

MERCADOLIBRE INC  
Form 10-Q  
August 07, 2009

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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 June 30, 2009

-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 <input type="checkbox"/>	Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>
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(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.

44,093,804 shares of the issuer's common stock, \$0.001 par value, outstanding as of August 1, 2009.

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**Table of Contents****PART I. FINANCIAL INFORMATION****Item 1 Unaudited Condensed Consolidated  
Financial Statements****MercadoLibre, Inc.****Condensed Consolidated Balance Sheets****As of June 30, 2009 and December 31, 2008**

	<b>June 30, 2009 (Unaudited)</b>	<b>December 31, 2008 (Audited)</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 19,374,901	\$ 17,474,112
Short-term investments	28,647,386	31,639,400
Accounts receivable, net	4,508,072	3,856,392
Funds receivable from customers	1,922,470	2,322,416
Prepaid expenses	526,628	426,869
Deferred tax assets	6,970,127	1,628,871
Other assets	2,448,059	2,953,164
Total current assets	64,397,643	60,301,224
Non-current assets:		
Long-term investments	22,402,035	9,218,153
Property and equipment, net	6,402,482	5,940,160
Goodwill and intangible assets, net	74,488,034	72,911,546
Deferred tax assets	2,556,092	14,270
Other assets	12,973,426	8,353,396
Total non-current assets	118,822,069	96,437,525
Total assets	\$ 183,219,712	\$ 156,738,749
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 15,275,161	\$ 16,941,173
Funds payable to customers	22,475,574	14,727,891
Social security payable	5,544,684	4,387,943
Taxes payable	10,661,070	4,989,704
Loans payable and other financial liabilities	15,465,001	14,963,421
Provisions	470,137	299,753
Total current liabilities	69,891,627	56,309,885
Non-current liabilities:		
Social security payable	642,161	339,854
Loans payable		3,050,061
Deferred tax liabilities	4,922,046	2,556,120
Other liabilities	1,335,901	1,058,848

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Total non-current liabilities	6,900,108	7,004,883
Total liabilities	\$ 76,791,735	\$ 63,314,768

Commitments and contingencies (Note 9)

Shareholders' equity:

Common stock, \$0.001 par value, 110,000,000 shares authorized, 44,089,117 and 44,070,367 shares issued and outstanding at June 30, 2009 and

December 31, 2008, respectively	44,089	44,071
Additional paid-in capital	120,104,599	119,807,007
Accumulated deficit	(3,481,301)	(15,552,256)
Accumulated other comprehensive loss	(10,239,410)	(10,874,841)

Total shareholders' equity	106,427,977	93,423,981
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Total liabilities and shareholders' equity	\$ 183,219,712	\$ 156,738,749
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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 six-month periods ended June 30, 2009 and 2008**

	<b>Six Months Ended June 30,</b>		<b>Three Months Ended June 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>(Unaudited)</b>		<b>(Unaudited)</b>	
Net revenues	\$ 73,224,300	\$ 63,312,238	\$ 40,901,799	\$ 34,471,508
Cost of net revenues	(15,229,463)	(12,921,182)	(8,595,477)	(6,901,503)
Gross profit	57,994,837	50,391,056	32,306,322	27,570,005
Operating expenses:				
Product and technology development	(5,720,625)	(3,473,893)	(3,087,206)	(1,730,780)
Sales and marketing	(20,293,461)	(19,480,049)	(10,077,284)	(10,265,389)
General and administrative	(12,800,984)	(10,827,171)	(6,729,609)	(5,879,569)
Compensation Cost related to acquisitions (Note 4)		(1,919,870)		(1,546,397)
Total operating expenses	(38,815,070)	(35,700,983)	(19,894,099)	(19,422,135)
Income from operations	19,179,767	14,690,073	12,412,223	8,147,870
Other income (expenses):				
Interest income and other financial gains	1,531,837	1,019,929	602,174	270,576
Interest expense and other financial charges	(5,844,773)	(2,321,147)	(3,334,589)	(958,348)
Foreign currency gain / (loss)	529,213	(3,041,354)	(1,346,273)	(2,052,638)
Other income, net		2,285		2,285
Net income before income / asset tax expense	15,396,044	10,349,786	8,333,535	5,409,745
Income / asset tax expense	(3,325,089)	(5,335,014)	(1,653,756)	(2,462,650)
Net income	\$ 12,070,955	\$ 5,014,772	\$ 6,679,779	\$ 2,947,095
	<b>Six Months Ended June 30,</b>		<b>Three Months Ended June 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
<b>Basic EPS</b>				
Basic net income per common share	\$ 0.27	\$ 0.11	\$ 0.15	\$ 0.07
Weighted average shares	44,074,462	44,238,146	44,078,235	44,238,166
<b>Diluted EPS</b>				
Diluted net income per common share	\$ 0.27	\$ 0.11	\$ 0.15	\$ 0.07

Weighted average shares	44,127,208	44,367,846	44,132,204	44,369,317
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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 six-month periods ended June 30, 2009 and 2008 (unaudited)**

	Comprehensive	Common stock		Additional	Treasury	Accumulated	Accumulated other	
	income	Shares	Amount	paid-in	Stock	deficit	comprehensive income	Total
				capital			(loss)	
<b>Balance as of December 31, 2007</b>		44,226,563	44,227	\$ 121,890,138	\$	\$ (34,363,917)	\$ 4,102,691	\$ 91,673,139
Stock options exercised		65,710	65	62,789				62,854
Stock-based compensation stock options				2,447				2,447
Stock-based compensation restricted shares				46,329				46,329
Net income	\$ 5,014,772					5,014,772		5,014,772
Currency translation adjustment	4,231,526						4,231,526	4,231,526
Unrealized net gains on investments								
Realized net gain on investments	(57,890)						(57,890)	(57,890)
Comprehensive income	\$ 9,188,408							
<b>Balance as of June 30, 2008</b>		44,292,273	44,292	122,001,703		(29,349,145)	8,276,327	100,973,177
Stock options exercised and restricted shares issued		27,794	29	20,206				20,235
Stock-based compensation stock options				2,272				2,272
				59,231				59,231

Stock-based compensation restricted shares							
Stock -based compensation LTRP			321,568				321,568
Repurchase of Treasury Stock				(2,598,223)			(2,598,223)
Retirement of Treasury Stock	(249,700)	(250)	(2,597,973)	2,598,223			
Net income	\$ 13,796,889					13,796,889	13,796,889
Currency translation adjustment	(19,154,810)					(19,154,810)	(19,154,810)
Unrealized net gains on investments	3,642					3,642	3,642
Realized net gain on investments							
Comprehensive income	\$ 3,834,129						
<b>Balance as of December 31, 2008</b>		\$ 44,070,367	\$ 44,071	\$ 119,807,007	\$	\$ (15,552,256)	\$ (10,874,841)
						\$	\$ 93,423,981

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

Table of Contents**MercadoLibre, Inc.****Condensed Consolidated Statements Changes in Shareholders' Equity****For the six-month periods ended June 30, 2009 and 2008 (unaudited)**

	Comprehensive	Common stock	Additional	Treasury	Accumulated	Accumulated other	
	income	Shares	Amount	paid-in	Stock	comprehensive	Total
			capital	deficit		income	
						(loss)	
<b>Balance as of December 31, 2008</b>		44,070,367	\$ 44,071	\$ 119,807,007	\$ (15,552,256)	\$ (10,874,841)	\$ 93,423,981
Stock options exercised		4,495	4	4,000			4,004
Stock-based compensation stock options				871			871
Stock-based compensation restricted shares				31,033			31,033
Stock -based compensation LTRP				90,603			90,603
Restricted shares issued		10,655	11	171,088			171,099
LTRP shares issued		3,600	3	(3)			
Net income	\$ 12,070,955				12,070,955		12,070,955
Currency translation adjustment	627,929					627,929	627,929
Unrealized net gains on investments	11,145					11,145	11,145
Realized net gain on investments	(3,643)					(3,643)	(3,643)
Comprehensive income	\$ 12,706,386						
<b>Balance as of June 30, 2009</b>		44,089,117	\$ 44,089	\$ 120,104,599	\$ (3,481,301)	\$ (10,239,410)	\$ 106,427,977

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 six-month periods ended June 30, 2009 and 2008**

	<b>Six Months Ended June 30,</b>	
	<b>2009</b>	<b>2008</b>
	<b>(Unaudited)</b>	
Cash flows from operations:		
Net income	\$ 12,070,955	\$ 5,014,772
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,945,382	1,520,702
Interest expense	345,224	
Unrealized gains on investments	(486,059)	(870,406)
Stock-based compensation expense    stock options	871	2,447
Stock-based compensation expense    restricted shares	121,646	46,329
LTRP accrued compensation	1,352,977	
Deferred income taxes	369,375	193,619
Changes in assets and liabilities, excluding the effect of acquisitions:		
Accounts receivable	(1,275,237)	324,660
Funds receivable from customers	627,999	(3,463,772)
Prepaid expenses	(102,699)	(546,196)
Other assets	(3,740,274)	295,528
Accounts payable and accrued expenses	(2,880,613)	3,241,464
Funds payable to customers	4,905,107	1,175,341
Provisions	194,718	(390,673)
Deferred tax liabilities	(175,236)	
Other liabilities	(592,641)	23,779
Net cash provided by operating activities	12,681,495	6,567,594
Cash flows from investing activities:		
Purchase of investments	(37,897,661)	(39,085,208)
Proceeds from sale and maturity of investments	32,231,451	60,732,449
Payment for businesses acquired, net of cash acquired		(16,824,065)
Purchase of intangible assets	(953,164)	(59,098)
Purchases of property and equipment	(2,182,358)	(2,675,365)
Net cash (used in) provided by investing activities	(8,801,732)	2,088,713
Cash flows from financing activities:		
Decrease in short term debt	(3,193,705)	(7,630,307)
Loans received		5,958
Stock options exercised	4,004	62,854
Net cash used in financing activities	(3,189,701)	(7,561,495)
Effect of exchange rate changes on cash and cash equivalents	1,210,727	902,037

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Net increase in cash and cash equivalents	1,900,789	1,996,849
Cash and cash equivalents, beginning of the period	17,474,112	15,677,407
Cash and cash equivalents, end of the period	\$ 19,374,901	\$ 17,674,256

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

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**MercadoLibre, Inc.**  
**Condensed Consolidated Statements of Cash Flows**  
**For the six-month periods ended June 30, 2009 and 2008**

	<b>Six Months Ended June 30,</b>	
	<b>2009</b>	<b>2008</b>
	<b>(Unaudited)</b>	
<b>Supplemental cash flow information:</b>		
Cash paid for interest	\$ 5,005,815	\$ 1,736,062
Cash paid for income taxes	\$ 3,453,738	\$ 4,145,532
<b>Acquisition of Classified Media Group:</b>		
Cash and cash equivalents	\$	\$ 554,739
Accounts receivable		56,613
Other current assets		904,791
Non current assets		365,190
Total assets acquired		1,881,333
Accounts payable and accrued expenses		69,516
Taxes payable		459,462
Social security payable		243,141
Non current liabilities		14,000
Provisions		408,336
Total liabilities assumed		1,194,455
Net assets acquired		686,878
Goodwill		13,037,504
Trademarks		5,622,188
Deferred Income Tax on Trademarks		(1,967,766)
Total purchase price		17,378,804
Cash and cash equivalents acquired		(554,739)
Payment for businesses acquired, net of cash acquired	\$	\$ 16,824,065

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 ecommerce enabler whose mission is to build the necessary online and technology tools to enable practically anyone to trade almost anything in Latin America, helping to make inefficient markets more efficient.

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

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 of 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 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.tuinnmueble.com](http://www.tuinnmueble.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 was \$19 million, subject to certain escrows and working capital adjustment clauses.

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**MercadoLibre, Inc.**

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

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

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. We 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.

As of June 30, 2009, 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, 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 condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany transactions and balances have been eliminated. Certain reclassifications have been made to prior year information to conform to current year presentation.

