effected in the open market, through derivative, accelerated repurchase and other privately negotiated transactions and through plans designed to comply with Rules 10b-18 or 10b5-1(c) under the Securities Exchange Act of 1934, as amended. The share repurchase plan did not require the Company to acquire any specific number of shares and may be temporarily or permanently suspended or discontinued by the Company at any time. A committee of the board of directors reevaluated the operation of the plan each fiscal quarter.

**Table of Contents****MercadoLibre, Inc.****Notes to Condensed Consolidated Financial Statements (unaudited)****10. Share Repurchase Plan (Continued)**

During November and December 2008, the Company sold written put options of its own shares as part of the Share Repurchase Plan, those put options were not exercised at the expiration date and for that reason, during the first quarter of 2009, the Company recognized a gain of \$185,000.

The Company accounted for its written put options as derivative instruments and measured them initially and subsequently at fair value. The liabilities associated with these derivative instruments were recorded at fair value in current liabilities in the consolidated balance sheet.

During March 2009, the Company sold written put options of its own shares. The following table summarizes the written put option transactions made in the first quarter of 2009:

|                            | <b>Total</b> |
|----------------------------|--------------|
| Number of Shares           | 226,000      |
| Premium                    | 302,997      |
| Average Price              | 1.34         |
| Commissions and other fees | (6,782)      |
| Cash received              | 296,215      |

These put options were not exercised at the expiration date and for that reason, during the first half of 2009, the Company recognized a gain of \$302,997.

No additional written put option transactions were made since the second quarter of 2009. As of September 30, 2010 and 2009 there was no written put options transaction outstanding.

Those derivative financial instruments were not accounted for as hedges and, therefore, the change in the fair value of these instruments was recorded in the income statement as interest income and other financial gains.

No written put option transactions were made during the three- and nine-month period ended September 30, 2010. As of September 30, 2010 there is no written put options transaction outstanding.

**11. Argentine office space**

On June 19, 2008, the Company's Argentine subsidiary agreed to participate in a real estate trust for the construction of an office building located in the City of Buenos Aires, buying 5,340 square meters divided into 5 floors and 70 parking spaces, where the Company plans to move its headquarters and Argentine operation offices. The investment was recorded under the caption "Long-term investments" in the Company's balance sheet.

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**MercadoLibre, Inc.**

**Notes to Condensed Consolidated Financial Statements (unaudited)**

**11. Argentine office space (Continued)**

On August 31, 2010, the Company's Argentine subsidiary received the certificate of possession of the building and started incurring in additional costs in order to bring the building into conditions of being used by the company. Therefore, the company reclassified the building cost to Property and Equipment in the balance sheet and started accounting all costs necessarily to bring the building in condition to be used under that caption of the balance sheet. As of September 30, 2010, the building cost amounts to \$8,889,167.

The building will be depreciated once it is ready to be used, using the straight-line depreciation method over a 50-year depreciable life.

The value added tax generated by this transaction for a total amount of \$1,620,596 was included under the caption Other Assets in the Balance Sheet.

\* \* \* \*



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**Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations**  
**Cautionary Statement Regarding Forward-Looking Statements**

Certain statements regarding our future performance made or implied in this report are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements may relate to such matters as:

our expectations regarding the continued growth of online commerce and Internet usage in Latin America;

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

government regulation;

litigation and legal liability;

systems interruptions or failures;

our ability to attract and retain qualified personnel;

consumer trends;

security breaches and illegal uses of our services;

competition;

reliance on third-party service providers;

enforcement of intellectual property rights;

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

seasonal fluctuations; and

political, social and economic conditions in Latin America in general, and Venezuela and Argentina in particular, including Venezuela's status as a highly inflationary economy and new exchange rate system.

These statements are based on currently available information and our current assumptions, expectations and projections about future events. While we believe that our assumptions, expectations and projections are reasonable in view of the currently available information, you are cautioned not to place undue reliance on our forward-looking statements. These statements are not guarantees of future performance. They are subject to future events, risks and uncertainties—many of which are beyond our control—as well as potentially inaccurate assumptions that could cause actual results to differ materially from our expectations and projections. Some of the material risks and uncertainties that could cause actual results to differ materially from our expectations and projections are described in Item 1A Risk Factors in Part I of our Annual Report on Form 10-K for the fiscal year ended December 31, 2009 filed with the Securities and Exchange Commission on February 26, 2010. You should read that information in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 2 of Part I of this report and our unaudited condensed consolidated financial statements and related notes in Item 1 of Part I of this report. We note such information for investors as permitted by the Private Securities Litigation Reform Act of 1995. There also may be other factors that we cannot anticipate or that are not described in this report, generally because we do not perceive them to be material that could cause results to differ materially from our expectations.

Forward-looking statements speak only as of the date they are made, and we do not undertake to update these forward-looking statements except as may be required by law. You are advised, however, to review any further

disclosures we make on related subjects in our periodic filings with the Securities and Exchange Commission.

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### **Management's Discussion and Analysis of Financial Condition and Results of Operations**

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 discussion of our principal trends and results of operations for the quarters and nine-month periods ended September 30, 2010 and 2009;
- a review of our financial presentation and accounting policies, including our critical accounting policies;
- a discussion of the principal factors that influence our results of operations, financial condition and liquidity;
- a discussion of our liquidity and capital resources, capital expenditures and contractual obligations; and
- a discussion of the market risks that we face.

### **Business Overview**

MercadoLibre, Inc. (together with its subsidiaries us, we, our or the company) hosts the largest online commerce platform in Latin America focused on enabling e-commerce and its related services. Our services are designed to provide our users with mechanisms for buying, selling, paying for, collecting, generating leads and comparing on e-commerce transactions effectively and efficiently.

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

We offer to our users the MercadoLibre Marketplace, which we sometimes refer to as our Marketplace business, is a fully-automated, topically-arranged and user-friendly online commerce 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 listings, our registered users can list and purchase motor vehicles, vessels, aircraft, real estate and services. Any Internet user can browse through the various products and services that are listed on our web site and register with MercadoLibre to list, bid for and purchase items and services.

To complement the MercadoLibre Marketplace, we developed MercadoPago, an integrated online payments solution, which we sometimes refer to as our payments business. MercadoPago is designed to facilitate transactions both on and off the MercadoLibre Marketplace by providing a mechanism that allows our users to securely, easily and promptly send and receive Payments online.

As a further enhancement to the MercadoLibre Marketplace, in 2009 we launched our MercadoClics program to allow businesses to promote their products and services on the web. Through MercadoClics users and advertisers are able to place display and/or text advertisements on our web pages in order to promote their brands and offerings. MercadoClics offers advertisers a cost efficient and automated platform with which to acquire traffic from us. Advertisers purchase, on a cost per clicks basis, advertising space that appear alongside product search results for specific categories and other pages. These advertising placements are clearly differentiated from product search results and direct traffic both to and off platform to the advertisers destination of choice.

### **Reporting Segments**

Until the second quarter of 2010, we had two reportable business segments: marketplace and payments. Starting with the third quarter of 2010, we have redefined our segment reporting and have eliminated the business segmentation between marketplace and payments to reflect changes in our business strategy and organization. Specifically, we are no longer charging buyers a separate fee for using the MercadoPago payments platform for their purchases on the Brazilian and Argentine MercadoLibre marketplace. We are now offering this service for no added cost so as to encourage its adoption. Consequently, payments revenues are now generated exclusively on off-platform (see section

Launch of MercadoPago 3.0 in Brazil below) or on consumer financing charges, neither of which are material enough as of the third quarter of 2010 to justify a stand alone reporting segment.

Given these changes, starting with the third quarter of 2010, our segment reporting is only based on geographic areas, this being the current criteria we are using to evaluate our segment performance. Our geography segments include Brazil, Argentina, Mexico, Venezuela and other countries (such as Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Panama, Peru, Portugal and Uruguay).

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In addition, we operate a real estate classifieds platform that covers some areas of Florida in the United States, the operations of which are included in our segment for other countries .

### **Recent Developments**

#### **Launch of MercadoPago 3.0 in Brazil**

In December 2009, we started processing off-platform transactions with selected sites in Brazil as a Beta test using our new direct payments product, while maintaining the escrow product for on-platform transactions. On March 30, 2010, we started processing off-platform transactions through MercadoPago 3.0 for any site in Brazil that elects to adopt it. On July 16, 2010, we launched a new and improved version of our MercadoPago payments platform for all our marketplace transactions in Brazil.

MercadoPago 3.0, which had previously been available only in Argentina, Chile and Colombia, is designed to meet the growing demand for Internet-based payments systems in Latin America. In addition to improving the ease of use and efficiency of payments for purchases made in our marketplace, MercadoPago 3.0 also allows payments for transactions that occur outside of our platforms. Users are able to transfer money to other users with MercadoPago accounts and to incorporate MercadoPago as a means for payments on their independent commerce websites. In addition, with Mercado Pago 3.0 in Brazil, the MercadoPago processing fee for on-platform transactions is borne entirely by the seller through a single MercadoLibre-MercadoPago fee that entitles the seller to free usage of the MercadoPago platform for their sales. In the case of off-platform transactions, the seller should pay a service fee. The finance fee of any transaction is paid by the buyer according to the installment plan elected.

Finally, in Mexico and Venezuela we have available MercadoPago 2.0, which is a closed system in which the buyer pays for its usage.

### **Description of line items**

#### ***Net revenues***

We recognize revenues in each of our five reporting segments. Our reporting segments include our operations in Brazil, Argentina, Mexico, Venezuela and other countries (Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Panama, Peru, Portugal and Uruguay).

Historically, we have generated revenues from the MercadoLibre Marketplace segments from:

listing fees;

optional feature fees;

final value fees; and

online advertising fees.

During the third quarter of 2009, we modified our pricing structure by replacing our previous listing fees and optional feature fees with consolidated up-front fees which bundle these features. We now offer three types of up-front fees for three different combinations of placement and features. Up-front fees are charged at the time the listing is uploaded onto our platform and are not subject to successful sale of the items listed. Following this fee structure modification, revenues for the MercadoLibre Marketplace segments are now generated by:

up front fees;

final value fees; and

online advertising fees.

As of the third quarter of 2010, we offer payment processing through our MercadoPago solution at no added cost in Brazil and Argentina. This change in pricing implies that for Marketplace transactions we no longer charge our users a specific fee for processing on-platform payments as we did in the past. We do continue, however, to generate payment related revenues, reported within each of our reporting segments, attributable to:

commissions charged to sellers for the use of the MercadoPago platform with respect to transactions that occur outside of our Marketplace platform;

revenues from a financial charge when a buyer elects to pay in installments through our MercadoPago platform, both on transaction occurs on or off our Marketplace platform.

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Since the third quarter of 2010, we have pre-sold installment-related financing receivables to better manage credit risk and to generate increased predictability of the associated cost. The net amount collected from the financial institutions to which we pre-sell these receivables is reported in Net revenues.

The following table summarizes the changes in net revenues for the three- and nine-month periods ended September 30, 2010 and 2009:

|                                   | Nine Months<br>Ended<br>September 30, |          | Change from<br>2009<br>to 2010 (*) |        | Three Months<br>Ended<br>September 30, |         | Change from<br>2009<br>to 2010 (*) |        |
|-----------------------------------|---------------------------------------|----------|------------------------------------|--------|----------------------------------------|---------|------------------------------------|--------|
|                                   | 2010                                  | 2009     | in<br>Dollars                      | in %   | 2010                                   | 2009    | in<br>Dollars                      | in %   |
| (in millions, except percentages) |                                       |          |                                    |        |                                        |         |                                    |        |
| <b>Net Revenues:</b>              |                                       |          |                                    |        |                                        |         |                                    |        |
| Brazil                            | \$ 88.2                               | \$ 63.6  | \$ 24.6                            | 38.6%  | \$ 31.1                                | \$ 27.2 | \$ 3.9                             | 14.2%  |
| Argentina                         | 28.6                                  | 19.0     | 9.6                                | 50.4%  | 10.8                                   | 7.5     | 3.3                                | 43.8%  |
| Mexico                            | 13.9                                  | 11.0     | 2.9                                | 26.0%  | 4.7                                    | 4.1     | 0.6                                | 14.6%  |
| Venezuela                         | 13.7                                  | 23.0     | (9.3)                              | -40.5% | 5.8                                    | 8.9     | (3.1)                              | -34.8% |
| Other Countries                   | 10.0                                  | 7.2      | 2.8                                | 40.9%  | 3.6                                    | 2.9     | 0.7                                | 22.6%  |
| Total Net Revenues                | \$ 154.4                              | \$ 123.8 | \$ 30.6                            | 24.7%  | \$ 56.0                                | \$ 50.7 | \$ 5.3                             | 10.6%  |

(\*) Percentages have been calculated using whole-dollar amounts rather than rounded amounts that appear in the table.

We have a highly fragmented customer revenue base given the large numbers of sellers and buyers who use our platforms. For the three-month periods ended September 30, 2010 and 2009, no single customer accounted for more than 1.0% of our net revenues. Our MercadoLibre Marketplace is available in thirteen countries (Argentina, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Mexico, Panama, Peru, Portugal, Uruguay and Venezuela), and MercadoPago is available in six countries (Argentina, Brazil, Chile, Colombia, Mexico and Venezuela). The functional currency for each country's operations is the local currency, except for Venezuela whose functional currency is the US dollar due to Venezuela's status as a highly inflationary economy. See Critical accounting policies and estimates Foreign Currency Translation included in this report. Therefore, our net revenues are generated in multiple foreign currencies and then translated into US dollars at the average monthly exchange rate. Our subsidiaries in Brazil, Argentina, Venezuela and Colombia are subject to certain taxes on revenues which are classified as a cost of net revenues. These taxes represented 7.0% and 6.8% of net revenues for the three- and nine-month periods ended September 30, 2010, respectively.

**Cost of net revenues**

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

**Product and technology development expenses**

Our product and technology development-related expenses consist primarily of depreciation and amortization costs related to our 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 expenses***

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



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We carry out the vast majority of our marketing efforts on the Internet. In that context, we enter in agreements with portals, search engines, social networks, ad networks and other sites in order to attract Internet users to the MercadoLibre Marketplace and convert them into confirmed registered users and active traders on our platform. Additionally, we allocate a portion of our marketing budget to 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 our seller community 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 expenses***

Our general and administrative expenses consist primarily of salaries for management and administrative staff, compensation for outside directors, long term retention plan compensation, expenses for legal, accounting and other professional services, insurance expenses, office space rental expenses, 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 income derived primarily from our investments and cash equivalents, foreign currency gains or losses, the effect of changes in the fair value of derivative instruments, and other non-operating results. In addition, other income (expenses) included mainly interest expense related to the working capital requirements for our MercadoPago operations through the second quarter of 2010. Beginning in the third quarter of 2010 and as long as we continue pre-selling credit card receivables there will be no interest expense included in Other income (expenses) line.

### ***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.

### ***Critical accounting policies and estimates***

The preparation of our unaudited condensed consolidated financial statements and related notes requires us to make judgments, estimates and assumptions that affect our 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 audit committee and 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 our condensed consolidated financial statements. We believe that the following critical accounting policies reflect the more significant estimates and assumptions used in the preparation of our condensed consolidated financial statements. You should read the following descriptions of critical accounting policies, judgments and estimates in conjunction with our unaudited condensed consolidated financial statements, the notes there to and other disclosures included in this report.

### ***Foreign Currency Translation***

Historically, all of our foreign operations have used the local currency as their functional currency. Accordingly, these foreign subsidiaries translate assets and liabilities from their local currencies to US dollars using year end exchange rates while income and expense accounts are translated at the average rates in effect during the year. The resulting translation adjustment is recorded as part of other comprehensive income (loss), a component of shareholders' equity.

Gains and losses resulting from transactions denominated in non-functional currencies are recognized in earnings. Net foreign currency exchange losses or gains are included in the consolidated statements of income under the caption Foreign currency gain /(loss) .

Until September 30, 2009, our Venezuelan subsidiaries assets, liabilities, income and expenses were translated at the official exchange rate of 2.15 Bolivares Fuertes per US dollar.

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In the fourth quarter of 2009, we began to use the parallel exchange rate rather than the official exchange rate to translate our Venezuelan financial statements. The following facts and circumstances have been considered in our analysis of the applicable exchange rate:

At the date we changed the translation exchange rate (and as of the date of this report), we have not obtained dividends remittances at the official exchange rate (and we have not at the date of this report),

The industry in which we operate may not influence our ability to access to the official exchange rate,

The Commission for the Administration of Foreign Exchange ( CADIVI ) volume of approvals of the use of the Official Rate was down 50% on a year-to-year basis as of July 2009.

CADIVI has not only delayed approvals but also removed many items from priority lists (current priorities appear to be food and medicine) causing delays in the repatriation of dividends for many companies.

Consequently, in the fourth quarter of 2009, we translated our Venezuelan assets, liabilities, income and expense accounts using the parallel exchange rate.

As of the date of this report the Company did not buy dollars at the CADIVI official rate.

In accordance with US GAAP, we have classified our Venezuelan operations as highly inflationary as of January 1, 2010 and have used the US dollar to be the functional currency for purposes of our financial statements. Therefore, no translation effect was accounted for in other comprehensive income during the three- and nine-month period ended September 30, 2010 related to our Venezuelan operations.

Until May 13, 2010, the only way by which US dollars could be purchased outside the official currency market was using an indirect mechanism consisting in the purchase and sale of securities, including national public debt bonds (DPNs) denominated in Bolivares Fuertes and bonds issued by the government that were denominated in US dollars. This mechanism for transactions in certain securities created an indirect parallel foreign currency exchange market in Venezuela that enabled entities to obtain foreign currency through financial brokers without going through CADIVI. Although the parallel exchange rate was higher, and accordingly less beneficial, than the official exchange rate, some entities have used the parallel market to exchange currency because, as it was already mentioned, CADIVI used not to approve in a timely manner the exchange of currency requested by such entities. Until May 13, 2010, our Venezuelan subsidiaries used this mechanism to buy US dollars and accordingly we used the parallel average exchange rate to re-measure those foreign currency transactions.

However, on May 14th, 2010, the Venezuelan government enacted reforms to its exchange regulations and close-down such parallel market by declaring that foreign-currency-denominated securities issued by Venezuelan entities were included in the definition of foreign currency, thus making the Venezuelan Central Bank (BCV) the only institution that could legally authorize the purchase or sale of foreign currency bonds, thereby excluding non-authorized brokers from the foreign exchange market.

Trading of foreign currencies was re-opened as a regulated market on June 9, 2010 with the Venezuelan Central Bank as the only institution through which foreign currency-denominated transactions can be brokered. Under the new system, known as the Foreign Currency Securities Transactions System (SITME), entities domiciled in Venezuela can buy US dollar denominated securities only through banks authorized by the BCV to import goods, services or capital inputs. Additionally, the SITME imposes volume restrictions on an entity's trading activity, limiting such activity to a maximum equivalent of \$50,000 per day, not to exceed \$350,000 in a calendar month. This limitation is non-cumulative, meaning that an entity cannot carry over unused volume from one month to the next.

As a consequence of this new system, commencing on June 9, 2010, we have transitioned from the parallel exchange rate to the SITME rate and started re-measuring foreign currency transactions using the SITME rate published by BCV, which was 5.27 Bolivares Fuertes per US dollar as of June 9, 2010.

For the period beginning on May 14, 2010 and ended on June 8, 2010 (during which there was no open foreign currency markets), we applied US GAAP guidelines, which state that if exchangeability between two currencies is temporarily lacking at the transaction date or balance sheet date, the first subsequent rate at which exchanges could be made shall be used.

Accordingly, the June 9, 2010 exchange rate published by the Venezuelan Central Bank has been used to re-measure transactions during the above-mentioned period.

The net investment in the Venezuelan subsidiaries, before intercompany eliminations, amounts to \$13,708,259 as of September 30, 2010.

We have assessed the new regulations and have concluded that, as currently formulated, there has not been a material impact on the normal running of our business in Venezuela.

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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 and certain indefinite live trademarks are reviewed at least annually for impairment. Impairment of goodwill and certain trademarks are tested at the reporting unit level (considering each segment of the Company as a reporting unit) by comparing the reporting unit's carrying amount, including goodwill and certain trademarks, 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 or indefinite useful life intangible assets are 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 and management's assessment of each reporting unit's fair value materially exceeds its carrying value.