Substantially all revenues and operating costs are generated in the Company's foreign operations, amounting to approximately 99.1% and 97.5% of the consolidated totals during the six-month periods ended June 30, 2009 and 2008, respectively. Long-lived assets located in the foreign operations totaled \$77,395,295 and \$75,935,438 as of June 30, 2009 and December 31, 2008, respectively. Cash and cash equivalents as well as short-term investments, totaling \$48,022,287 and \$49,113,512 at June 30, 2009 and December 31, 2008, respectively, are mainly located in the United States of America.

These unaudited interim financial statements reflect the Company's consolidated financial position as of June 30, 2009 and December 31, 2008. These statements also show the Company's consolidated statement of income for the three- and six-months ended June 30, 2009 and 2008, its consolidated statement of shareholders' equity and its consolidated statement of cash flows for the six months ended June 30, 2009 and 2008. 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, 2008, contained in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission (SEC) on February 27, 2009. 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.

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**MercadoLibre, Inc.**

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

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

**Basis of presentation (Continued)**

Management has evaluated subsequent events through August 7, 2009 which is the date the financial statements were issued. Management has not evaluated subsequent events after August 7, 2009 and their impact, if any, on these condensed consolidated financial statements.

**Foreign Currency Translation**

All of the Company's foreign operations have determined the local currency to be their functional currency. Accordingly, these foreign subsidiaries translate assets and liabilities from their local currencies to U.S. dollars using period/year end exchange rates while income and expense accounts are translated at the average rates in effect during the period/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 transaction losses are included in the consolidated statements of income under the caption Foreign currency gain / (loss) .

The Venezuelan subsidiaries maintained a foreign currency denominated asset in the form of US dollar denominated cash and cash equivalents. In accordance with the Company's stated accounting policy, this investment should first be re-measured into its functional currency Bolivares Fuertes . Upon re-measurement into its functional currency, the investment will then be translated into the reporting currency of the Company (US Dollar). In accordance with paragraph 27a of FAS 52 Foreign Currency Translation , these assets were re-measured at the June 30, 2009 parallel exchange rate of 6.40 Bolivares Fuertes per US dollar (at December 31, 2008 was 5.4 Bolivares Fuertes per US dollar). Further, in accordance with paragraph 27b of FAS 52, the Venezuelan subsidiaries assets, liabilities, income and expense accounts were translated at the rate applicable for dividend remittances, which at June 30, 2009 and December 31, 2008 was the official rate of 2.15 Bolivares Fuertes per US dollar. According to the International Practices Task Force Joint Meeting with SEC Staff of June 2, 2008, the existence of a parallel market does not constitute unusual circumstances potentially justifying the use of an exchange rate other than the official rate for purposes of foreign currency translation. Accordingly, the foreign currency effect on assets for \$12,276,952 is included in Other non-current assets in the consolidated balance sheet, and is the result of applying the Company's accounting policy for the related asset.

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**MercadoLibre, Inc.**

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

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

**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 \$2,514,040 and \$2,148,755 for the three-month periods ended June 30, 2009 and 2008, respectively. Taxes on revenues totaled \$4,241,442 and \$3,841,083 for the six-month periods ended June 30, 2009 and 2008, respectively.

**Income and Asset Taxes**

The Company is subject to an enacted Mexican business flat tax called Impuesto Empresarial a Tasa Unica (IETU). The Company pays the higher of IETU or income tax. Although the Company's Mexican subsidiary has net operating loss carryforward (NOLs), it has to pay IETU and once NOLs are consumed, the Company expects it will only accrue and pay income tax. The effect of IETU has been included in the income / asset tax expense line for the three-and six-month periods ended June 30, 2009 and 2008.

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, for 10 years. Aggregate tax benefit totaled \$686,585 and \$502,118 for the three-month periods ended June 30, 2009 and 2008, respectively. Aggregate tax benefit totaled \$1,389,791 and \$801,887 for the six-month periods ended June 30, 2009 and 2008, respectively. Aggregate per share effect of the Argentine tax holiday amounts to \$0.02 and \$0.01 for the three-month periods ended June 30, 2009 and 2008, respectively. Aggregate per share effect of the Argentine tax holiday amounts to \$0.03 and \$0.02 for the six-month periods ended June 30, 2009 and 2008, 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.

**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.

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**MercadoLibre, Inc.**

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

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

**Fair Value Measurements**

Effective January 1, 2008, the Company adopted Statement of Financial Accounting Standards ( FAS ) No. 157, Fair Value Measurements ( FAS 157 ). In February 2008, the Financial Accounting Standards Board ( FASB ) issued FASB Staff Position ( FSP ) No. FAS 157-2, Effective Date of FASB Statement No. 157, which provided a one year deferral of the effective date of FAS 157 for non-financial assets and non-financial liabilities, except those that are recognized or disclosed in the financial statements at fair value at least annually. Therefore, the Company has adopted the provisions of FAS 157 with respect to its financial assets and liabilities as from January 1, 2008. The adoption of FAS 157 did not have a material impact on the consolidated results of operations or financial condition. See Note 6 Fair Value Measurement of Assets and Liabilities for further details.

**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 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 June 30, 2009 and 2008 amounted to \$10,701,396 and \$6,252,534, respectively and for the six month periods ended June 30, 2009 and 2008 amounted to \$12,706,386 and \$9,188,408 respectively.

**Recent Accounting Pronouncements**

1. The hierarchy of generally accepted accounting principles

In May 2008, FAS No. 162 The hierarchy of generally accepted accounting principles was issued by the FASB. FAS No. 162, which became effective on November 13, 2008, identifies the sources of accounting principles and the framework for selecting the principles used in preparing the financial statements of nongovernmental entities that are presented in conformity with U.S. GAAP. On March 27, 2009, the FASB issued an Exposure Draft, The Hierarchy of Generally Accepted Accounting Principles, a replacement of FASB Statement No. 162, with a comment period ending May 8, 2009. After completion of the comment period, the Board will consider comment letters received and begin re-deliberations. The FASB also decided that the Codification will be effective for interim and annual periods ending on or after September 15, 2009. Once the Codification is approved, all of its content will carry the same level of authority, effectively superseding FAS No. 162. After that date, only one level of authoritative GAAP will exist. All other literature will be considered non-authoritative. The Codification does not change US GAAP; instead, it introduces a new structure-one that is organized in an easily accessible, user-friendly online research system.

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**MercadoLibre, Inc.**

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

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

**2. Accounting for Transfers of Financial Assets**

In July 2009, the FASB issued FASB Statement No. 166, Accounting for Transfers of Financial Assets – an amendment of FASB Statement No. 140 (FAS 166), amending the guidance on transfers of financial assets in order to address practice issues highlighted most recently by events related to the economic downturn. The amendments include: (1) eliminating the qualifying special-purpose entity concept, (2) a new unit of account definition that must be met for transfers of portions of financial assets to be eligible for sale accounting, (3) clarifications and changes to the derecognition criteria for a transfer to be accounted for as a sale, (4) a change to the amount of recognized gain or loss on a transfer of financial assets accounted for as a sale when beneficial interests are received by the transferor, and (5) extensive new disclosures. FAS 166 is effective to new transfers of financial assets occurring from January 1, 2010. The Company will evaluate how its consolidated financial statements and future transfers of financial assets will be affected.

**3. Net income per share**

Basic earnings per share for the Company's common stock is computed by dividing net income 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 three- and six-month period ended June 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.

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.

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

The following table shows how net income available to common shareholders is allocated using the two-class method, for the three-month periods ended June 30, 2009 and 2008:

	<b>Three months ended June 30,</b>			
	<b>2009</b>		<b>2008</b>	
	Basic	Diluted	Basic	Diluted
Net income	\$ 6,679,779	\$ 6,679,779	\$ 2,947,095	\$ 2,947,095
Net income available to common shareholders attributable to unvested restricted shares	\$ 973	\$ 973	\$	\$
Net income available to common shareholders attributable to common stock	\$ 6,678,806	\$ 6,678,806	\$ 2,947,095	\$ 2,947,095

The following table shows how net income is allocated using the two-class method for earnings per common share, for the six-month periods ended June 30, 2009 and 2008:

	<b>Six months ended June 30,</b>			
	<b>2009</b>		<b>2008</b>	
	Basic	Diluted	Basic	Diluted
Net income	\$ 12,070,955	\$ 12,070,955	\$ 5,014,772	\$ 5,014,772
Net income available to common shareholders attributable to unvested restricted shares	\$ 2,021	\$ 2,021	\$	\$
Net income available to common shareholders attributable to common stock	\$ 12,068,934	\$ 12,068,934	\$ 5,014,772	\$ 5,014,772

Net income per share of common stock is as follows for the three-month periods ended June 30, 2009 and 2008:

	<b>Three months ended June 30,</b>			
	<b>2009</b>		<b>2008</b>	
	Basic	Diluted	Basic	Diluted
Net income available to common shareholders per common share	\$ 0.15	\$ 0.15	\$ 0.07	\$ 0.07

**Numerator:**

Net income available to common shareholders	\$ 6,678,806	\$ 6,678,806	\$ 2,947,095	\$ 2,947,095
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**Denominator:**

Weighted average of common stock outstanding for Basic earnings per share	44,078,235	44,078,235	44,238,166	44,238,166
Adjustment for stock options		49,147		130,345
Adjustment for restricted shares				806
Adjustment for Additional Shares		2,967		
Adjustment for Put Options		1,855		
Adjusted weighted average of common stock outstanding for Diluted earnings per share	44,078,235	44,132,204	44,238,166	44,369,317



**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 six-month periods ended June 30, 2009 and 2008:

	<b>Six months ended June 30,</b>			
	<b>2009</b>		<b>2008</b>	
	Basic	Diluted	Basic	Diluted
Net income available to common shareholders per common share	\$ 0.27	\$ 0.27	\$ 0.11	\$ 0.11
<b>Numerator:</b>				
Net income available to common shareholders	\$ 12,068,934	\$ 12,068,934	\$ 5,014,772	\$ 5,014,772
<b>Denominator:</b>				
Weighted average of common stock outstanding for Basic earnings per share	44,074,462	44,074,462	44,238,146	44,238,146
Adjustment for stock options		49,514		129,308
Adjustment for restricted shares				392
Adjustment for Additional Shares		3,232		
Adjusted weighted average of common stock outstanding for Diluted earnings per share	44,074,462	44,127,208	44,238,146	44,367,846

The calculation of diluted net income per share excludes all anti-dilutive shares. For the three- and six-month periods ended June 30, 2009 and 2008, the numbers of anti-dilutive shares are as follows:

	<b>Six Months Ended June 30,</b>		<b>Three Months Ended June 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
<b>Anti-dilutive shares</b>				
Restricted shares		14,096		13,289
2008 Shares granted under LTRP	18,690			
	18,690	14,096		13,289

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**MercadoLibre, Inc.**

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

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

**Business Combinations**

**a) Classified Media Group, Inc.**

On January 22, 2008, the Company completed the acquisition of 100% of the issued and outstanding shares of capital stock of CMG Classified Media Group, Inc. ( CMG ) and its subsidiaries from 2050 Capital Group Inc., a Panama corporation, Abax Group Inc., a Panama corporation, Gabinete De Diseño Industrial Inc., a Panama corporation, Stamford One Group Ltd., a British Virgin Islands limited company, EO Financial Group Inc., a Panama corporation, Meck Investments Ltd., a British Virgin Islands limited company, CG Interventures Inc., a Panama corporation, and other individuals (the Sellers ). CMG and its subsidiaries operate an online classified advertisements platform primarily dedicated to the sale of automobiles (at [www.tucarro.com](http://www.tucarro.com)) in Colombia, Venezuela 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. This acquisition allows the Company to expand its operations mainly in Venezuela and Colombia, solidify its market leadership position in those countries and continue growing of online classified advertisements platform in the locations where the acquired company operates.

On the acquisition date, the Company paid in cash for CMG \$19,000,000.