We believe that the accounting estimate related to impairment of long lived assets and goodwill is critical since it is highly susceptible to change from period to period because: (i) it requires management to make assumptions about gross merchandise volume growth, 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 on our net income would be material. Management's assumptions about future sales and future costs require significant judgment.

### ***Provision for doubtful accounts***

We are exposed to losses due to uncollectible accounts and credits to sellers. Provisions for these items represent our estimate of future losses based on our historical experience. Historically, our actual losses have been consistent with our charges. However, future changes in trends could have a material impact on our future consolidated statements of income and cash flows.

We believe that the accounting estimate related to provision for doubtful accounts is a critical accounting estimate because it requires management to make assumptions about future collections and credit analysis. Our management's assumptions about future collections require significant judgment.

### ***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 condensed consolidated statement of income. These estimates are based on our assessment of the facts and circumstances and historical information related to actions filed against the Company 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. We are currently involved in certain legal proceedings as described in "Legal Proceedings" in Item 1 of Part II of this report, our prior annual and quarterly reports filed with the Securities and Exchange Commission, and in Note 8 to our unaudited interim 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 consequences could materially harm our business and could have a material adverse impact on our financial position, results of operations or cash flows.

### ***Income taxes***

We are required to recognize a provision for income taxes based upon taxable income and temporary differences between the book and tax bases of our assets and liabilities 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 condensed 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 deferred tax asset will not be realized, we establish a valuation allowance. At September 30, 2010, 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 Income/asset tax expense line in our condensed consolidated statement of income.

**Table of Contents****Results of operations for the three-month period ended September 30, 2010 compared to three-month period ended September 30, 2009 and the nine-month period ended September 30, 2010 compared to the nine-month period ended September 30, 2009**

The selected financial data for the three- and nine-month periods ended September 30, 2010 and 2009 have been derived from our unaudited condensed consolidated financial statements included in Item 1 of Part I of this report. These statements include all normal recurring adjustments that management believes are necessary to fairly state our financial position, results of operations and cash flows. Results of operations for the three- and nine-month periods ended September 30, 2010 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2010 or for any other period.

**Statement of income data**

| (In millions)                                | Nine Months Ended September<br>30, (*) |          | Three Months Ended September<br>30, (*) |         |
|----------------------------------------------|----------------------------------------|----------|-----------------------------------------|---------|
|                                              | 2010                                   | 2009     | 2010                                    | 2009    |
|                                              | (Unaudited)                            |          | (Unaudited)                             |         |
| Net revenues                                 | \$ 154.4                               | \$ 123.8 | \$ 56.0                                 | \$ 50.6 |
| Cost of net revenues                         | (32.8)                                 | (25.6)   | (11.5)                                  | (10.4)  |
| Gross profit                                 | 121.6                                  | 98.2     | 44.5                                    | 40.2    |
| Operating expenses:                          |                                        |          |                                         |         |
| Product and technology development           | (11.4)                                 | (9.0)    | (4.2)                                   | (3.3)   |
| Sales and marketing                          | (34.9)                                 | (31.3)   | (12.3)                                  | (11.0)  |
| General and administrative                   | (21.7)                                 | (19.7)   | (8.7)                                   | (6.9)   |
| Total operating expenses                     | (68.0)                                 | (60.0)   | (25.2)                                  | (21.2)  |
| Income from operations                       | 53.6                                   | 38.2     | 19.3                                    | 19.0    |
| Other income (expenses):                     |                                        |          |                                         |         |
| Interest income and other financial gains    | 3.1                                    | 2.1      | 1.4                                     | 0.6     |
| Interest expense and other financial charges | (6.9)                                  | (9.7)    | (0.6)                                   | (3.9)   |
| Foreign currency gains / losses              |                                        | (2.8)    | (0.4)                                   | (3.3)   |
| Net income before income / asset tax expense | 49.8                                   | 27.8     | 19.8                                    | 12.4    |
| Income / asset tax expense                   | (9.7)                                  | (5.9)    | (1.0)                                   | (2.5)   |
| Net income                                   | \$ 40.1                                | \$ 21.9  | \$ 18.8                                 | \$ 9.9  |

(\*) Totals may not  
add due to  
rounding

**Other Data**

| (In millions)                                                           | Nine Months Ended September<br>30, |         | Three Months Ended<br>September 30, |       |
|-------------------------------------------------------------------------|------------------------------------|---------|-------------------------------------|-------|
|                                                                         | 2010                               | 2009    | 2010                                | 2009  |
| Number of confirmed registered users at end of the period <sup>1</sup>  | 50.2                               | 40.2    | 50.2                                | 40.2  |
| Number of confirmed new registered users during the period <sup>2</sup> | 7.7                                | 6.4     | 2.8                                 | 2.4   |
| Gross merchandise volume <sup>3</sup>                                   | 2,417.8                            | 1,963.8 | 888.1                               | 791.0 |
| Number of items sold <sup>4</sup>                                       | 28.0                               | 20.9    | 10.4                                | 8.0   |
| Total payment volume <sup>5</sup>                                       | 461.4                              | 246.7   | 189.9                               | 114.0 |
| Total payment transactions <sup>6</sup>                                 | 4.3                                | 2.1     | 1.9                                 | 0.9   |
| Capital expenditures                                                    | 10.6                               | 3.9     | 6.6                                 | 0.8   |
| Depreciation and amortization                                           | 3.6                                | 3.0     | 1.4                                 | 1.0   |

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 the  
total U.S. dollar  
sum of all  
transactions  
paid for using  
MercadoPago.
- 6 - Measure of the  
number of all  
transactions  
paid for using  
MercadoPago.

**Table of Contents*****Net revenues***

|                                        | <b>Nine Months<br/>Ended<br/>September 30,</b> |             | <b>Change from<br/>2009 to 2010 (*)<br/>in</b> |             | <b>Three Months<br/>Ended<br/>September 30,</b> |             | <b>Change from<br/>2009 to 2010 (*)<br/>in</b> |             |
|----------------------------------------|------------------------------------------------|-------------|------------------------------------------------|-------------|-------------------------------------------------|-------------|------------------------------------------------|-------------|
|                                        | <b>2010</b>                                    | <b>2009</b> | <b>Dollars</b>                                 | <b>in %</b> | <b>2010</b>                                     | <b>2009</b> | <b>Dollars</b>                                 | <b>in %</b> |
|                                        | <b>(in millions, except percentages)</b>       |             |                                                |             |                                                 |             |                                                |             |
| Total Net Revenues                     | \$ 154.4                                       | \$ 123.8    | \$ 30.6                                        | 24.7%       | \$ 56.0                                         | \$ 50.6     | \$ 5.4                                         | 10.6%       |
| As a percentage of<br>net revenues (*) | 100.0%                                         | 100.0%      |                                                |             | 100.0%                                          | 100.0%      |                                                |             |

(\*) Percentages have been calculated using whole-dollar amounts rather than rounded amounts that appear in the table.

The 10.6% growth in net revenues from the third quarter of 2009 to the third quarter of 2010 resulted principally from a 12.3% increase in the gross merchandise volume ( GMV ) transacted through our platform from the third quarter of 2009 to the third quarter of 2010. In addition, there is a negative impact on US dollars figures mainly because of the devaluation in Venezuela where we used to report our results at the previous official exchange rate of 2.15 (for the first nine months of 2009) and currently we are reporting it at 5.3. See Critical accounting policies and estimates Foreign currency translation for more detail. This effect was partially offset by an appreciation of the Brazilian Real. For the three-month period ended September 30, 2010, net revenues also include the net amount collected from financial institutions as a result of pre-selling installment-related financing receivables. We entered into these pre-selling agreements with the aim of substantially eliminating credit risk and optimizing financial cost. For the three-month period ended September 30, 2010, our net revenues have no financial related expenses. For the three-month period ended September 30, 2009, as we had assumed financial risk of installment-related financing receivables, our MercadoPago financing revenues had an associated \$3.9 million financial expenses.

Measured in local currencies, net revenues grew 23.2% and 34.0% in the three- and nine-month periods ended September 30, 2010, respectively, compared to the same periods a year earlier. The local currency revenue growth was calculated by using the average monthly exchange rates for each month during 2009 and applying them to the corresponding months in 2010, so as to calculate what our financial results would have been had exchange rates remained stable from one year to the next.

In addition, net revenues decreased slightly vis-à-vis GMV growth due to a decline in our take rate, defined as net revenues as a percentage of gross merchandise volume, from 6.4% for the three-month period ended September 30, 2009 to 6.3% for the three-month period ended September 30, 2010.

Growth in our net revenues from the nine-month period ended September 30, 2009 to the nine-month period of 2010 resulted principally from a 23.1% increase in the gross merchandise volume transacted through our platform from the nine-month period ended September 30, 2009 to the same period in 2010. In addition, US dollars figures were positively impacted during this period mainly because of the appreciation of the Brazilian Real, which was partially offset by a decrease in US dollar revenues provided by our Venezuelan subsidiaries as a consequence of the already mentioned devaluation.

The growth in our net revenues from the nine-month period ended September 30, 2009 to the nine-month period of 2010 was negatively impacted as a consequence of the pre-sell installment-related financing receivables discussed above.

In addition the growth in net revenues was a consequence of an increase in our take rate, defined as net revenues as a percentage of gross merchandise volume, from 6.3% for the nine-month period ended September 30, 2009 to 6.4% for the nine-month period ended September 30, 2010 for the reasons discussed above.