The purchase price for the shares of CMG and its subsidiaries was \$17,024,380, subject to an escrow to cover unexpected liabilities and working capital adjustments. In addition, acquisition costs amounting to \$204,424 which were considered in the purchase price allocation as part of the aggregate purchase price. On May 7, 2008, the Company paid \$150,000 related to certain working capital adjustments. On the Closing Date, an aggregate of \$1,975,620, was placed into an escrow account for a period of twelve (12) months after the Closing Date, in order to secure the obligations of the former CMG shareholders that remained as managers, pursuant to each of their respective employment agreements.

Under EITF 95-8 Accounting for Contingent Consideration Paid to the Shareholders of an Acquired Enterprise in a Purchase Business Combination the Company has recognized this contingent consideration paid to the former shareholders, as compensation for services. On May 12, 2008, the Company and these former shareholders agreed to an early release of the \$1,975,620 escrow on or before June 30, 2008, in exchange for a discount to the Company.

On June 27, 2008, the Company released to the former CMG shareholders \$1,919,870 in full satisfaction of the management escrow after deducting the aforementioned discount.

As of June 30, 2008, the accrued compensation expenses related to escrow release were included in

Compensation costs related to acquisitions within operating expenses, for a total amount of \$373,473. Therefore the unaccrued portion of the amount held in escrow, minus the discount, which equals \$1,546,397 was fully expensed in the second quarter of 2008.

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

The following table summarizes the allocation of the cash paid in the acquisition:

Purchase Price	\$ 17,024,380
Post-closing working capital adjustments	150,000
Direct cost of the business combination	204,424
Total aggregate purchase price	\$ 17,378,804
Compensation Cost	1,919,870
Total Cash paid	\$ 19,298,674

As from the acquisition date in January 2008, the acquired company results of operations have been included in the Company's income statement.

The following table summarizes an allocation of the purchase price for the companies acquired in the transaction (in thousands):

Company Name	Country	Post Acquisition Ownership	Net Tangible Assets / (Liabilities)	Identifiable Intangible Assets	Deferred Tax Liabilities	Goodwill	Aggregate Purchase Price
CMG Classified Media Group Inc.	Panama	100%	\$ 846.3	\$	\$	\$	\$ 846.3
Venecapital Group Inc.	Panama	100%	(26.8)				(26.8)
Grupo Veneclassificados C.A.	Venezuela	100%	(125.4)	4,934.2	(1,727.0)	11,442.0	14,523.8
Clasificados Internacionales S.A.	Panama	100%	(44.8)				(44.8)
ColClasificados S.A.	Colombia	100%	36.4	688.0	(240.8)	1,595.5	2,079.1
Clasificados Florida LLC	USA	100%	1.2				1.2
<b>Total</b>			\$ 686.9	\$ 5,622.2	\$ (1,967.8)	\$ 13,037.5	\$ 17,378.8

Tangible net assets were valued at their respective carrying amounts adjusted to US GAAP since the management of the Company believes that these amounts approximated their current fair values at the acquisition date. The valuation of identifiable intangible assets acquired reflects management's estimates based on, among other factors, use of established valuation methods. Such assets consist of trademarks and trade names for a total amount of \$5,622,188.

Management of the Company estimates that trademarks have an indefinite lifetime. For that reason, these intangible assets are not amortized but they are subject to an annual impairment test.

The goodwill of \$13,037,504 is not expected to be deductible for tax purposes.

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**MercadoLibre, Inc.**

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

**4. Business Combinations, Goodwill and Intangible Assets (Continued)**

**b) DeRemate Operations**

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](http://www.deremate.com.ar)), Chile ([www.deremate.cl](http://www.deremate.cl)), Mexico ([www.deremate.com.mx](http://www.deremate.com.mx)) and Colombia ([www.deremate.com.co](http://www.deremate.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 we 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 we 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.

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

The Sellers and certain of their affiliates have also agreed to enter into certain non-compete agreements with the Company for 5 years.

The Company's statement of income includes the results of operations of the acquired companies from September 1, 2008.

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

The following table summarizes the allocation of the cash paid and debt assumed in the acquisition:

Cash paid	\$ 22,000,000
Seller financing	18,000,000
Working Capital adjustment	(480,912)
Direct cost of the business combination	494,301
 Total aggregate purchase price	 \$ 40,013,389

The following table summarizes the purchase price allocation of the Acquired Entities in the transaction (in thousands):

<b>Company Name</b>	<b>Country</b>	<b>Post Acquisition Ownership</b>	<b>Net Tangible Assets / (Liabilities)</b>	<b>Identifiable Intangible Assets</b>	<b>Deferred Tax Liabilities</b>	<b>Goodwill</b>	<b>Aggregate Purchase Price</b>
DeRemate.com de Argentina S.A.	Argentina	100%	\$ 2,555.2	\$ 1,444.1	\$ (505.4)	\$ 30,658.9	\$ 34,152.8
DeRemate.com Chile S.A.	Chile	100%	(1,978.9)	302.2	(105.8)	6,659.4	4,876.9
Compañía de Negocios Interactiva de Colombia E.U.	Colombia	100%	(753.4)	25.6	(9.0)	1,417.2	680.4
Interactivos y Digitales México S.A. de C.V.	Mexico	100%	(580.7)	29.2	(10.2)	864.9	303.2
<b>Total</b>			\$ (757.8)	\$ 1,801.1	\$ (630.4)	\$ 39,600.4	\$ 40,013.3

Assets acquired and liabilities assumed were valued at their respective carrying amounts adjusted to U.S. GAAP because management of the Company believes that these amounts approximated their current fair values at the acquisition date. The valuation of identifiable intangible assets acquired reflects management's estimates based on, among other factors, use of established valuation methods. Such assets consist of customer lists and non-compete agreements for a total amount of \$1,801,084. Intangible assets associated with customer list and non-compete agreements are amortized over a five year period.

The company recognized a significant amount of goodwill because the acquisition is expected to significantly expand the company's business in Chile while strengthening the company's leadership position in Argentina. Management expects significant synergies between both businesses to be realized, mainly through improving the monetization of DeRemate's gross merchandise volume and by generating efficiencies in operations and technology. As a result, a significant portion of the consideration was based on the expected financial performance and the synergies of DeRemate business acquired and not the asset value on the books of DeRemate at the time of acquisition.

Goodwill of \$39,600,532 is not expected to be deductible for tax purposes.

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

The results of operations for periods prior to the acquisition for each acquisition, both individually and in the aggregate, were not material to the consolidated statements of operations of the Company and, accordingly, pro forma results of operations have not been presented.

The following table summarizes the net tangible assets acquired in the abovementioned business combinations:

	CMG	DeRemate	Total
Cash and cash equivalents	\$ 554,739	\$ 136,893	\$ 691,632
Funds receivable from customers		117,473	117,473
Accounts receivable	56,613	6,512,485	6,569,098
Tax Credits		604,419	604,419
Other current assets	904,791	14,065	918,856
Non current assets	365,190	139,737	504,927
Total assets acquired	\$ 1,881,333	\$ 7,525,072	\$ 9,406,405
Accounts payable and accrued expenses	69,516	4,509,314	4,578,830
Funds payable to customers		146,191	146,191
Taxes payable	459,462	745,017	1,204,479
Social security payable	243,141	151,971	395,112
Other liabilities		1,590,371	1,590,371
Non current liabilities	14,000		14,000
Provisions	408,336	1,140,055	1,548,391
Total liabilities assumed	\$ 1,194,455	\$ 8,282,919	\$ 9,477,374
Net tangible assets (liabilities)	\$ 686,878	\$ (757,847)	\$ (70,969)

**Goodwill and Intangible Assets**

The composition of goodwill and intangible assets is as follows:

	June 30, 2009	December 31, 2008
Indefinite lived assets		
- Goodwill	\$ 66,557,429	\$ 65,652,774
- Trademarks	5,561,458	5,537,715
Amortizable intangible assets		
- Licenses and others	2,191,749	1,313,901
- Non-compete agreement	1,134,712	1,051,531
- Customer list	1,559,988	1,534,969
Total intangible assets	\$ 77,005,336	\$ 75,090,890
Accumulated amortization	(2,517,302)	(2,179,344)

\$ 74,488,034      \$ 72,911,546



**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 six-month period ended June 30, 2009 and the year ended December 31, 2008, are as follows:

<b>Six Months Ended June 30, 2009</b>								
	<b>Marketplaces</b>							
	<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	1,848,738	(2,437,368)	1,056,373	203,106		182,836	50,970	904,655
Balance, end of the period	\$ 11,210,435	\$ 24,465,777	\$ 6,422,100	\$ 4,720,796	\$ 13,636,502	\$ 4,830,517	\$ 1,271,302	\$ 66,557,429

  

<b>Year ended December 31, 2008</b>								
	<b>Marketplaces</b>							
	<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	\$ 12,351,542	\$	\$	\$ 4,898,867	\$ 2,194,480	\$ 2,257,830	\$ 1,297,748	\$ 23,000,467
-Purchase of CMG					11,442,022	1,595,482		13,037,504
-Purchase of DR Operations		30,658,930	6,659,419	864,945		1,417,239		39,600,533
- Effect of exchange rates changes	(2,989,845)	(3,755,785)	(1,293,692)	(1,246,122)		(622,870)	(77,416)	(9,985,730)
Balance, end of the 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

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 \$140,076 and \$61,316 for the

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three-month periods ended June 30, 2009 and 2008, respectively. Aggregate amortization expense for intangible assets totaled \$279,477 and \$141,302 for the six-month periods ended June 30, 2009 and 2008, respectively.

Expected future intangible asset amortization from acquisitions completed as of June 30, 2009 is as follows:

For year ended 12/31/2009 (remaining six months)	\$ 371,539
For year ended 12/31/2010	719,310
For year ended 12/31/2011	637,330
For year ended 12/31/2012	442,397
For year ended 12/31/2013	198,571
Thereafter	
	\$ 2,369,147

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

The Marketplace segments include Brazil, Argentina, Venezuela, Mexico and other countries (Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Panama, Peru and Uruguay) on line market places commerce platforms. The Payments segment is the Company's regional payments platform consisting of its MercadoPago business in Brazil, Argentina, Mexico, Chile, Colombia, and Venezuela.

Direct contribution consists of revenues less direct costs. Direct costs include specific costs of net revenues, sales and marketing expenses, and general and administrative expenses over which segment managers have direct discretionary control, such as advertising and marketing programs, customer support expenses, allowances for doubtful accounts, headcount compensation, third party fees.