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The following table summarizes the changes in net revenues by each reporting segment for the three- and nine-month periods ended September 30, 2010 and 2009:

|                      | Nine Months<br>Ended<br>September 30, |          | Change from<br>2009 to 2010 (*)<br>in |                                           | Three Months<br>Ended<br>September 30, |         | Change from<br>2009 to 2010 (*)<br>in |        |
|----------------------|---------------------------------------|----------|---------------------------------------|-------------------------------------------|----------------------------------------|---------|---------------------------------------|--------|
|                      | 2010                                  | 2009     | Dollars                               | in %<br>(in millions, except percentages) | 2010                                   | 2009    | Dollars                               | in %   |
| <b>Net Revenues:</b> |                                       |          |                                       |                                           |                                        |         |                                       |        |
| Brazil               | \$ 88.2                               | \$ 63.6  | \$ 24.6                               | 38.6%                                     | \$ 31.1                                | \$ 27.2 | \$ 3.9                                | 14.2%  |
| Argentina            | 28.6                                  | 19.0     | 9.6                                   | 50.4%                                     | 10.8                                   | 7.5     | 3.3                                   | 43.8%  |
| Mexico               | 13.9                                  | 11.0     | 2.9                                   | 26.0%                                     | 4.7                                    | 4.1     | 0.6                                   | 14.6%  |
| Venezuela            | 13.7                                  | 23.0     | (9.3)                                 | -40.5%                                    | 5.8                                    | 8.9     | (3.1)                                 | -34.8% |
| Other Countries      | 10.0                                  | 7.2      | 2.8                                   | 40.9%                                     | 3.6                                    | 2.9     | 0.7                                   | 22.6%  |
| Total Net Revenues   | \$ 154.4                              | \$ 123.8 | \$ 30.6                               | 24.7%                                     | \$ 56.0                                | \$ 50.7 | \$ 5.3                                | 10.6%  |

(\*) Percentages have been calculated using whole-dollar amounts rather than rounded amounts that appear in the table.

On a segment basis, our net revenues for the three- and nine-month period ended September 30, 2010 as compared to the same periods in 2009, increased across all segments except for the Venezuelan segment which, measured in US dollars, decreased 34.8% and 40.5%, respectively. The decrease in net revenues for the Venezuelan segment is attributable to the re-measurement of our Venezuelan revenues as discussed above. In local currency, our revenues in Venezuela grew 60.8% and 63.0% in the three- and nine-month periods ended September 30, 2010 compared to the same periods in the previous year.

The following table sets forth our total net revenues and the sequential quarterly growth of these net revenues for the periods described below:

|                                   | Quarter Ended                     |          |               |              |
|-----------------------------------|-----------------------------------|----------|---------------|--------------|
|                                   | March 31,                         | June 30, | September 30, | December 31, |
|                                   | (in millions, except percentages) |          |               |              |
|                                   | (*)                               |          |               |              |
| 2010                              |                                   |          |               |              |
| Net Revenues                      | \$ 45.9                           | \$ 52.5  | \$ 56.0       | n/a          |
| Percent change from prior quarter | -6%                               | 14%      | 7%            | n/a          |
| 2009                              |                                   |          |               |              |
| Net Revenues                      | \$ 32.3                           | \$ 40.9  | \$ 50.6       | \$ 49.0      |
| Percent change from prior quarter | -3%                               | 27%      | 24%           | -3%          |

**2008**

|                                   |    |      |    |      |    |      |    |      |
|-----------------------------------|----|------|----|------|----|------|----|------|
| Net Revenues                      | \$ | 28.8 | \$ | 34.5 | \$ | 40.3 | \$ | 33.4 |
| Percent change from prior quarter |    | 7%   |    | 20%  |    | 17%  |    | -17% |

**2007**

|                                   |    |      |    |      |    |      |    |      |
|-----------------------------------|----|------|----|------|----|------|----|------|
| Net Revenues                      | \$ | 16.5 | \$ | 19.0 | \$ | 22.8 | \$ | 26.9 |
| Percent change from prior quarter |    | 6%   |    | 15%  |    | 20%  |    | 18%  |

(\*) Percentages have been calculated using whole-dollar amounts rather than rounded amounts that appear in the table.

***Cost of net revenues***

|                                     | Nine Months Ended September 30, |         | Change from 2009 to 2010 (*) |       | Three Months Ended September 30, |         | Change from 2009 to 2010 (*) |       |
|-------------------------------------|---------------------------------|---------|------------------------------|-------|----------------------------------|---------|------------------------------|-------|
|                                     | 2010                            | 2009    | in Dollars                   | in %  | 2010                             | 2009    | in Dollars                   | in %  |
| (in millions, except percentages)   |                                 |         |                              |       |                                  |         |                              |       |
| Total cost of net revenues          | \$ 32.8                         | \$ 25.6 | \$ 7.2                       | 27.9% | \$ 11.5                          | \$ 10.4 | \$ 1.1                       | 10.2% |
| As a percentage of net revenues (*) | 21.2%                           | 20.7%   |                              |       | 20.5%                            | 20.5%   |                              |       |

(\*) Percentages have been calculated using whole-dollar amounts rather than rounded amounts that appear in the table.

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For the three-month period ended September 30, 2010, the increase in cost of net revenues as compared to the same period of 2009 was primarily attributable to a \$0.7 million increase in sales taxes as a consequence of decreases in deductions we can compute with respect to our Brazilian sales taxes and to a \$0.3 million increase in collection fees, which occurred primarily in Brazil and Argentina, as a result of the higher penetration of our Payment solution into our Marketplace, which has a higher collection fee cost. In addition, during the three-month period ended September 30, 2010 as compared to the same period in the prior year, expenditures related to our in-house customer support operations increased by \$0.8 million primarily driven by an increase in compensation costs, recruitment, investments in improved service and initiatives to combat fraud, illegal items and fee evasion. The increase in our in-house customer support operations was partially offset by a \$0.8 million decrease in other costs mainly related to a charge attributable to the re-measurement of the US dollar denominated expenses of our Venezuelan subsidiaries in the third quarter of 2009. These expenses were re-measured at an average parallel exchange rate of 6.5 Bolivares Fuertes per US dollar and translated at the official exchange rate (2.15 Bolivares Fuertes per US dollar). We did not have any similar re-measurement charge in the third quarter of 2010 (See Critical accounting policies and estimates Foreign currency translation for more detail).

For the nine-month period ended September 30, 2010, the increase in cost of net revenues as compared to the same period of 2009 was primarily attributable to a \$4.0 million increase in collection fees. The increase in collection fees, which occurred primarily in Brazil and Argentina, was a result of the higher penetration of our Payment solution into our Marketplace, which has a higher collection fee cost. In addition, sales taxes on our net revenues increased by \$3.1 million, or 41.9% for the nine-month period ended September 30, 2010, compared to the same period of 2009 as a consequence of decreases in deductions we can compute with respect to our Brazilian sales taxes. Moreover, during the nine-month period ended September 30, 2010 as compared to the same period in the prior year, expenditures related to our in-house customer support operations increased by \$2.5 million primarily driven by an increase in compensation costs, recruitment, investments in improved service and initiatives to combat fraud, illegal items and fee evasion. The increase in our in-house customer support operations was partially offset by a \$2.3 million decrease in other costs mainly related to a charge attributable to the re-measurement of the US dollar denominated expenses of our Venezuelan subsidiaries in the third quarter of 2009. These expenses were re-measured at an average parallel exchange rate of 6.3 Bolivares Fuertes per US dollar and translated at the official exchange rate (2.15 Bolivares Fuertes per US dollar). We did not have any similar re-measurement charge in the nine-month period ended September 30, 2010 (See Critical accounting policies and estimates Foreign currency translation for more detail).

**Product and technology development**

|                                     | Nine Months Ended September 30,   |        | Change from 2009 to 2010 (*) |       | Three Months Ended September 30, |        | Change from 2009 to 2010 (*) |       |
|-------------------------------------|-----------------------------------|--------|------------------------------|-------|----------------------------------|--------|------------------------------|-------|
|                                     | 2010                              | 2009   | in Dollars                   | in %  | 2010                             | 2009   | in Dollars                   | in %  |
|                                     | (in millions, except percentages) |        |                              |       |                                  |        |                              |       |
| Product and technology development  | \$ 11.4                           | \$ 9.0 | \$ 2.4                       | 26.7% | \$ 4.2                           | \$ 3.3 | \$ 0.9                       | 28.2% |
| As a percentage of net revenues (*) | 7.4%                              | 7.3%   |                              |       | 7.6%                             | 6.5%   |                              |       |

(\*) Percentages have been calculated using whole-dollar

amounts rather than rounded amounts that appear in the table.

For the three- and nine-month periods ended September 30, 2010, the growth in product and technology development expenses as compared to the same periods in 2009 was primarily attributable to an increase of \$0.7 million or a 47.7% and to \$1.8 million or a 42.9%, respective increase in compensation costs. These additional compensation expenses were primarily related to the addition of engineers and, to a lesser extent, to increases in salaries, as we continue to invest in top quality talent to develop enhancements and new features across our platforms. We believe product development is one of our key competitive advantages and intend to continue to invest in adding engineers to meet the increasingly sophisticated product expectations of our customer base.

***Sales and marketing***

|                                     | Nine Months Ended September 30,   |         | Change from 2009 to 2010 (*) |       | Three Months Ended September 30, |         | Change from 2009 to 2010 (*) |       |
|-------------------------------------|-----------------------------------|---------|------------------------------|-------|----------------------------------|---------|------------------------------|-------|
|                                     | 2010                              | 2009    | in Dollars                   | in %  | 2010                             | 2009    | in Dollars                   | in %  |
|                                     | (in millions, except percentages) |         |                              |       |                                  |         |                              |       |
| Sales and marketing                 | \$ 34.9                           | \$ 31.3 | \$ 3.5                       | 11.2% | \$ 12.3                          | \$ 11.0 | \$ 1.2                       | 11.2% |
| As a percentage of net revenues (*) | 22.6%                             | 25.3%   |                              |       | 22.0%                            | 21.8%   |                              |       |

(\*) Percentages have been calculated using whole-dollar amounts rather than rounded amounts that appear in the table.

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For the three-month period ended September 30, 2010, the increase in sales and marketing expenses when compared to the same period in 2009 was primarily attributable to a \$1.0 million increase in bad debt charges in the 2010 period. Bad debt charges for the three-month period ended September 30, 2010 represented 6.2% of net revenues versus 4.9% for the same period in 2009. In addition, sales and marketing expenses related to trust and safety expenses increased by \$0.2 million in the 2010 period when compared to the same period in 2009.

For the nine-month period ended September 30, 2010, the increase in sales and marketing expenses when compared to the same period in 2009 was primarily attributable to a \$3.2 million increase in bad debt charges in the 2010 period. Bad debt charges for the nine-month period ended September 30, 2010 represented 6.8% of net revenues versus 5.9% for the same period in 2009. In addition, trust and safety and other marketing expenses increased by \$1.3 million in the nine-month period ended September 30, 2010 as compared to the same period of the previous year. The increase in sales and marketing expenses for the nine-month period ended September 30, 2010 was partially offset by a \$1.1 million decrease in our online advertising expenses related to specific deals, as we have optimized investment allocation over the same period ended September 30, 2009. Online advertising represented 8.4% of our net revenues in the nine-month period ended September 30, 2010, down from 11.5% for the same period in 2009.

***General and administrative***

|                                     | <b>Nine Months<br/>Ended<br/>September 30,</b> |             | <b>Change from<br/>2009<br/>to 2010 (*)<br/>in<br/>Dollars      in %</b> |       | <b>Three Months<br/>Ended<br/>September 30,</b> |             | <b>Change from<br/>2009<br/>to 2010 (*)<br/>in<br/>Dollars      in %</b> |             |
|-------------------------------------|------------------------------------------------|-------------|--------------------------------------------------------------------------|-------|-------------------------------------------------|-------------|--------------------------------------------------------------------------|-------------|
|                                     | <b>2010</b>                                    | <b>2009</b> | <b>(in millions, except percentages)</b>                                 |       | <b>2010</b>                                     | <b>2009</b> | <b>Dollars</b>                                                           | <b>in %</b> |
| General and administrative          | \$ 21.7                                        | \$ 19.7     | \$ 2.0                                                                   | 10.4% | \$ 8.7                                          | \$ 6.9      | \$ 1.8                                                                   | 26.2%       |
| As a percentage of net revenues (*) | 14.1%                                          | 15.9%       |                                                                          |       | 15.5%                                           | 13.6%       |                                                                          |             |

(\*) Percentages have been calculated using whole-dollar amounts rather than rounded amounts that appear in the table.

For the three-month period ended September 30, 2010, the increase in general and administrative expenses as compared to the same period of 2009, was primarily attributable to a \$1.2 million increase in compensation costs in the 2010 period related to our long term retention plans, increases in salaries to retain talent and to a \$0.3 million increase in tax consulting and other fees.

For the nine-month period ended September 30, 2010, the increase in general and administrative expenses as compared to the same period of 2009, was primarily attributable to a \$2.9 million increase in compensation costs related to our long term retention plans, increases in salaries to retain talent, to a \$0.5 million increase in outside services mainly related to legal and tax fees and to a \$0.3 million increase in travel and accommodation expenses. The increase in general and administrative expenses was partially offset by a \$1.7 million charge incurred in the nine-month period ended September 30, 2009 related to the re-measurement of the US dollar denominated expenses of our Venezuelan subsidiaries at an average parallel exchange rate of 6.3 Bolivares Fuertes per US dollar and the



translation of these expenses at the official exchange rate (2.15 Bolivares Fuertes per US dollar). We did not have any similar translation effect due to the change in functional currency in the nine-month period of 2010 (See Critical accounting policies and estimates Foreign currency translation for more detail).

***Other income (expenses)***

|                                    | Nine Months<br>Ended<br>September 30, |           | Change from<br>2009<br>to 2010 (*) |        | Three Months<br>Ended<br>September 30, |          | Change from<br>2009<br>to 2010 (*) |         |
|------------------------------------|---------------------------------------|-----------|------------------------------------|--------|----------------------------------------|----------|------------------------------------|---------|
|                                    | 2010                                  | 2009      | in<br>Dollars                      | in %   | 2010                                   | 2009     | in<br>Dollars                      | in %    |
|                                    | (in millions, except percentages)     |           |                                    |        |                                        |          |                                    |         |
| Other<br>(expenses) income         | \$ (3.8)                              | \$ (10.4) | \$ 6.6                             | -63.0% | \$ 0.4                                 | \$ (6.6) | \$ 7.0                             | -106.7% |
| As a percentage of<br>net revenues | -2.5%                                 | -8.4%     |                                    |        | 0.8%                                   | -13.0%   |                                    |         |

(\*) Percentages have been calculated using whole-dollar amounts rather than rounded amounts that appear in the table.

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For the three- and nine-month period ended September 30, 2010 as compared to the same period in 2009, the decrease in other expenses was primarily a result of: (a) a \$3.3 million and a \$2.8 million decrease in financial expenses, respectively, because as from the third quarter of 2010, we started pre-selling our credit card installment-related financing receivables in order to better manage credit risk, limit the risk of not finding trading partners for discounting those receivables and to generate increased predictability of the associated cost, instead of initially assuming the financing and subsequently obtaining a third-party related financing; and (b) a \$2.9 million and \$2.8 million decrease in foreign currency losses, respectively. The decrease in foreign currency losses for the three-month period ended September 30, 2010 was primarily due to losses in Venezuela and Brazil attributable to the impact of the local currency appreciation on the cash balances held by those subsidiaries in US dollars during the third quarter of 2009 versus a lesser impact in the third quarter of 2010. The decrease in foreign currency losses for the nine-month period ended September 30, 2010 was primarily due to losses in Brazil attributable to the impact of the local currency appreciation on the cash balances held by those subsidiaries in US dollars during the nine-months period ended September 30, 2009 versus a lesser impact in the same period of 2010.

In addition, interest income and other financial charges increased by \$0.8 million from \$0.6 million in the three-month period ended September 30, 2009 to \$1.4 million in the same period of 2010. Interest income and other financial charges increased by \$1.0 million from \$2.1 million in the nine-month period ended September 30, 2009 to \$3.1 million in the same period of 2010. These increases are mainly related to higher interest income earned on our investments driven by higher interest rates and a greater volume of investments, particularly in Brazil.

**Income and asset tax**

|                                     | Nine Months<br>Ended<br>September 30, |      | Change from<br>2009 to<br>2010 (*) |       | Three Months<br>Ended<br>September 30, |      | Change from 2009<br>to<br>2010 (*) |        |
|-------------------------------------|---------------------------------------|------|------------------------------------|-------|----------------------------------------|------|------------------------------------|--------|
|                                     | 2010                                  | 2009 | in<br>Dollars                      | in %  | 2010                                   | 2009 | in<br>Dollars                      | in %   |
| Income and asset tax                | 9.7                                   | 5.9  | 3.8                                | 65.6% | 1.0                                    | 2.5  | (1.6)                              | -62.2% |
| As a percentage of net revenues (*) | 6.3%                                  | 4.7% |                                    |       | 1.7%                                   | 5.0% |                                    |        |

(\*) Percentages have been calculated using whole-dollar amounts rather than rounded amounts that appear in the table.

During the three-month period ended September 30, 2010, the income and asset tax represented 1.7% of net revenues versus 5.0% for the same period in 2009. During the nine-month period ended September 30, 2010, the income and asset tax represented 6.3% of net revenues versus 4.7% for the same period in 2009. The decrease in our income and asset tax expense from the three-month period ended September 30, 2009 to the same period in 2010 was primarily a result of a \$4.6 million reversal of tax valuation allowance related to a Brazilian subsidiary acquired in 2005. The reversal of the tax valuation allowance was derived from our tax planning strategies implemented during the period designed to more efficiently use our accumulated tax loss carryforward credits from acquired companies. The increase in our income and asset tax expense from the nine-month period ended September 30, 2009 to the same period in 2010

was primarily a result of increases in income taxes charges in Brazil and Argentina, driven by higher taxable income period over period partially offset by the reversal of the above-mentioned Brazilian tax valuation allowance.

Our blended tax rate is defined as income and asset tax expense as a percentage of income before income and asset tax. Our effective income tax rate is defined as the provision for income taxes (net of charges related to dividend distribution from foreign subsidiaries which are offset with domestic foreign tax credits) as a percentage of pre tax income. The effective income tax rate excludes the effects of the deferred income tax, and of the Mexican tax called

Impuesto Empresarial a Tasa Única ( IETU ).

The following table summarizes the changes in our blended and effective tax rate for the three- and nine-month periods ended September 30, 2010 and 2009:

|                    | <b>Nine Months Ended<br/>September 30,</b> |             | <b>Three Months Ended<br/>September 30,</b> |             |
|--------------------|--------------------------------------------|-------------|---------------------------------------------|-------------|
|                    | <b>2010</b>                                | <b>2009</b> | <b>2010</b>                                 | <b>2009</b> |
| Blended tax rate   | 19.5%                                      | 21.1%       | 4.9%                                        | 20.5%       |
| Effective tax rate | 32.8%                                      | 24.3%       | 32.1%                                       | 30.8%       |

(\*) Percentages have been calculated using whole-dollar amounts rather than rounded amounts that appear in the table.

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Our blended tax rate decreases from the three- and nine-month period ended September 30, 2009 to the same period in 2010 driven by a \$4.6 million reversal of the above-mentioned Brazilian tax valuation allowance in the third quarter of 2010, partially offset by a growth in our Brazilian taxable income where the income tax rate is 34% as compared to other locations where we have a lower tax rate.

Our effective tax rate increases from the three- and nine-month period ended September 30, 2009 to the same periods in 2010 due to the growth in our Brazilian taxable income where the income tax rate is 34% which is higher than the tax rate in other locations. In addition, during 2010 our Mexican subsidiary started accounting for income tax provision since it consumed its loss carryforwards. Finally, our effective tax rate also increased due to a lesser non taxable gain in 2010 related to the Venezuelan re-measurement between the official and the parallel/SITME rate.

***Liquidity and Capital Resources***

Our main cash requirement historically has been working capital to fund our MercadoPago operation in Brazil. We also require cash for capital expenditures related to our technology infrastructure, software applications and office space.

Since our inception, we have funded our operations primarily through contributions received from our stockholders during the first two years of operations, from funds raised during our initial public offering, and from cash generated from our operations. We have funded MercadoPago by discounting credit card receivables, with loans backed with credit card receivables and through cash advances derived from our MercadoLibre Marketplace business.

At September 30, 2010, our principal source of liquidity was \$51.0 million of cash and cash equivalents and short-term investments and \$65.9 million of long-term investments provided by cash generated from operations.

The significant components of our working capital are cash and cash equivalents, short-term investments, accounts receivable, accounts payable and accrued expenses, funds receivable from and payable to MercadoPago users, and short-term debt. As long as we continue managing our Payments business by transferring credit card receivables to financial institutions in return for cash, as we have done since the last quarter of 2008, we expect that our MercadoPago business will generate cash.

In the event we change the way we manage our Payments business, the working capital needs related to this business could be funded, as we did in the past, through a combination of the sale of credit card coupons to financial institutions, loans backed by credit card receivables and cash advances from our Marketplace business.