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

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

**Three Months Ended June 30, 2009**  
**Marketplaces**

	<b>Brazil</b>	<b>Argentina</b>	<b>Mexico</b>	<b>Venezuela</b>	<b>Other Countries</b>	<b>Total</b>	<b>Payments</b>	<b>Consolidated</b>
Net								
revenues	\$ 12,603,535	\$ 5,549,031	\$ 3,307,428	\$ 7,301,806	\$ 2,248,761	\$ 31,010,561	\$ 9,891,238	\$ 40,901,799
Direct costs	(7,627,345)	(2,262,079)	(1,867,422)	(3,443,905)	(1,088,572)	(16,289,323)	(5,431,797)	(21,721,120)
Direct								
contribution	4,976,190	3,286,952	1,440,006	3,857,901	1,160,189	14,721,238	4,459,441	19,180,679
Operating								
expenses								
and indirect								
costs of net								
revenues								(6,768,456)
Income from								
operations								12,412,223
Other								
income								
(expenses):								

Interest income	602,174
Interest expense and other financial results	(3,334,589)
Foreign exchange	(1,346,273)
Other income, net	
Net income before income / asset tax expense	\$ 8,333,535

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

**Three Months Ended June 30, 2008**  
**Marketplaces**

	<b>Brazil</b>	<b>Argentina</b>	<b>Mexico</b>	<b>Venezuela</b>	<b>Other Countries</b>	<b>Total</b>	<b>Payments</b>	<b>Consolidated</b>
Net								
revenues	\$ 13,649,406	\$ 4,252,040	\$ 3,108,820	\$ 5,711,196	\$ 1,588,960	\$ 28,310,422	\$ 6,161,086	\$ 34,471,508
Direct costs	(8,397,321)	(2,020,438)	(2,158,256)	(2,368,211)	(1,254,438)	(16,198,664)	(4,110,109)	(20,308,773)
Direct contribution	5,252,085	2,231,602	950,564	3,342,985	334,522	12,111,758	2,050,977	14,162,735
Operating expenses and indirect costs of net revenues								(6,014,865)
Income from operations								8,147,870
Other income (expenses):								
Interest income								270,576
Interest expense and other financial results								(958,348)
Foreign exchange								(2,052,638)
Other income, net								2,285
Net income before income / asset tax expense								\$ 5,409,745

**Six Months Ended June 30, 2009**  
**Marketplaces**

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	<b>Brazil</b>	<b>Argentina</b>	<b>Mexico</b>	<b>Venezuela</b>	<b>Other Countries</b>	<b>Total</b>	<b>Payments</b>	<b>Consolidated</b>
Net revenues	\$ 22,481,733	\$ 10,514,908	\$ 6,176,350	\$ 13,667,627	\$ 4,123,864	\$ 56,964,482	\$ 16,259,818	\$ 73,224,300
Direct costs	(14,233,003)	(4,438,834)	(3,664,417)	(7,099,420)	(2,086,917)	(31,522,591)	(9,513,003)	(41,035,594)
Direct contribution	8,248,730	6,076,074	2,511,933	6,568,207	2,036,947	25,441,891	6,746,815	32,188,706
Operating expenses and indirect costs of net revenues								(13,008,939)
Income from operations								19,179,767
Other income (expenses):								
Interest income and other financial gains								1,531,837
Interest expense and other financial results								(5,844,773)
Foreign currency gain								529,213
Other income, net								
Net income before income / asset tax expense								\$ 15,396,044

**Six Months Ended June 30, 2008**  
**Marketplaces**

	<b>Brazil</b>	<b>Argentina</b>	<b>Mexico</b>	<b>Venezuela</b>	<b>Other Countries</b>	<b>Total</b>	<b>Payments</b>	<b>Consolidated</b>
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Net								
revenues	\$ 25,524,974	\$ 7,778,392	\$ 6,048,665	\$ 9,469,128	\$ 2,969,921	\$ 51,791,080	\$ 11,521,158	\$ 63,312,238
Direct costs	(15,923,765)	(3,872,243)	(4,207,424)	(4,509,705)	(2,245,293)	(30,758,430)	(7,793,776)	(38,552,206)
Direct								
contribution	9,601,209	3,906,149	1,841,241	4,959,423	724,628	21,032,650	3,727,382	24,760,032
Operating								
expenses								
and indirect								
costs of net								
revenues								(10,069,959)
Income from								
operations								14,690,073
Other								
income								
(expenses):								
Interest								
income and								
other								
financial								
gains								1,019,929
Interest								
expense and								
other								
financial								
results								(2,321,147)
Foreign								
currency								
loss								(3,041,354)
Other								
income, net								2,285
Net income								
before								
income /								
asset tax								
expense								\$ 10,349,786

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

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

	<b>June 30, 2009</b>	<b>December 31, 2008</b>
US long-lived tangible assets	\$ 3,470,672	\$ 2,881,210
Other countries long-lived tangible assets		
Argentina	1,511,475	1,573,708
Brazil	683,948	596,940
Mexico	75,556	81,873
Venezuela	604,900	749,605
Other countries	55,931	56,824
	\$ 2,931,810	\$ 3,058,950
<b>Total long-lived tangible assets</b>	<b>\$ 6,402,482</b>	<b>\$ 5,940,160</b>

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

	<b>June 30, 2009</b>	<b>December 31, 2008</b>
US intangible assets	\$ 24,549	\$ 35,058
Other countries goodwill and intangible assets		
Argentina	26,413,710	28,196,325
Brazil	11,250,106	9,397,304
Mexico	4,782,821	4,585,212
Venezuela	18,583,031	18,585,234
Other countries	13,433,817	12,112,413
	\$ 74,463,485	\$ 72,876,488
<b>Total goodwill and intangible assets</b>	<b>\$ 74,488,034</b>	<b>\$ 72,911,546</b>

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

	<b>Six Months Ended June 30,</b>		<b>Three Months Ended June 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Brazil	\$ 36,438,805	\$ 35,143,273	\$ 21,226,127	\$ 18,749,341
Argentina	11,510,888	8,460,603	6,113,280	4,644,351
Mexico	6,881,232	6,746,361	3,706,350	3,471,616
Venezuela	14,215,958	9,956,094	7,576,529	5,997,401
Other countries	4,177,417	3,005,907	2,279,513	1,608,799
<b>Total net revenues</b>	<b>\$ 73,224,300</b>	<b>\$ 63,312,238</b>	<b>\$ 40,901,799</b>	<b>\$ 34,471,508</b>





**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 in accordance with FAS 157 as of June 30, 2009 and December 31, 2008:

<b>Description</b>	<b>Balances as of June 30, 2009</b>	<b>Quoted Prices in active markets for identical Assets (Level 1)</b>	<b>Balances as of December 31, 2008</b>	<b>Quoted Prices in active markets for identical Assets (Level 1)</b>
<b>Assets</b>				
Cash and Cash Equivalents:				
Money Market Funds	\$ 1,952,613	\$ 1,952,613	\$	\$
Investments:				
Money Market Funds			2,408,294	2,408,294
Sovereign Debt Securities	1,557,685	1,557,685		
Corporate Debt Securities	15,194,322	15,194,322		
Total financial Assets	\$ 18,704,620	\$ 18,704,620	\$ 2,408,294	\$ 2,408,294
<b>Liabilities</b>				
Loans payable and other financial liabilities:				
Put Options	\$	\$	\$ 185,000	\$ 185,000
Total financial Liabilities	\$	\$	\$ 185,000	\$ 185,000

The Company's financial assets and liabilities 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 June 30, 2009 and December 31, 2008, the Company did not have any assets or liabilities 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 investments are reported as a component of accumulated other comprehensive income. The Company does not anticipate any significant realized losses associated with those

investments as the Company's historical cost basis is not significant.

As of June 30, 2009 and December 31, 2008, the Company has financial assets measured at fair value on a recurring basis for \$18,704,620 and \$2,408,294, respectively. As of December 31, 2008, the Company had financial liabilities measured at fair value for \$185,000.

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**MercadoLibre, Inc.**

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

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

In addition, as of June 30, 2009, the Company had \$29,762,164 of short-term and long-term investments, which consisted of time deposits considered held to maturity securities. As of December 31, 2008, the Company had \$35,161,436 of short-term and long-term investments, which consisted of time deposits, commercial papers, sovereign debt securities and corporate debt securities considered held to maturity securities. Those investments are accounted for at amortized cost which, as of June 30, 2009 and December 31, 2008, approximates their fair values.

As of June 30, 2009 and December 31, 2008, 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 six-month periods ended June 30, 2009 and 2008, the Company held no direct investments in auction rate securities, collateralized debt obligations, structured investment vehicles or mortgage-backed securities.

**7. Compensation Plan for Outside Directors**

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

On September 17, 2007, the Company awarded each of the two outside directors 1,000 Restricted Shares for their original grants. On January 24, 2008, the Company awarded a new outside director 600 Restricted Shares for his original grant. On May 6, 2008, the Board also designated a new director and a current director as outside directors, determining to extend the Company's outside director compensation program to these two directors. On June 9, 2008, the Company awarded each of the two new outside directors 674 Restricted Shares for their original grants. As of June 30, 2009, these shares are fully vested and are not restricted anymore.

On the first anniversary of each director's respective original Restricted Shares grant date, each outside director would receive a grant of additional shares having a value equal to \$30,000. On the second anniversary of each director's respective original Restricted Shares grant date, each outside director will receive a grant of additional shares having a value equal to \$40,000.

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

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**MercadoLibre, Inc.**

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

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

On August 8, 2008, the Board approved additional cash compensation for the Company's directors who serve as a committee chair or as lead independent director. Under the terms of the plan, effective August 8, 2008, 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 \$15,000, \$12,000, \$5,000 and \$10,000, respectively. The Board also determined that payments of outside director's cash and stock compensation will coincide with the Company's annual stockholders' meeting.

Beginning in 2009, the annual outside director's cash compensation was paid out in June and Restricted Shares were issued on the 2009 annual stockholder's meeting held on June 10, 2009. Shares were valued at the closing sale price of the Company's common stock on the day preceding the 2009 annual meeting. As a result of anticipating the grant dates, other than the initial grants to Messrs. Spence and Vázquez, the Company did not issue any Restricted Shares to any of the outside directors in 2008 and, accordingly, the Company has made catch up Restricted Share grants to each of Mr. Calemzuk, Ms. Serra and Mr. de los Santos on the date of the 2009 annual meeting.

On June 10, 2009, the Company issued 2,305 and 8,350 shares related to the abovementioned additional Restricted Shares for the first and second year of board service following the date each outside director received their initial grant, respectively. The 8,350 shares related to the second year are restricted shares and will vest in the 2010 annual stockholder's meeting.

To date, all Restricted Shares have been granted pursuant to our Amended and Restated 1999 Stock Option and Restricted Stock Plan. (See Note 8 - Stock Option and Restricted Shares for discussion of accounting treatment).

**8. Stock Option and Restricted Shares**

Pursuant to the Amended and Restated 1999 Stock Option and Restricted Stock Plan, (the Plan) the Company has reserved 4,732,400 shares of Common Stock for issuance under the Plan.

On June 10, 2009, the Annual Shareholders' Meeting approved the adoption of the 2009 Equity Compensation Plan, which contains terms substantially similar to the terms of the 1999 Stock Option and Restricted Stock Plan scheduled to expire in November 2009. The 2009 plan has reserved for issuance 294,529 shares of the Company's common stock that remained available for grant under the 1999 plan.

**Table of Contents****MercadoLibre, Inc.****Notes to Condensed Consolidated Financial Statements (unaudited)****8. Stock Option and Restricted Shares (Continued)**

Stock option awards granted under the Plan are at the discretion of the Company's Board of Directors and may be in the form of either incentive or nonqualified stock options. Options granted under the Plan generally vest over a three to four year period and expire ten years after the date of grant. At June 30, 2009, there were 283,874 shares of Common Stock available for additional awards under the Plan.

Stock-based compensation expense related to stock options for the three-month periods ended June 30, 2009 and 2008 was \$436 and \$1,224, respectively. Stock-based compensation expense related to stock options for the six-month periods ended June 30, 2009 and 2008 was \$871 and \$2,447, respectively.

In accordance with SFAS No. 123(R), the Company used the Black-Scholes option pricing model to measure the fair value of its option awards granted during the year ended December 31, 2006. The Black-Scholes model requires the input of highly subjective assumptions including volatility, expected term, risk-free interest rate and dividend yield.

There was no granting during the period from January 1, 2007 to June 30, 2009.

Stock-based compensation expense is based on the estimated portion of the awards that are expected to vest.

Stock option activity, for the three- and six-month periods ended June 30, 2009, was as follows:

	<b>2009</b>	
	<b>Number of</b>	<b>Weighted-</b>
	<b>options</b>	<b>average</b>
		<b>exercise price</b>
Outstanding, beginning of year	53,919	\$ 1.23
Exercised	(9,182)	0.44
Outstanding, end of the period	44,737	1.39
Exercisable, end of the period	40,579	\$ 1.27

**Table of Contents****MercadoLibre, Inc.****Notes to Condensed Consolidated Financial Statements (unaudited)****8. Stock Option and Restricted Shares (Continued)****Stock Options (Continued)**

The following table details the outstanding options at June 30, 2009:

<b>Exercise price</b>	<b>June 30, 2009</b>		<b>Exercisable</b>
	<b>Number of options</b>	<b>Outstanding Weighted-average contractual life (years) remaining</b>	<b>Number of options</b>
\$0.01	6,349	3.12	6,350
\$1.00	16,000	0.54	16,000
\$1.50	18,888	5.88	15,729
\$3.00	1,000	0.92	1,000
\$6.00	2,500	7.06	1,500
	44,737	3.53	40,579

**Weighted average Exercise Price**

- Options outstanding	\$ 1.39
- Options exercisable	\$ 1.27

**June 30, 2009****Aggregate intrinsic value**

- Options outstanding	\$ 1,140,135
- Options exercisable	\$ 1,039,096

The aggregate intrinsic value represents the difference between the Company's closing stock price of \$26.88 as of June 30, 2009 and the exercise price multiplied by the number of options (outstanding and exercisable) as of that date.

**Restricted Shares**

As mentioned in Note 7, the Company granted awards to its outside directors for 3,948 Restricted Shares. As of June 30, 2009, these shares are fully vested and are not restricted anymore. However, the 8,350 shares related to the second year of board service are restricted shares and will vest in the 2010 annual stockholder's meeting. Non-vested shares awarded to employees are measured at their fair market value by the grant-date price of the Company's shares.

Based on the fair market value of the Company's share at the grant date, total compensation cost for the 3,948 Restricted Shares awarded amounted to \$149,470. For the three-month periods ended June 30, 2009 and 2008, the Company recognized \$11,011 and \$26,254, respectively, of compensation expense related to these awards, which are included in operating expenses in the accompanying condensed consolidated statement of income. For the six-month periods ended June 30, 2009 and 2008, the Company recognized \$27,944 and \$46,329, respectively.





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**MercadoLibre, Inc.**

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

**8. Stock Option and Restricted Shares (Continued)**

**Restricted Shares (Continued)**

In accordance with Statement of Financial Accounting Standards No. 150, Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity (SFAS 150) and SFAS 123(R), the additional grants of shares for fixed amounts of US dollars were classified as liabilities in the accompanying consolidated balance sheet up to June 10, 2009, the issuance date. As from the issuance date, the outstanding liabilities amounting to \$171,099 as well as all future compensation cost is classified as equity. For the three-month periods ended June 30, 2009 and 2008, the Company recognized \$7,431 and \$24,893, respectively, of compensation expense related to these awards, which are included in operating expenses in the accompanying condensed consolidated statement of income. For the six-month periods ended June 30, 2009 and 2008, the Company recognized \$42,339 and \$44,200, respectively.

**9. Commitments and Contingencies**

**Litigation and Other Legal Matters**

At June 30, 2009, the Company had established reserves for proceeding-related contingencies of \$1,026,027 to cover 327 legal actions against the Company where the Company has determined that a loss is probable. As of June 30, 2009 no loss amount has been accrued for over 1,193 legal actions for the aggregate amount up to \$3,873,465 because a loss is not considered probable.

At the beginning of 2009, the Brazilian subsidiary of the Company had 254 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., and 100% Nacional Distribuidora de Fitas Ltda., Xuxa Promoções e Produções Artísticas Ltda., Praetorium Instituto de Ensino, Pesquisas e Atividades de Extensão e Direito Ltda., Botelho Indústria e Distribuição Cinematográfica Ltda.) and SERASA S.A were related to alleged intellectual property infringement.

During the six-month period ended June 30, 2009, the Brazilian subsidiary of the Company was sued in 55 cases in ordinary courts. In most of these cases the plaintiffs asserted that the Company was responsible for fraud committed against them, or responsible for damages suffered when purchasing an item on the Company's website, when using MercadoPago, or when the Company invoiced them.

As of June 30, 2009, 297 legal actions were pending in the Brazilian ordinary courts 8 of which (QIX Skateboards Industria e Comercio Ltda., Editora COC Empreendimentos Culturais Ltda., Vintage Denim Ltda., Fallms Distribuição de Fitas Ltda., and 100% Nacional Distribuidora de Fitas Ltda., Xuxa Promoções e Produções Artísticas Ltda., Praetorium Instituto de Ensino, Pesquisas e Atividades de Extensão e Direito Ltda., and Botelho Indústria e Distribuição Cinematográfica Ltda.) and SERASA S.A were related to alleged intellectual property infringement. In addition, during the six-month period ended June 30, 2009, the Brazilian subsidiary of the Company received approximately 913 summons of legal actions filed in Brazilian consumer courts, 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 June 30, 2009, there were more than 2,175 cases still pending in Brazilian consumer courts.

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**MercadoLibre, Inc.**

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

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

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

On May 5, 2008 Nike International Ltd. sued our Argentine subsidiary in the First Civil and Commercial Federal Court, Argentina, alleging that this subsidiary was infringing Nike trademarks as a result of sellers listing allegedly counterfeit Nike branded products through the Argentine page of our website. On May 26, 2009 we presented a preliminary objection requesting that Nike deposit as a security bond for costs. This issue is currently pending to be decided.

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.

On June 12, 2007, a state prosecutor of the State of São Paulo, Brazil presented a claim against our Brazilian subsidiary. The state prosecutor alleges that our Brazilian subsidiary should be held joint and severally liable for any fraud committed by sellers on the Brazilian version of our website, or responsible for damages suffered by buyers when purchasing an item on the Brazilian version of the MercadoLibre website. We were summoned on December 12, 2007 and presented our 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 an appeal to the lower court was presented by the Company. The decision is still pending.

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**MercadoLibre, Inc.**

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

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

**Litigation after June 30, 2009**

After June 30, 2009 and up to the date of issuance of these condensed consolidated financial statements, the Company's Brazilian subsidiary was sued in 22 other cases in Brazilian ordinary courts and 228 new cases in consumer courts. No loss amount has been accrued in connection with these actions because a loss is not considered probable.

On July, 21, 2009 the Company was formally notified about the existence of a claim presented against our Brazilian subsidiary by a state prosecutor of the State of Bahia, Brazil on December, 12, 2007. The state prosecutor alleges that our Brazilian subsidiary should be held liable for any fraud committed by sellers, or responsible for damages suffered by buyers when purchasing an item on the Brazilian version of the MercadoLibre website and should exclude from its Terms of Service any provision limiting its responsibility. The state prosecutor of the State of Bahia also seeks compensatory damages estimated for approximately \$100,000. On July, 8, 2009, an injunction was granted by the judge, ordering the immediate removal from the Terms of Service of the Company of any provision limiting its responsibility with a fine of BR \$20,000 for not compliance per day. We presented a request for the withdrawal of the effects of the preliminary injunction. On July 28, 2009, the preliminary injunction was suspended by the judge until a hearing scheduled for August, 12, 2009. This request was granted. We presented our defense on August 5, 2009.

**Other contingencies**

As of June 30, 2009, the Company had reserved \$176,261 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 (five) floors and 70 parking spaces, where the Company plans to move its headquarters and Argentine operation offices. As of June 30, 2009, the Argentine subsidiary has invested \$4,535,251 in the aforementioned trust and is expected to invest an additional \$4,852,511 in the following 12 months. As this investment represents an undivided interest for more than 20% of the total amount of the real estate trust, it is accounted for under the equity method and it is classified as Long-Term Investments in the balance sheet.

**Table of Contents****MercadoLibre, Inc.****Notes to Condensed Consolidated Financial Statements (unaudited)****9. Commitments and Contingencies (Continued)****Other Commitments (Continued)**

The Company has leases for office space in the various countries where it operates. Total rental expense amounted to approximately \$530,262 and \$439,573 for the three-month period ended June 30, 2009 and 2008, respectively. Total rental expense amounted to approximately \$1,064,873 and \$798,107 for the six-month period ended June 30, 2009 and 2008, respectively.

**Operating Leases**

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

For the year ended December 31, 2009 (remaining six months)	1,089,459
For the year ended December 31, 2010	1,258,040
For the year ended December 31, 2011	714,331
For the year ended December 31, 2012	181,470
Thereafter	36,013
	<b>\$ 3,279,313</b>

**Employment Contracts**

Each of the executive officers of the Company are a party to individual employment agreements that provide for annual base estimated salaries aggregating approximately \$930,800 per year, a performance based estimated bonus aggregating to approximately \$721,200 per year, and some fringe benefits. The employment agreements automatically renew annually, if not terminated by either party. Each agreement includes clauses that provide in the event of employment termination without cause, the Company must pay the employee 12 months of base salary.

Additionally, the executive officers of the Company are included in the Long Term Retention Plans mentioned in Note 10. Under the 2008 Plan the executive officers of the Company will receive approximately \$532,200 and 4,194 shares in a period of 4 years. In addition, under the 2009 Plan the executive officers of the Company will receive approximately \$1,205,000 in a period of 8 years.

**Table of Contents****MercadoLibre, Inc.****Notes to Condensed Consolidated Financial Statements (unaudited)****10. 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 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 \$1.9 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 June 30, 2009, the related accrued compensation expense was \$120,011 corresponding \$45,974 to the share portion of the award credited to Additional Paid-in Capital and \$74,037 to the cash portion included in the Balance Sheet as Social security payable. For the six-month period ended June 30, 2009, the related accrued compensation expense was \$201,402 corresponding \$80,694 to the share portion of the award credited to Additional Paid-in Capital and \$120,708 to the cash portion included in the Balance Sheet as Social security payable. No compensation related to the 2008 LTRP was accrued during the three and six month periods ended June 30, 2008.

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

<b>Number of Shares</b>	<b>June 30, 2009</b>	<b>June 30, 2008</b>
Granted	21,591	
Non-vested at the beginning of the year	21,591	
Non-vested at the end of the period / year	15,608	
Forfeited	2,383	
Vested and paid to the employees	3,600	
Outstanding	15,608	

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

The following table details the aggregate intrinsic value and weight-average remaining contractual life of the shares at June 30, 2009:

	<b>June 30, 2009</b>	
	<b>Aggregate Intrinsic value</b>	<b>Weighted-average remaining contractual life (years)</b>
Shares outstanding	419,543	1.89

The aggregate intrinsic value of the shares paid on March 13, 2009 under the 2008 LTRP amounts to \$61,740 at that 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.

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 day. 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 day.

As of June 30, 2009, the total compensation cost of the 2009 LTRP amounts to approximately \$3.7 million and the related accrued compensation expense for the six-month period ended June 30, 2009 was \$435,947.

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

The following table details the aggregate intrinsic value and weight-average remaining contractual life of the shares at June 30, 2009:

	<b>June 30, 2009</b>	
	<b>Aggregate Intrinsic value</b>	<b>Weighted-average remaining contractual life (years)</b>
Outstanding	2,359,372	4.75

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.

**11. 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 will be 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 does 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 will reevaluate the operation of the plan each fiscal quarter.

In November 2008, the Company has repurchased in the open market 249,700 shares for a total amount of \$2,590,734. The repurchased shares were accounted for as treasury stock and subsequently retired.

The Company charged the excess of the cost of the treasury stock over its par value entirely to additional paid-in capital because it has accumulated deficit instead of retained earnings.

**Table of Contents****MercadoLibre, Inc.****Notes to Condensed Consolidated Financial Statements (unaudited)****11. Share Repurchase Plan (Continued)**

The direct costs incurred to acquire treasury stock have been added to the reduction of additional paid in capital. Additionally, 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 pursuant to Financial Accounting Standards No. 150

Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity and Financial Accounting Standards No. 133 Accounting for Derivative Instruments and Hedging Activities ( FAS 133 ). Those standards require that derivative instruments should be measured 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 during the three-month period ended June 30, 2009. As of June 30, 2009 there is 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.

\* \* \* \*



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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 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 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.

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, 2008 filed with the Securities and Exchange Commission on February 27, 2009. 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.

**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 six-month periods ended June 30, 2008 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.

**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 to buy, sell, pay for and collect on e-commerce transactions effectively and

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

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

We offer our users two principal services:

*The MercadoLibre marketplace:* 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. Users and advertisers are also able to place display and/or text advertisements on our web pages in order to promote their brands and offerings. Any Internet user can browse through the various products and services that are listed on our web site and register with MercadoLibre to list, bid for and purchase items and services.