The following table presents our cash flows from operating activities, investing activities and financing activities for the nine-month periods ended September 30, 2010 and 2009:

| (In millions)                                                | Nine Months Ended September 30, |         |
|--------------------------------------------------------------|---------------------------------|---------|
|                                                              | 2010                            | 2009    |
|                                                              | (in millions)                   |         |
| Net cash provided by (used in):                              |                                 |         |
| Operating activities                                         | \$ 42.0                         | \$ 27.0 |
| Investment activities                                        | (44.8)                          | (1.5)   |
| Financing activities                                         | (2.9)                           | (12.3)  |
| Effect of exchange rate changes on cash and cash equivalents | \$ 0.3                          | \$ 2.7  |
| Net (decrease) increase in cash and cash equivalents         | \$ (5.4)                        | \$ 15.9 |

***Net cash provided by operating activities***

Cash provided by operating activities consists of net income adjusted for certain non-cash items, and the effect of changes in working capital and other activities.

**Nine Months Ended  
September 30,**

**Change from 2009 to 2010**

|                       | <b>2010</b> | <b>2009</b>                              | <b>in Dollars</b> | <b>in %</b> |
|-----------------------|-------------|------------------------------------------|-------------------|-------------|
|                       |             | <b>(in millions, except percentages)</b> | <b>(*)</b>        |             |
| Net Cash provided by: |             |                                          |                   |             |
| Operating activities  | \$ 42.0     | \$ 27.0                                  | \$ 15.0           | 55.7%       |

(\*) Percentages have been calculated using whole-dollar amounts rather than rounded amounts that appear in the table.

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The \$15.0 million increase in net cash provided by operating activities during the nine-month period ended September 30, 2010 compared to the same period in 2009 was mainly attributable to a \$18.2 million increase in net income. Additionally, net cash provided by operating activities was impacted by a \$7.8 million increase in changes in account payable and accrued expenses and a \$1.6 million increase in non-cash losses such as long term retention plan compensation expenses.

These increases in cash provided by operations were partially offset by a \$4.5 million increase in changes in account receivables in the nine-month period ended September 30, 2010 versus the same period of 2009, a \$1.8 million decrease in other liabilities and a \$5.8 million increase in non-cash gains such as deferred income tax charges related to the reversal of our Brazilian tax valuation allowance (See Income and Asset tax for more detail).

***Net cash used in investing activities***

|                      | <b>Nine Months Ended</b> |             | <b>Change from 2009 to 2010</b>          |             |
|----------------------|--------------------------|-------------|------------------------------------------|-------------|
|                      | <b>September 30,</b>     |             | <b>in Dollars</b>                        | <b>in %</b> |
|                      | <b>2010</b>              | <b>2009</b> | <b>(in millions, except percentages)</b> |             |
|                      |                          |             | <b>(*)</b>                               |             |
| Net Cash used in:    |                          |             |                                          |             |
| Investing activities | \$ (44.8)                | \$ (1.5)    | \$ (43.3)                                | 2866.8%     |

(\*) Percentages have been calculated using whole-dollar amounts rather than rounded amounts that appear in the table.

Net cash used in investing activities in the nine-month period of 2010 resulted mainly from purchases of investments for \$85.3 million. Additionally, we used \$10.6 million of cash in the nine-month period ended September 30, 2010 to make capital expenditures related to technological equipment, software licenses, new office space in Argentina and, to a lesser degree, office equipment. During the nine-month period ended September 30, 2010, the increase in cash used in investment activities was partially offset by proceeds from the sale and maturity of \$51.1 million of investments as part of our financial strategy.

As of September 30, 2009, net cash used in investing activities resulted primarily from purchases of investments for \$46.0 million. Additionally, in the nine-month period ended September 30, 2009, we used \$3.9 million of cash for capital expenditures related to technological equipment, software licenses and, to a lesser degree, office equipment. During the nine-month period ended September 30, 2009, the increase in cash used in investment activities was partially offset by proceeds from the sale and maturity of \$48.3 million of investments as part of our financial strategy.

***Net cash used in financing activities***

|  | <b>Nine Months Ended</b> |             | <b>Change from 2009 to 2010</b>          |             |
|--|--------------------------|-------------|------------------------------------------|-------------|
|  | <b>September 30,</b>     |             | <b>in Dollars</b>                        | <b>in %</b> |
|  | <b>2010</b>              | <b>2009</b> | <b>(in millions, except percentages)</b> |             |
|  |                          |             | <b>(*)</b>                               |             |

Net Cash used in:

|                      |    |       |    |        |    |     |        |
|----------------------|----|-------|----|--------|----|-----|--------|
| Financing activities | \$ | (2.9) | \$ | (12.3) | \$ | 9.4 | -76.6% |
|----------------------|----|-------|----|--------|----|-----|--------|

(\*) Percentages have been calculated using whole-dollar amounts rather than rounded amounts that appear in the table.

For the nine-month period ended September 30, 2010, our primary use of cash for financing activities was a reduction in short term debt as we paid \$3.2 million of notes outstanding which were issued in connection with the DeRemate acquisition. In the event that we decide to pursue strategic acquisitions in the future, we may fund them with available cash, third party debt financing, or by raising equity capital, as market conditions allow.

#### ***Debt***

In connection with the DeRemate acquisition, on September 5, 2008, we issued to the seller ten unsecured promissory notes in the aggregate principal amount of \$18 million. On June 3, 2009, August 31, 2009, December 4, 2009 and March 4, 2010, we paid the Sellers \$3.1 million, \$9.5 million, \$3.0 million and \$3.2 million, respectively, in full repayment of all outstanding principal and accrued interest. As of September 30, 2010, we have no debt outstanding related to DeRemate acquisition.

#### ***Capital expenditures***

Our capital expenditures increased by \$6.7 million to \$10.6 million for the nine-month period ended September 30, 2010 as compared to \$3.9 million for the same period in 2009, mainly due to investments made during the nine-month period ended September 30, 2010. Capital expenditures during the nine-month period ended September 30, 2010 include hardware and software licenses necessary to maintain and update the technology of our platform, computer software developed internally, office equipment and \$3.0 million related to new office space in Argentina. We anticipate continued investments in capital expenditures in the future as we strive to maintain our position in the Latin American e-commerce market.

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In 2008, our Argentine subsidiary invested in a real estate trust. The investment in this trust represents a beneficial ownership interest in 5,340 square meters divided in five floors of an office building and 70 parking spots under construction in the City of Buenos Aires, Argentina, where we expect to relocate our office headquarters upon completion of the building. As of September 30, 2010, the Argentine subsidiary has paid \$8.9 million into the trust and is expected to invest an additional \$0.4 million in order to cover higher construction cost during the following 3 months. Certain of our officers and former officers also entered into an investment in a portion of the trust, which investment represents a beneficial ownership interest in a separate floor of the same building. We do not intend to occupy the space to be owned by this group. For US GAAP purposes the investment was recorded as a long term investment instead of as Property and Equipment through the second quarter of 2010. Since August 31, 2010, this investment is accounted for as Property and Equipment because our Argentine subsidiary received the certificate of possession of the building and started incurring in additional cost in order to bring the building into conditions of being used.

We believe that our existing cash and cash equivalents, including the sale of credit card receivables and cash generated from operations will be sufficient to fund our operating activities, property and equipment expenditures and to repay obligations going forward.

### **Off-balance sheet arrangements**

At September 30, 2010, we had no off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on our consolidated financial condition, results of operations, liquidity, capital expenditures or capital resources.

### **Recent accounting pronouncements**

#### **Accounting for stock-based compensation**

On April 16, 2010, the FASB issued an amendment to the accounting of stock-based compensation related to the effect of Denominating the Exercise Price of a Share-Based Payment Award in the Currency of the Market in Which the Underlying Equity Security Primarily Trades. The amendment clarifies that a share-based payment award with an exercise price denominated in the currency of a market in which a substantial portion of the entity's equity securities trades must not be considered to contain a market, performance, or service condition. Therefore, an entity should not classify such an award as a liability if it otherwise qualifies for classification in equity. The new accounting guidance is effective for interim and annual periods beginning on or after December 15, 2010, and will be applied prospectively. Management estimates that the implementation of the new accounting guidance will not have significant effect on the company's financial statements.

#### **Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses**

On July 21, 2010, the FASB issued ASU 2010-20, which amends ASC 310 by requiring more robust and disaggregated disclosures about the credit quality of an entity's financing receivables and its allowance for credit losses. The objective of enhancing these disclosures is to improve financial statement users' understanding of (1) the nature of an entity's credit risk associated with its financing receivables and (2) the entity's assessment of that risk in estimating its allowance for credit losses as well as changes in the allowance and the reasons for those changes. The new and amended disclosures that relate to information as of the end of a reporting period will be effective for the first interim or annual reporting periods ending on or after December 15, 2010. The disclosures that include information for activity that occurs during a reporting period will be effective for the first interim or annual periods beginning after December 15, 2010. Those disclosures include (1) the activity in the allowance for credit losses for each period and (2) disclosures about modifications of financing receivables. Management estimates that there will be no significant effect on the company's financial statements.



**Table of Contents****Contractual obligations**

We have certain fixed contractual obligations and commitments that include future estimated Payments. Changes in our business needs, cancellation provisions and other factors may result in actual Payments differing materially from the estimates. We cannot provide certainty regarding the timing and amount of Payments. Below is a summary of the most significant assumptions used in our determination of amounts presented in the table. Contractual obligations at September 30, 2010 are as follows:

| (in millions)                   | Total  | Payment due by period |                 |                 |                      |
|---------------------------------|--------|-----------------------|-----------------|-----------------|----------------------|
|                                 |        | Less than<br>1 year   | 1 to 3<br>years | 3 to 5<br>years | More than<br>5 years |
| Capital lease obligations (1)   | \$ 0.3 | \$ 0.1                | \$ 0.2          | \$              | \$                   |
| Operating lease obligations (2) | 3.9    | 1.8                   | 1.6             | 0.5             |                      |
| Purchase obligations            | 4.4    | 4.0                   | 0.4             |                 |                      |
| Total                           | \$ 8.6 | \$ 5.9                | \$ 2.2          | \$ 0.5          | \$                   |

(1) On February 22, 2010, our Argentina subsidiary signed a Company car lease contract to buy 12 cars for certain employees of the Company. The total lease contract amounts to \$0.4 million and matures in January 2013.