*The MercadoPago online payments solution:* To complement the MercadoLibre marketplace, we developed MercadoPago, an integrated online payments solution, 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.

We operate in six reporting segments, five of which related to our marketplace business and the remainder which relates to our payment business. Within our marketplace business, we separately report our operations in each of Brazil, Argentina, Mexico, Venezuela and other countries (Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Panama, Peru and Uruguay). The operations of our Payments business, which is available in each of Brazil, Argentina, Mexico, Chile, Colombia, and Venezuela, are reported in one segment. In addition, we operate a real estate classifieds platform that covers some areas of Florida, U.S.A. which is included in our marketplace business.

### **Recent Developments**

On July 15, 2009, the board of directors adopted the 2009 Long Term Retention Plan (the 2009 LTRP ). If earned, payments to eligible employees under the 2009 LTRP will be in addition to payments of base salary and cash bonus, if earned, made to these employees.

In order to receive an award under the 2009 LTRP, each eligible employee must satisfy the performance conditions established by the board of directors for him or her. If these conditions are satisfied, the eligible employee will, subject to his or her continued employment as of each applicable payment date, receive the full amount of his 2009 LTRP bonus, 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 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 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.

The compensation cost related to the Annual Fixed Payments is recognized on a straight line basis using the equal annual accrual method. The compensation cost related to the Variable Payments is recognized in accordance with the graded-vesting attribution method and is accrued up to each payment day.

As of June 30, 2009, the total compensation cost of the 2009 LTRP amounts to approximately \$3.7 million and the related accrued compensation expense for the six-month period ended June 30, 2009 was \$435,947.

**Table of Contents****Principal trends in Results of Operations*****Growth in net revenue over comparable periods from year to year***

Since our inception, we have consistently generated revenue growth from the MercadoLibre marketplace and from MercadoPago, driven by the growth of our key operational metrics. Our net revenues for the three-month period ended June 30, 2009, as compared to the same period for 2008, increased by 9.5% and 60.5% for the MercadoLibre marketplace and MercadoPago payments platform, respectively. We believe that the growth in net revenues should continue in the future but despite this positive historical trend, current weak global macro-economic growth, coupled with devaluations of local currencies in Latin America versus the U.S. dollar, and high interest rates, could lead to declining year-to-year net revenues, particularly as measured in U.S. dollars.

***Increased diversification of revenues***

We have been growing revenues from our Payments business at a faster rate than our revenues from our Marketplace business, and anticipate this trend to continue long term. For the three-month periods ended June 30, 2009 and 2008, payments represented 24.2% and 17.9% of net revenues, respectively. However, this trend is sensitive to macroeconomic fluctuations, including interest rate fluctuations for consumer credit. Accordingly, this revenue diversification trend may be interrupted during economic periods such as the current one where there are higher costs of lending.

***Gross profit margins***

Our business has generated sustained high gross profit margins over time, as defined by total net revenues minus total cost of net revenues, as a percentage of net revenues. Historically, gains in gross profit margins have been mainly attributable to increased economies of scale in customer service, Internet Service Provider ( ISP ) connectivity and site operations, improved economic terms obtained from payment processors as well as increases in interest fees that we charge our MercadoPago buyers. Our gross profit margin was 79.0% for the three-month period ended June 30, 2009 as compared to 80.0% for the same period in 2008, mainly as a result of a faster growth in our payments business as compared to our marketplace business. Our payment business has a lower gross profit margin than our marketplace business. In the future, gross profit margins could continue to decline if the cost of net revenues as a percentage of net revenues increases as our payments business grows faster than our marketplace business, if we cannot sustain the economies of scale that we have achieved, or if we decrease the interest fees charged.

Additionally in the second quarter of 2009, the decrease of our gross profit margin was negatively impacted by the re-measurement of U.S. dollar denominated expenses of our Venezuelan subsidiaries discussed in detail below.

***Operating income margins***

We have generated and expect to continue generating economies of scale in operating expenses. For the three-month period ended June 30, 2009, our operating income margins, defined as income from operations as a percentage of net revenues, increased from 23.6% in the second quarter of 2008, to 30.3% in the second quarter of 2009 driven by the impact of these economies of scale. In addition, the second quarter of 2008 was negatively impacted by a \$1.5 million of contingent consideration paid to the former shareholders of Classified Media Group, Inc. ( CMG ), as compensation for services (See note 4 to our unaudited condensed consolidated financial statements included in this report). For the three-month period ended June 30, 2008, our operating income margin excluding the compensation expense related to acquisitions was 28.1%.

For the three-month period ended June 30, 2009, our operating expense margins, defined as operating expenses as a percentage of net revenues, decreased from 56.3% during the second quarter in 2008 to 48.6% in the second quarter 2009, primarily due to the impact of the compensation expense discussed above. For the three-month period ended June 30, 2008, our operating expenses margin excluding the compensation expense related to acquisitions was 51.9%. We anticipate, however, that as we continue to invest in product development, sales and marketing and human resources in order to promote our services and capture the long term business opportunity offered by the Internet in Latin America, it is increasingly difficult to sustain growth in operating income margins, and at some point in the future we could experience decreasing operating income margins.



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### ***Growth in Net Income***

We have generated growth in our net income as a consequence of the above mentioned trends, as well as reductions in income tax expenses and foreign currency losses. For the three-month period ended June 30, 2009 and 2008, net income was \$6.7 million and \$2.9 million, respectively, a growth of \$3.7 million or 126.7% from the 2008 second quarter to the 2009 second quarter. However, as mentioned above, if any of these trends were to revert, our net income growth could be affected, or could even become negative on a year-to-year basis.

### **Description of line items**

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

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

We generate revenues from the MercadoLibre marketplace segments from:

listing fees;

optional feature fees;

final value fees; and

online advertising fees.

For the three-month period ended June 30, 2009 and 2008, the MercadoLibre marketplace business generated 75.8% and 82.1%, respectively, of our total net revenues. For the three-month period ended June 30, 2009 and 2008, revenues generated by our MercadoPago business represented 24.2% and 17.9%, respectively, of our total net revenues.

Revenues generated by our MercadoPago business were attributable to commissions charged to buyers and sellers for the use of MercadoPago. We generate revenues from our MercadoPago Payments segment by charging users a commission and a financial charge when the user elects to pay in installments, which we recognize, in both cases, once the transaction is completed. During the three-month period ended June 30, 2009, commission and installment-related financial charges averaged 6.1% and 6.3%, respectively, of the payment amounts made by the user through MercadoPago.

We have a highly fragmented customer revenue base given the large numbers of sellers and buyers who use our platforms. For the three-month and six-month period ended June 30, 2009 and 2008, no single customer accounted for more than 1.0% of our net revenues in our MercadoLibre Marketplace business or our MercadoPago Payments business. Our MercadoLibre marketplace is available in twelve countries (Argentina, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Mexico, Panama, Peru, Uruguay and Venezuela), and MercadoPago is available in six countries (Argentina, Brazil, Chile, Colombia, Mexico and Venezuela). The functional currency in each country's operations is the local currency. Therefore, our net revenues are generated in multiple foreign currencies and then translated into U.S. dollars at the average monthly exchange rate.

Our subsidiaries in Brazil, Argentina, Venezuela and Colombia are subject to certain taxes on revenues which are classified as costs of net revenues. These taxes represented 6.1% of net revenues for the three-month period ended June 30, 2009.

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

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

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

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

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

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

We carry out the vast majority of our marketing efforts on the Internet. In that context, we enter in agreements with portals, search engines, 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 invest a portion of our marketing budget on cable television advertising in order to improve our brand awareness and to complement our online efforts.

We also work intensively on attracting, developing and growing 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 expense***

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.

### ***Compensation Cost related to acquisitions***

As part of our acquisition of Classified Media Group, Inc. ( CMG ), which closed in the second quarter of 2008, we entered into a management escrow agreement to secure the obligations of the CMG shareholders that remained as managers. We accrued those compensation expenses as operating expenses, instead of considering them part of the purchase price, in accordance with EITF 95-8 Accounting for Contingent Consideration Paid to the Shareholders of an Acquired Enterprise in a Purchase Business Combination (See Note 4 to our unaudited condensed consolidated financial statements included in this report).

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

Other income (expenses) consists of interest expense (interest expense relating to the working capital requirements for our MercadoPago operations are recorded as interest expense and not as cost of net revenues) and other financial charges, 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.

### ***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.

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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***

All of the Company's foreign operations have determined the local currency as their functional currency. 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. 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)".

The Venezuelan subsidiaries maintained a foreign currency denominated asset in the form of US dollar denominated cash and cash equivalents. In accordance with the Company's stated accounting policy, this investment should first be re-measured into its functional currency "Bolívares Fuertes". Upon re-measurement into its functional currency, the investment will then be translated into the reporting currency of the Company (US Dollar). In accordance with paragraph 27a of FAS 52 "Foreign Currency Translation", these assets were re-measured at the June 30, 2009 parallel exchange rate of 6.40 Bolívares Fuertes per US dollar (at December 31, 2008 was 5.4 Bolívares Fuertes per US dollar). Further, in accordance with paragraph 27b of FAS 52, the Venezuelan subsidiaries assets, liabilities, income and expense accounts were translated at the rate applicable for dividend remittances, which at June 30, 2009 and December 31, 2008 was the official rate of 2.15 Bolívares Fuertes per US dollar. According to the International Practices Task Force Joint Meeting with SEC Staff of June 2, 2008, the existence of a parallel market does not constitute unusual circumstances potentially justifying the use of an exchange rate other than the official rate for purposes of foreign currency translation. Accordingly, the foreign currency effect on assets is included in "Other non-current assets" in the consolidated balance sheet, and is the result of applying the Company's accounting policy for the related asset.

***Impairment of long-lived assets and goodwill***

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

Goodwill is reviewed at least annually for impairment. Impairment of goodwill is tested at the reporting unit level (considering each segment of the Company as a reporting unit) by comparing the reporting unit's carrying amount, including goodwill, to the fair value of the reporting unit. The fair values of the reporting units are estimated using a combination of the income or discounted cash flows approach and the market approach, which utilizes comparable companies' data. If the carrying amount of the reporting unit exceeds its fair value, goodwill is considered impaired and a second step is performed to measure the amount of impairment loss, if any. No impairments were recognized during the reporting periods and, management's assessment of each reporting unit value in use 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 our net income would be material. Management's assumptions about future sales and future costs require significant judgment.



**Table of Contents*****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 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 and in Note 9 to our 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 June 30, 2009, we had a valuation allowance on certain foreign net operating losses based on our assessment that it is more likely than not that the deferred tax asset will not be realized. To the extent we establish a valuation allowance or change the allowance in a period, we reflect the change with a corresponding increase or decrease in our tax provision in our condensed consolidated statement of income.

**Results of operations for the three-month period ended June 30, 2009 compared to three-month period ended June 30, 2008 and the six-month period ended June 30, 2009 compared to the six-month period ended June 30, 2008**

The selected financial data for the three- and six-month periods ended June 30, 2009 and 2008 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 six-month period ended June 30, 2009 are not necessarily indicative of the results that may be expected for the year ending December 31, 2009 or for any other period.

**Table of Contents****Statement of income data**

(In millions)	Six Months Ended June		Three Months Ended June	
	30,		30,	
	2009	2008	2009	2008
	(Unaudited)		(Unaudited)	
Net revenues	\$ 73.2	\$ 63.3	\$ 40.9	\$ 34.5
Cost of net revenues	(15.2)	(12.9)	(8.6)	(6.9)
Gross profit	58.0	50.4	32.3	27.6
Operating expenses:				
Product and technology development	(5.7)	(3.5)	(3.1)	(1.7)
Sales and marketing	(20.3)	(19.5)	(10.1)	(10.3)
General and administrative	(12.8)	(10.8)	(6.7)	(5.9)
Compensation Cost related to acquisitions		(1.9)		(1.5)
Total operating expenses	(38.8)	(35.7)	(19.9)	(19.4)
Income from operations	19.2	14.7	12.4	8.1
Other income (expenses):				
Interest income and other financial gains	1.5	1.0	0.6	0.3
Interest expense and other financial charges	(5.8)	(2.3)	(3.3)	(1.0)
Foreign currency gain / (loss)	0.5	(3.0)	(1.3)	(2.1)
Net income before income / asset tax expense	15.4	10.3	8.3	5.4
Income / asset tax expense	(3.3)	(5.3)	(1.7)	(2.5)
Net income	\$ 12.1	\$ 5.0	\$ 6.7	\$ 2.9
Accretion of preferred stock				
Net income available to common shareholders	\$ 12.1	\$ 5.0	\$ 6.7	\$ 2.9

**Other Data**

(In millions)	Six Months Ended June		Three Months Ended June	
	30,		30,	
	2009	2008	2009	2008
Number of confirmed registered users at end of the period <sup>1</sup>	37.8	28.1	37.8	28.1
Number of confirmed new registered users during the period <sup>2</sup>	4.1	3.2	2.1	1.6

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Gross merchandise volume <sup>3</sup>	1172.8	965.1	651.9	515.5
Number of items sold <sup>4</sup>	12.9	9.7	6.9	5.1
Total payment volume <sup>5</sup>	132.8	119.1	79.6	66.8
Total payment transactions <sup>6</sup>	1.2	0.9	0.7	0.5
Capital expenditures	3.1	19.6	0.5	1.5
Depreciation and Amortization	1.9	1.5	1.0	0.8

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***

Net revenues were \$40.9 million for the three-month period ended June 30, 2009, an increase of \$6.4 million, or 18.7%, from \$34.5 million for the same period in 2008. This increase was attributable to a 9.5% increase in revenues derived from our MercadoLibre marketplace, from \$28.3 million for the three-month period ended June 30, 2008 to \$31.0 million for the same period in 2009 and to a 60.5% increase in revenues derived from MercadoPago, from \$6.2 million for the three-month period ended June 30, 2008 to \$9.9 million for the same period in 2009.

Measured in local currencies, revenues grew 41.6% and 39.5% in the three- and six-month period ended in June 30, 2009 compared to the same periods a year earlier.

Growth in MercadoLibre Marketplace revenues resulted principally from a 26.5% increase in the gross merchandise volume transacted through our platform from the second quarter of 2008 to the second quarter of 2009, partially offset by a decrease in our Marketplace take rate, defined as Marketplace revenues as a percentage of gross merchandise volume, from 5.5% for the three-month period ended June 30, 2008 to 4.8% for the three-month period ended June 30, 2009. The decrease in take rate is principally due to changes in revenues realized on a country-by-country basis, higher growth in no insertion fee listings, which, marginally have a lower take rate, and the impact of currency devaluation in certain fixed components of our fee structure. The growth in MercadoPago revenues for the three-month period ended June 30, 2009 resulted principally from 19.1% increase in the total payments volume completed on our MercadoPago payments platform. In the same periods, our Payments take rate, defined as Payments revenues as a percentage of total Payment volume, increased from 9.2% in the second quarter of 2008 to 12.4% in the second quarter of 2009 (see Description of Line items: Net Revenue section for an explanation of how revenues are recorded for MercadoPago installments).

Net revenues for the six-month period ended June 30, 2009 were \$73.2 million, an increase of \$9.9 million, or 15.7%, increase over the same period in 2008. This growth was the result of 10.0% growth in the MercadoLibre marketplace revenues, from \$51.8 million for the first six-months of 2008 to \$57.0 million for the same period in 2009, and a 41.1% growth in MercadoPago revenues, from \$11.5 million for the six-month ended June 30, 2008 to \$16.3 million for the same period in 2009.

On a segment basis, our net revenues for the three-month period ended June 30, 2009 as compared to three-month period ended June 30, 2008, increased across all segments except in our Brazil marketplace segment. The decrease in our Brazil marketplace segment is related to the devaluation of the Brazilian Real. In local currency, our Marketplace revenues in Brazil grew 15.2% in the three-month period ended June 30, 2009 compared to the same period a year earlier. More specifically, we experienced net revenue increases of \$3.7 million or 60.5% from our MercadoPago payments platform, \$1.6 million or 27.9% in from our marketplace in Venezuela, \$1.3 million or 30.5% from our Marketplace in Argentina, \$0.7 million or 41.5% from our Marketplace in all other countries, and \$0.2 million, or 6.4% from our Marketplace in Mexico, partially offset by a decrease of \$1.0 million, or 7.7% from our Marketplace segment in Brazil.

On a segment basis, our net revenues for the six-month period ended June 30, 2009 as compared to the same period in 2008 increased across all segments except in our Brazil marketplace segment. The decrease in our Brazil marketplace segment is related to the devaluation of the Brazilian Real. In local currency, our Marketplace revenues in Brazil grew 13.1% in the six-month period ended June 30, 2009 compared to the same period a year earlier. More specifically, we experienced net revenue increases of \$4.7 million, or 41.1% growth for MercadoPago business, \$4.2 million, or 44.3% in net revenues from our Marketplace Venezuela, \$2.7 million, or 35.2% from our marketplace in Argentina, a combined growth of \$1.2 million or 38.9% from our marketplace in all other countries, and, \$0.1 million, or 2.1% from our marketplace in Mexico, partially offset by decreases of \$3.0 million, or 11.9% in net revenues in our marketplace Brazil.

Based on geography, for the three-month period ended June 30, 2009 the net revenue increase of \$6.4 million over the same period in 2008, is attributed to increases of \$2.5 million, or 13.2% in Brazil, \$1.6 million, or 26.3% in Venezuela, \$1.5 million, or 31.6% in Argentina, and \$0.7 million or 41.7% in all other countries and \$0.2 million, or 6.8% in Mexico.

For the six-month period ended June 30, 2009, revenue growth by geography compared to the same period in 2008 was attributable to an increase of \$4.3 million, or 42.8% in net revenues in Venezuela, of \$3.1 million, or 36.1% in



Argentina, \$1.3 million, or 3.7% in net revenues in Brazil, a combined growth of \$1.2 million or 39.0% in all other countries and \$0.1 million, or 2.0% in Mexico.

**Table of Contents*****Cost of net revenues***

Cost of net revenues was \$8.6 million and \$15.2 million for the three-and six-month period ended June 30, 2009, respectively, an increase of 24.5% and 17.9% from cost of net revenues for the same periods in 2008. Cost of net revenues as a percentage of net revenues increased to 21.0% for the three-month period ended June 30, 2009 from 20.0% for the same period in 2008 and to 20.8% of net revenues for the six-month period ended June 30, 2009 from 20.4% for the same period in 2008. This increase in cost of net revenues was primarily attributable to a \$0.5 million and \$1.0 million charge in the three- and six-month period ended June 30, 2009, respectively, related to the re-measurement of the US dollar denominated expenses of our Venezuelan subsidiaries. For the three- and six-month periods ended June 30, 2009, these expenses were re-measured at an average parallel exchange rate of 6.6 and 6.2

Bolivares Fuertes per U.S. dollar, respectively and translated at the official exchange rate (2.15 Bolivares Fuertes per U.S. dollar). In 2008, the dollar denominated expenses of our Venezuelan subsidiaries were measured at 2.15

Bolivares Fuertes per U.S. dollar and the difference between the parallel exchange rate and the official exchange rate was reflected on the foreign currency line whenever cash in Venezuela was transferred to the U.S.

In addition, expenditures related to our in-house customer support operations increased by \$0.4 million, or 27.8%, in the three-month period ended June 30, 2009 as compared to the three-month period ended June 30, 2008 and increased by \$0.6 million, or 21.3%, in the six-month period ended June 30, 2009 as compared to the six-month period ended June 30, 2008, primarily driven by an increase in compensation costs, investments in improved service and initiatives to combat fraud, illegal items and fee evasion. Billing and collections fees increased by \$0.4 million, or 13.3% for the three-month period ended June 30, 2009 compared to the same period in 2008 and increased by 8.9% for the first six-months of 2009 compared to the same period of 2008. Sales taxes on our net revenues increased by \$0.4 million, or 17.0%, and \$0.4 million, or 10.4%, for the three and six-month periods ended June 30, 2009, respectively, compared to the same periods for 2008.

***Product and technology development***

Product and technology development expenses were \$3.1 million for the three-month period ended June 30, 2009, an increase of \$1.4 million, or 78.4%, from \$1.7 million for the same period in 2008. For the six-month period ended June 30, 2009 these expenses were \$5.7 million, representing an increase of \$2.2 million, or 64.7%, over the same period in 2008. Product and technology development expenses as a percentage of net revenues were 7.5% for the three-month period ended June 30, 2009 as compared to 5.0% of net revenues for the same period in 2008. Product and technology development expenses as a percentage of net revenues were 7.8% of net revenues for the six-month period ended June 30, 2009, as compared to 5.5% for the same period in 2008.

The growth in product and technology development expenses was primarily attributable to \$0.5 million and \$0.8 million for certain withholding taxes related to our Argentine and Brazilian operations for the three- and six-month period ended June 30, 2009, respectively, and a 71.5% and 48.9% increase in compensation costs for the three- and six-month period ended June 30, 2009 over the same period for 2008, respectively. 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 added engineers to meet the increasingly sophisticated product expectations of our customer base. In addition, for the three- and six-month periods ended June 30, 2009, product and technology development expenses increased by \$0.2 million and \$0.4 million, respectively, over the comparable periods for 2008 due to the re-measurement of the US dollar denominated expenses of our Venezuelan subsidiaries. For the three- and six-month period ended June 30, 2009, these expenses were re-measured at an average parallel exchange rate of 6.6 and 6.2 Bolivares Fuertes per U.S. dollar, respectively and translated at the official exchange rate (2.15 Bolivares Fuertes per U.S. dollar). In 2008, the dollar-denominated expenses of our Venezuelan subsidiaries were measured at 2.15 Bolivares Fuertes per U.S. dollar and the difference between the parallel exchange rate and the official exchange rate was reflected on the foreign currency line whenever cash in Venezuela was transferred to the U.S.

***Sales and marketing***

Sales and marketing expenses were \$10.1 million for the three-month period ended June 30, 2009, a decrease of \$0.2 million, or 1.8%, from \$10.3 million for the same period in 2008. For the six-month period ended June 30, 2009,

sales and marketing expenses were \$20.3 million, an increase of \$0.8 million, or 4.2%, over the same period in 2008. Sales and marketing expenses represented 24.6% of our net revenues for the three-month period ended June 30, 2009 and 27.7% of net revenues for the six-month period ended June 30, 2009, down from 29.8% and 30.8% for the same three- and six-month periods in 2008, respectively.

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For the three-month period ended June 30, 2009, the decrease in sales and marketing expenses was primarily attributable to a \$0.9 million decrease in our online advertising expenses related to strategic deals, as we have found better rates at which to drive traffic to our sites over the same period ended June 30, 2008. Online advertising represented 11.0% of our net revenues in the three-month period ended June 30, 2009, down from 14.8% for the same period in 2008. For the three-month period ended June 30, 2009, the decrease in sales and marketing expenses was partially offset by a \$0.5 million charge related to the re-measurement of the US dollars denominated online advertising expenses of our Venezuelan subsidiaries. For the three-month period ended June 30, 2009, these expenses were re-measured at an average parallel exchange rate of 6.6 Bolivares Fuertes per U.S. dollar and translated at the official exchange rate (2.15 Bolivares Fuertes per U.S. dollar). In 2008, the dollar-denominated expenses of our Venezuelan subsidiaries were measured at 2.15 Bolivares Fuertes per U.S. dollar and the difference between the parallel exchange rate and the official exchange rate was reflected on the foreign currency line whenever cash in Venezuela was transferred to the U.S. In addition, the decrease in sales and marketing expenses from the second quarter of 2008 to the second quarter of 2009 was also offset by \$0.6 million, or 43.1%, increase in compensation costs for the three-month period ended June 30, 2009 due to increases in salaries to retain talent. Additionally, bad debt charges increased \$0.1 million for the three-month period ended June 30, 2009 when compared to the same period in 2008. Bad debt charges for the three-month period ended June 30, 2009 represented 5.9% of net revenues versus 6.8% for the same period in 2008.