(2) Includes leases of office space.

We have leases for office space in certain countries in which we operate and leases for Company cars in Argentina. These are our only operating leases. Purchase obligation amounts include a purchase obligation in the real estate trust for our new Argentina office space, minimum purchase commitments for advertising, capital expenditures (technological equipment and software licenses) and other goods and services that were entered into in the ordinary course of business. We have developed estimates to project payment obligations based upon historical trends, when available, and our anticipated future obligations. Given the significance of performance requirements within our advertising and other arrangements, actual Payments could differ significantly from these estimates.

**Item 3 Qualitative and Quantitative Disclosure About Market Risk**

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

***Foreign currencies***

At September 30, 2010, we hold cash and cash equivalents in local currencies in our subsidiaries, and have receivables denominated in local currencies in all of our operations. Our subsidiaries generate revenues and incur most of their expenses in local currency. As a result, our subsidiaries use their local currency as their functional currency, except for our Venezuelan subsidiaries which functional currency is the US dollar due to a highly inflationary accounting. At September 30, 2010, the total cash and cash equivalents denominated in foreign currencies totaled \$24.2 million, short-term investments denominated in foreign currencies totaled \$2.8 million, long-term investments denominated in foreign currencies totaled \$36.4 million and accounts receivable and funds receivable from customers in foreign currencies totaled \$15.7 million. To manage exchange rate risk, our treasury policy is to transfer most cash and cash equivalents in excess of working capital requirements into dollar-denominated accounts in the United States. At September 30, 2010, our dollar-denominated cash and cash equivalents and short-term investments totaled \$24.1 million and our dollar-denominated long-term investments totaled \$29.4 million. For the nine-month period ended September 30, 2010, we incurred foreign currency gains in the amount of \$0.01 million as the cash and investment balances of the subsidiaries held in US dollars appreciated in local current terms. (See Management Discussion and Analysis of Financial Condition and Results of Operations Results of operations for the three-month period ended September 30, 2010 compared to three-month period ended September 30, 2009 and nine-month period ended September 30, 2010 compared to nine-month period ended September 30, 2009 Other income (expenses) for more detail).

In accordance with US GAAP, we have transitioned our Venezuelan operations to highly inflationary status as of January 1, 2010 and have been using the US dollar as the functional currency for these operations since then. In accordance with US GAAP, translation adjustments for prior periods were not removed from equity and the translated amounts for nonmonetary assets at December 31, 2009 become the accounting basis for those assets. Monetary assets and liabilities in Bolivares Fuertes were re-measured to the US dollar at the closing parallel exchange rate and the results of the operations in Bolivares Fuertes were re-measured to the US Dollars at the average monthly parallel exchange rate up to May 13, 2010.

However, on May 14th, 2010, the Venezuelan government enacted reforms to its exchange regulations and close down the parallel market by declaring that foreign-currency-denominated securities issued by Venezuelan entities were included in the definition of foreign currency, thus making the Venezuelan Central Bank (BCV) the only institution that could legally authorize the purchase or sale of foreign currency bonds, thereby excluding non-authorized brokers from the foreign exchange market.

Trading of foreign currencies was re-opened as a regulated market on June 9, 2010 with the Venezuelan Central Bank as the only institution through which foreign currency-denominated transactions can be brokered. Under the new system, known as the Foreign Currency Securities Transactions System (SITME), entities domiciled in Venezuela can buy US dollar denominated securities only through banks authorized by the BCV to import goods, services or capital inputs. Additionally, the SITME imposes volume restrictions on an entity's trading activity, limiting such activity to a maximum equivalent of \$50,000 per day, not to exceed \$350,000 in a calendar month. This limitation is non-cumulative, meaning that an entity cannot carry over unused volume from one month to the next.

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As a consequence of this new system, commencing on June 9, 2010, we have transitioned from the parallel exchange rate to the SITME rate and started re-measuring foreign currency transactions using the SITME rate published by BCV, which was 5.27 Bolivares Fuertes per US dollar as of June 9, 2010.

For the period beginning on May 14, 2010 and ending on June 8, 2010 (during which there was no open foreign currency markets) we applied US GAAP guidelines which state that if exchangeability between two currencies is temporarily lacking at the transaction date or balance sheet date, the first subsequent rate at which exchanges could be made shall be used.

Accordingly, the June 9, 2010 exchange rate published by the Venezuelan Central Bank has been used to re-measure transactions during the abovementioned period.

If the US dollar weakens against foreign currencies, the translation of these foreign-currency-denominated transactions will result in increased net revenues, operating expenses, and net income while the re-measurement of our net asset position in US dollars will have a negative impact in our Statement of Income. Similarly, our net revenues, operating expenses and net income will decrease if the US dollar strengthens against foreign currencies, while the re-measurement of our net asset position in US dollars will have a positive impact in our Statement of Income. During the nine-month period ended September 30, 2010, 57.1% of our revenues were denominated in Brazilian reais, 18.5% in Argentine pesos, 9.0% in Mexican pesos, 8.9% in Venezuelan Bolivares Fuertes and 6.5% in the currency of other countries.

The following table summarizes the distribution of net revenues by segment:

|                           | <b>Nine Months<br/>Ended<br/>September 30,</b> |                 | <b>Change from<br/>2009<br/>to 2010 (*)<br/>in</b> |              | <b>Three Months<br/>Ended<br/>September 30,</b> |                | <b>Change from<br/>2009<br/>to 2010 (*)<br/>in</b> |              |
|---------------------------|------------------------------------------------|-----------------|----------------------------------------------------|--------------|-------------------------------------------------|----------------|----------------------------------------------------|--------------|
|                           | <b>2010</b>                                    | <b>2009</b>     | <b>Dollars</b>                                     | <b>in %</b>  | <b>2010</b>                                     | <b>2009</b>    | <b>Dollars</b>                                     | <b>in %</b>  |
|                           | <b>(in millions, except percentages)</b>       |                 |                                                    |              |                                                 |                |                                                    |              |
| <b>Net Revenues:</b>      |                                                |                 |                                                    |              |                                                 |                |                                                    |              |
| Brazil                    | \$ 88.2                                        | \$ 63.6         | \$ 24.6                                            | 38.6%        | \$ 31.1                                         | \$ 27.2        | \$ 3.9                                             | 14.2%        |
| Argentina                 | 28.6                                           | 19.0            | 9.6                                                | 50.4%        | 10.8                                            | 7.5            | 3.3                                                | 43.8%        |
| Mexico                    | 13.9                                           | 11.0            | 2.9                                                | 26.0%        | 4.7                                             | 4.1            | 0.6                                                | 14.6%        |
| Venezuela                 | 13.7                                           | 23.0            | (9.3)                                              | -40.5%       | 5.8                                             | 8.9            | (3.1)                                              | -34.8%       |
| Other Countries           | 10.0                                           | 7.2             | 2.8                                                | 40.9%        | 3.6                                             | 2.9            | 0.7                                                | 22.6%        |
| <b>Total Net Revenues</b> | <b>\$ 154.4</b>                                | <b>\$ 123.8</b> | <b>\$ 30.6</b>                                     | <b>24.7%</b> | <b>\$ 56.0</b>                                  | <b>\$ 50.7</b> | <b>\$ 5.3</b>                                      | <b>10.6%</b> |

(\*) Percentages have been calculated using whole-dollar amounts rather than rounded amounts that appear in the table.

The table below shows the impact on our Net Revenues, Expenses, Other income and Income tax, Net Income and Shareholders' Equity for a positive or negative 10% fluctuation on all the foreign currencies to which we are exposed as of September 30, 2010 and for the nine-month period ended September 30, 2010:

#### Foreign Currency Sensitivity Analysis

| (In millions)                                                                | -10%<br>(1) | Actual  | +10%<br>(2) |
|------------------------------------------------------------------------------|-------------|---------|-------------|
| Net revenues                                                                 | 171.5       | 154.4   | 140.4       |
| Expenses                                                                     | (111.7)     | (100.8) | (91.6)      |
| Income from operations                                                       | 59.6        | 53.6    | 48.7        |
| Other income (expenses) and income tax related to P&L items                  | (15.0)      | (13.6)  | (12.3)      |
| Foreign Currency impact related to the remeasument of our Net Asset position | (3.6)       | 0.0     | 3.0         |
| Net income                                                                   | 41.0        | 40.1    | 39.3        |
| Total Shareholders' Equity                                                   | 160.5       | 156.2   | 152.6       |

(1) Appreciation of the subsidiaries local currency against US Dollar

(2) Depreciation of the subsidiaries local currency against US Dollar

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The table above shows an increase in our net income when the US dollar weakens against foreign currencies because the re-measurement of our net asset position in US Dollars has a lesser impact than the increase in net revenues, operating expenses, and other income (expenses) and income tax lines related to the translation effect. Similarly, the table above shows a decrease in our net income when the US dollar strengthens against foreign currencies because the re-measurement of our net asset position in US Dollars has a lesser impact than the decrease in net revenues, operating expenses, and other income (expenses) and income tax lines related to the translation effect.

In the past we have entered into transactions to hedge portions of our foreign currency translation exposure but during 2010 we have not entered into any such agreement.

### ***Interest***

Our earnings and cash flows are also affected by changes in interest rates. These changes can have an impact on our interest expenses derived from selling our MercadoPago receivables. At September 30, 2010, MercadoPago funds receivable from customers totaled approximately \$4.7 million. Interest fluctuations could also negatively affect certain of our fixed rate and floating rate investments comprised primarily of time deposits, money market funds, investment grade corporate debt securities, and sovereign debt securities. Investments in both fixed rate and floating rate interest earning products carry a degree of interest rate risk. Fixed rate securities may have their fair market value adversely impacted due to a rise in interest rates, while floating rate securities may produce less income than predicted if interest rates fall.

Under our current policies, we do not use interest rate derivative instruments to manage exposure to interest rate changes. Due to all our long-term investments do not exceed a two year period, a 100 basis point movement in market interest rates would not have a material impact on the total fair market value of our portfolio as of September 30, 2010 or the cost derived from discounting our MercadoPago receivables.

Our short-term and long-term investments, which are classified on our balance sheet as current assets in the amount of \$6.6 million and as non-current assets in the amount of \$65.9 million, respectively, can be readily converted at any time into cash or into securities with a shorter remaining time to maturity. We determine the appropriate classification of our investments at the time of purchase and re-evaluate such designations as of each balance sheet date. Time deposits are considered held-to-maturity securities. The book value of held-to-maturity securities approximates their respective fair values and consequently there are no significant unrecognized gains or losses.

### ***Equity Price Risk***

Our Board of Directors adopted the 2009 long-term retention plan (the "2009 LTRP") payable as follows:

the eligible employee will receive a fixed cash payment equal to 6.25% of his or her 2009 LTRP bonus once a year for a period of eight years starting in 2010 (the "2009 Annual Fixed Payment"); and

on each date we pay the Annual Fixed Payment to an eligible employee, he or she will also receive a cash payment (the "2009 Variable Payment") equal to the product of (i) 6.25% of the applicable 2009 LTRP bonus and (ii) the quotient of (a) divided by (b), where (a), the numerator, equals the Applicable Year Stock Price (as defined below) and (b), the denominator, equals the 2008 Stock Price, defined as \$13.81, which was the average closing price of the Company's common stock on the NASDAQ Global Market during the final 60 trading days of 2008. The Applicable Year Stock Price shall equal the average closing price of the Company's common stock on the NASDAQ Global Market during the final 60 trading days of the year preceding the applicable payment date.

In addition, on June 25, 2010, our board of directors adopted the 2010 Long Term Retention Plan (the "2010 LTRP"), payable as follows:

the eligible employee will receive a fixed cash payment equal to 6.25% of his or her 2010 LTRP bonus once a year for a period of eight years starting in 2011 (the "2010 Annual Fixed Payment"); and

on each date the Company pays the Annual Fixed Payment to an eligible employee, he or she will also receive a cash payment (the "2010 Variable Payment") equal to the product of (i) 6.25% of the applicable 2010 LTRP bonus and (ii) the quotient of (a) divided by (b), where (a), the numerator, equals the Applicable Year Stock Price and (b), the denominator, equals the 2009 Stock Price, defined as \$45.75, which was the average

closing price of the Company's common stock on the NASDAQ Global Market during the final 60 trading days of 2009. The Applicable Year Stock Price shall equal the average closing price of the Company's common stock on the NASDAQ Global Market during the final 60 trading days of the year preceding the applicable payment date.

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The 2009 and 2010 Variable Payment LTRP liability subjects us to equity price risk. At September 30, 2010, the total contractual obligation fair value of our 2009 and 2010 Variable Payment LTRP liability amounts to \$9,561,434. As of September 30, 2010, the accrued liability related to the 2009 and 2010 Variable Payment portion of the LTRP included in Social security payable in our condensed consolidated balance sheet amounts to \$3,050,232. The following table shows a sensitivity analysis of the risk associated with our total contractual obligation related to the 2009 and 2010 variable payment if our stock price were to increase or decrease by up to 40%.

| (In US dollars)                      | As of September 30, 2010                |                                             |
|--------------------------------------|-----------------------------------------|---------------------------------------------|
|                                      | MercadoLibre,<br>Inc<br>Equity<br>Price | 2009 and 2010<br>variable<br>LTRP liability |
| Change in equity price in percentage |                                         |                                             |
| 40%                                  | 93.36                                   | 13,386,007                                  |
| 30%                                  | 86.69                                   | 12,429,864                                  |
| 20%                                  | 80.02                                   | 11,473,721                                  |
| 10%                                  | 73.35                                   | 10,517,577                                  |
| Static (*)                           | 66.69                                   | 9,561,434                                   |
| -10%                                 | 60.02                                   | 8,605,291                                   |
| -20%                                 | 53.35                                   | 7,649,147                                   |
| -30%                                 | 46.68                                   | 6,693,004                                   |
| -40%                                 | 40.01                                   | 5,736,860                                   |

(\*) Average closing stock price for the last 60 trading days of the closing date

**Item 4 Controls and Procedures**

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports pursuant to the Securities Exchange Act of 1934, as amended (the Exchange Act) is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

**Evaluation of disclosure controls and procedures**

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

**Changes in Internal Controls Over Financial Reporting**

There were no changes in our internal control over financial reporting (as such term is defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act) during the three- and nine-month period ended September 30, 2010 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II. OTHER INFORMATION****Item 1 Legal Proceedings**

From time to time, we are involved in disputes that arise in the ordinary course of our business. The number and significance of these disputes is increasing as our business expands and our company grows. Any claims against us, whether meritorious or not, may be time consuming, result in costly litigation, require significant amounts of management time, result in the diversion of significant operational resources and require expensive implementations

of changes to our business methods to respond to these claims. See Item 1A Risk Factors of our Annual Report on Form 10-K for the fiscal year ended December 31, 2009 as filed with the Securities and Exchange Commission on February 26, 2009, for additional discussion of the litigation and regulatory risks facing our company.

As of September 30, 2010, our total reserves for proceeding-related contingencies were \$1,253,486 to cover legal actions against us in which we have determined that a loss is probable. The proceeding-related reserve is based on developments to date and historical information related to actions filed against the Company. We do not reserve for losses we determine to be possible or remote.



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As of September 30, 2010, there were 341 lawsuits pending against our Brazilian subsidiary in the Brazilian ordinary courts. In addition, as of September 30, 2010, there were more than 1,550 lawsuits pending against our Brazilian subsidiary in the Brazilian consumer courts, where no lawyer is required to file or pursue a claim. In most of these cases, the plaintiffs asserted that we were responsible for fraud committed against them, or responsible for damages suffered when purchasing an item on our website, when using MercadoPago, or when we invoiced them. We believe we have meritorious defenses to these claims and intend to continue defending them.

We do not believe that any single pending lawsuit or administrative proceeding, if adversely decided, would have a material adverse effect on our financial condition results of operations and cash flows.

We have described below material developments that occurred during the quarter ended September 30, 2010 to pending legal proceedings which we have determined may be material to our business, all of which have been previously disclosed in our Annual Report. In each of these proceedings we believe we have meritorious defenses and intend to continue defending these actions.

### **Litigation**

On July 25, 2008, Nike International Ltd. or Nike, requested a preliminary injunction against our Argentine subsidiary in the First Civil and Commercial Federal Court, Argentina, alleging that this subsidiary was infringing on Nike trademarks as a result of sellers listing allegedly counterfeit Nike branded products through the Argentine page of our website. A preliminary injunction was granted on August 11, 2008 to suspend the offer of Nike-branded products until sellers could be properly identified. We appealed the decision and on March 23, 2009, the Federal Court of Appeals on Civil and Commercial Matters lifted the prohibition subject to our agreement to request certain personal information from users listing Nike-branded products on our website (the Modified Injunction ). On May 22, 2009, Nike instituted a lawsuit against our Argentine subsidiary in the same venue with the same allegations made in connection with its request for the preliminary injunction. We responded to the lawsuit on April 21, 2010. On May 11, 2010, the Federal Court of Appeals on Civil and Commercial Matters confirmed the scope of the Modified Injunction despite challenge by Nike, taking into account that we had duly complied with the injunction. Since July 1, 2010, the parties began to produce evidence for the lawsuit. As of the date of this report, we believe the risk of loss of this case is remote.

On August 25, 2010, Citizen Watch do Brasil S/A, or Citizen, sued MercadoLivre.com Atividades de Internet Ltda., our Brazilian subsidiary, in the 31th Central Civil Court State of São Paulo, Brazil. Citizen alleged that our Brazilian subsidiary was infringing Qix's trademarks as a result of users selling allegedly counterfeit Citizen watches through the Brazilian page of our website. Citizen sought an order enjoining the sale of Citizen-branded watches on the MercadoLibre marketplace with a \$6,000 daily non-compliance penalty. On September 23, 2010 we were summoned of an injunction granted to prohibit the offer of Citizen products on our platform, but the penalty was established at \$6,000. On September 26, we presented our defense and appealed the decision of the injunction on September 27. On October 22, 2010 the injunction granted to Citizen was suspended.

Other third parties have from time to time claimed, and others may claim in the future, that we have infringed their intellectual property rights. We have been notified of several potential third-party claims for intellectual property infringement through our website. These claims, whether meritorious or not, are time consuming, can be costly to resolve, could cause service upgrade delays, and could require expensive implementations of changes to our business methods to respond to these claims. See Item 1A Risk factors Risks related to our business We could potentially face legal and financial liability for the sale of items that infringe on the intellectual property rights of others and for information disseminated on the MercadoLibre marketplace in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009.

### **Item 1A Risk Factors**

During this quarter there have been no material changes in our risk factors from those disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009 as supplemented by our Quarterly Report on Form 10-Q for the quarter ended June 30, 2010.



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**Item 6 Exhibits**

|         |                                                                                                                                                                  |
|---------|------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 31.1    | Certification of Chief Executive Officer pursuant to Securities Exchange Act Rule 13a-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.* |
| 31.2    | Certification of Chief Financial Officer pursuant to Securities Exchange Act Rule 13a-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.* |
| 32.1    | Certification of Chief Executive Officer pursuant to 18 USC. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.**               |
| 32.2    | Certification of Chief Financial Officer pursuant to 18 USC. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.**               |
| 101.INS | XBRL Instance Document***                                                                                                                                        |
| 101.SCH | XBRL Taxonomy Extension Schema Document***                                                                                                                       |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document***                                                                                                         |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document***                                                                                                               |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document***                                                                                                        |

\* Filed herewith

\*\* Furnished  
herewith

\*\*\* XBRL  
information is  
furnished and  
not filed or a  
part of a  
registration  
statement or  
prospectus for  
purposes of  
sections 11 or  
12 of the  
Securities and  
Exchange Act  
of 1933, is  
deemed not  
filed for  
purposes of  
section 18 of the  
Securities and  
Exchange Act

of 1934, and  
otherwise is not  
subject to  
liability under  
these sections.

**Signatures**

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

**MERCADOLIBRE, INC.**  
**Registrant**

Date: November 5, 2010

By: /s/ Marcos Galperín  
Marcos Galperín  
President and Chief Executive Officer

By: /s/ Hernán Kazah  
Hernán Kazah  
Executive Vice President and  
Chief Financial Officer

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\*\* Furnished  
herewith