For the six-month period ended June 30, 2009, the increase in sales and marketing expenses was primarily attributable to \$1.2 million charge related to the re-measurement of the US dollars denominated online advertising expenses of our Venezuelan subsidiaries discussed in detail above. In addition, sales and marketing expenses also increased from the first half of 2008 to the first half of 2009 by \$1.0 million or 34.2% due to increases in salaries to retain talent and driven by the impact of employing the CMG employees for the full first half in 2009 versus only four months in 2008. Additionally, bad debt charges increased \$0.1 million for the six-month period ended June 30, 2009 when compared to the same period in 2008. Bad debt charges for the six-month period ended June 30, 2009 represented 6.7% of net revenues versus 7.5% for the same period in 2008.

The increase in sales and marketing expenses for the six month period ended June 30, 2009 was partially offset by a \$0.9 million decrease in our online advertising expenses related to strategic deals, as we have found better rates at which to drive traffic to our sites over the same periods ended June 30, 2008. Online advertising represented 12.9% of our net revenues in the six-month period ended June 30, 2009, down from 15.6% for the same period in 2008.

***General and administrative***

Our general and administrative expenses were \$6.7 million for the three-month period ended June 30, 2009, an increase of \$0.9 million, or 14.5%, over the same period in 2008, and \$12.8 million for the six-month period ended June 30, 2009, an increase of \$2.0 million, or 18.2%, over the same period in 2008. As a percentage of net revenues, our general and administrative expenses were 16.5% for the three-month period ended June 30, 2009, as compared to 17.1% for the same period in 2008, and 17.5% for the six-months ended June 30, 2009 compared to 17.1% for the same period in 2008.

The major component that drove the increase in general and administrative expenses in the first three and six months of 2009 over the comparable periods in 2008, was an increase in compensation costs of \$1.9 million, or 193.6%, from the second quarter of 2008 to the second quarter of 2009, and of \$2.4 million or 82.4% for the six-months ended June 30, 2009 compared to the same period in 2008. These added compensation costs are primarily attributable to the 2008 and 2009 long term retention plan compensation costs accrued in 2009 versus no impact in 2008, increases in salaries to retain talent, hiring of more senior managers in Brazil, compensation for outside directors and the impact of employing the CMG employees for the full first half in 2009 versus four months in 2008. In addition, general and administrative expenses increased during the three and six month periods ended June 30, 2009 over the same periods for 2008, due to a \$0.8 million and \$1.4 million charge, respectively, related to the re-measurement of the US dollar denominated expenses of our Venezuelan subsidiaries. For the three- and six-month period ended June 30, 2009, these expenses were re-measured at an average parallel exchange rate of 6.6 and 6.2 Bolivares Fuertes per U.S. dollar, respectively and translated at the official exchange rate (2.15 Bolivares Fuertes per U.S. dollar). In 2008, the dollar-denominated expenses of our Venezuelan subsidiaries were measured at 2.15 Bolivares Fuertes per U.S. dollar

and the difference between the parallel exchange rate and the official exchange rate was reflected on the foreign currency line whenever cash in Venezuela was transferred to the U.S. The increase in general and administrative expenses was partially offset by a \$0.6 million and \$0.3 million decrease of outside service fees for the three- and six-month periods ended June 30, 2009 when compared to the same periods for 2008, respectively, due to decreased audit and legal expenses.

**Table of Contents*****Compensation Cost related to acquisitions***

As part of the \$19.0 million acquisition of CMG, which closed in the first quarter of 2008, \$2.0 million of the purchase price was placed into an escrow account for twelve months in order to secure the obligations of the shareholders that remained as managers. The compensation expense was recorded as an operating expenses, instead of considering them part of the purchase price, following EITF 95-8 Accounting for Contingent Consideration Paid to the Shareholders of an Acquired Enterprise in a Purchase Business Combination (See note 4 to our unaudited condensed consolidated financial statements included in this report). As of June 30, 2008, the accrued compensation expenses were \$1.9 million. On June 27, 2008, we released to the former shareholders \$1.9 million of the total Management Escrow Agreement, in exchange for a discount. The compensation expenses related to the acquisition were fully accrued in the second quarter of 2008.

***Other income (expenses)***

Our other expenses were \$4.1 million for the three-month period ended June 30, 2009, an increase of \$1.3 million from other expenses of \$2.7 million for the same period in 2008. For the six-month period ended June 30, 2009 other expenses were \$3.8 million, a decrease of \$0.5 million from \$4.3 million during the same period in 2008.

For the three-month period ended June 30, 2009, the increase in other expenses was primarily a result of an increase in interest expense and other financial charges, from \$1.0 million for the three-month period ended June 30, 2008 to \$3.3 for the same period in 2009. The increase in interest expense primarily results from financing incurred by selling all our credit card coupons to fund working capital needs in our Payments operations in Brazil and \$0.2 million related to the seller financing of the DeRemate acquisition. The interest expenses and other financial charges were partially offset by a \$0.7 million decrease in foreign currency losses, from \$2.1 million for the quarter ended June 30, 2008 to \$1.3 million for the same period in 2009. The decrease in foreign currency losses for the three-month period ended June 30, 2009 were primarily due to gains in Venezuela and Argentina attributable to the impact of the local currency depreciation on the cash balances held by those subsidiaries in U.S. dollars. Venezuela has a dual exchange rate system that includes an official exchange rate which was \$2.15 Bolivares Fuertes per U.S. dollar and a parallel exchange rate that was \$6.40 Bolivares Fuertes per U.S. dollar at June 30, 2009. Based on a change in the International Financial Reporting Standard ( IFRS ) accounting standards implemented by Venezuela in 2008, which establishes that the parallel exchange rate should be used to account for assets and liabilities in U.S. dollars in the statutory local Financial Statements up to the limit of the liabilities denominated in foreign currency, we started re-measuring our assets and liabilities at the parallel exchange rate in our two main subsidiaries in Venezuela, MercadoLibre Venezuela S.A. and Grupo Veneclassificados C.A. The positive result generated by the abovementioned re-measurement should allow us to access U.S. dollars at the official exchange rate, after a process that includes obtaining approval from the Venezuelan Commission of Exchange Administration ( CADIVI ), to distribute dividends. If the CADIVI approves the transaction, the Venezuelan subsidiaries could then sell U.S. dollars held in the United States at the parallel exchange rate, buy Bolivares Fuertes , and then distribute dividends buying the U.S. dollars at the official exchange rate. Therefore, based on paragraph 27a of FAS 52 Foreign Currency Translation , the Venezuelan subsidiaries have re-measured the asset and liabilities in U.S. dollar balances outstanding at the June 30, 2009 parallel exchange rate. Further, in accordance with paragraph 27b of FAS 52, the Venezuelan subsidiaries assets, liabilities, income and expense accounts were translated at the rate applicable for dividend remittances, which at June 30, 2009 is the official exchange rate. According to the International Practices Task Force Joint Meeting with SEC Staff of June 2, 2008, the existence of a parallel market does not constitute unusual circumstances potentially justifying the use of an exchange rate other than the official rate for purposes of foreign currency translation. Before the fourth quarter of 2008, this asset position, which is mainly comprised of cash and short-term investments held in US bank accounts, had been historically re-measured at the official exchange rate of 2.15 Bolivares Fuertes per US dollar, because (a) the subsidiaries used the US bank account balances to pay foreign suppliers, (b) there was no management intention to return those funds to Venezuela and (c) MercadoLibre Venezuela had no accumulated profits to make a dividend distribution for statutory purposes. For that reason, during the three- and six-month periods ended June 30, 2008, our Venezuelan U.S. dollar assets were not re-measured at the parallel exchange rate, and the related negative foreign currency impact amounted to \$0.8 million and \$1.6 million, respectively. We could have to record foreign currency losses in the future to reverse these gains, or for other factors. Given the risks in Venezuela (see Risk Factors We may

*incur losses in the event we are unable to distribute dividends from our Venezuelan subsidiaries at the official exchange rate, or as a result of changes in the political, economic or regulatory environment in Venezuela*, and *Political and economic conditions in Venezuela may have an adverse impact on our operations* in our Annual Report on Form 10-K for the fiscal year ended December 31, 2008 as filed with the Securities and Exchange Commission on February 27, 2009. (See our Annual Report on Form 10-K for the fiscal year ended December 31, 2008 as filed with the Securities and Exchange Commission on February 27, 2009, for more detail). As of June 30, 2009, the foreign currency effect on assets included in other non-current assets in our balance sheet amounts to \$12.3 million and foreign currency gains related to our Venezuelan subsidiaries amounts to \$0.9 million and \$2.0 million for the three- and six-month periods ended June 30, 2009. In addition, interest expenses and other financial charges were partially offset by an increase in interest income and other financial charges, from \$0.3 million in the three-month period ended June 30, 2008 to \$0.6 million in the same period of 2009. This increase is primarily due to higher interest income of our investments driven by a greater volume of investments and, to a lesser extent, to \$0.1 million of accrued gains related to changes in the fair value of put options in the three-month period ended June 30, 2009 versus no impact in the same period of 2008.

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For the six-month period ended June 30, 2009, the decrease in other expenses was primarily a result of a \$0.5 million foreign currency gains versus \$3.0 million of foreign currency losses for the same period of 2008. The foreign currency gains were primarily due to gains in Venezuela and Argentina attributable to the impact of the currency depreciation on the cash balances held by those subsidiaries in U.S. dollars. In addition, interest income and other financial charges grew from \$1.0 million in the six-month period ended June 30, 2008 to \$1.5 million in the same period of 2009. This increase is primarily due to \$0.5 million of accrued gains related to changes in the fair value of put options in the six-month period ended June 30, 2009 versus no impact in the same period of 2008. The foreign currency gains and interest income were partially offset by a \$3.5 million increase in interest expense and other financial charges, from \$2.3 million for the six-month period ended June 30, 2008 to \$5.8 for the same period in 2009. The increase in interest expense primarily results from financing incurred by selling all our credit card coupons to fund working capital needs in our Payments operations in Brazil and \$0.5 related to the seller financing of the DeRemate acquisition.

***Income and asset tax***

Our reported income and asset tax expense for the three-month period ended June 30, 2009 was \$1.7 million compared to a reported tax expense of \$2.5 million for the same period in 2008, a decrease of \$0.8 million, or 32.8%. For the six-month period ended June 30, 2009 reported tax expense was \$3.3 million compared to \$5.3 million for the same period in 2008, a decrease of \$2.0 million, or 37.7%. Our blended tax rate, defined as income and asset tax expense as a percentage of income before income and asset tax, was 19.8% and 21.6% for the three- and six-month periods ended June 30, 2009, respectively, as compared to 45.5% and 51.5% for the same periods ended June 30, 2008.

The decrease during the three- and six-month periods ended June 30, 2009 was driven by certain tax efficiencies derived from our tax planning efforts, the reduction of a domestic valuation allowance for \$0.5 million in the second quarter of 2009, and a reduction of the impact of the Mexican tax called Impuesto Empresarial a Tasa Única ( IETU ) which amounted to \$0.2 million and \$0.6 million during the three- and six-month periods ended June 30, 2008. In addition, in the three- and six-month period ended June 30, 2008, foreign exchange losses in Venezuela were not deductible and our blended tax rate was impacted by \$1.9 million of accrued compensation expenses following the EITF 95-8 Accounting for Contingent Consideration Paid to Shareholders of an Acquired Enterprise in a Purchase Business Combination (See Compensation Cost related to acquisitions above), as this charge reduced pre-tax income, but the related tax credit had a full valuation allowance.

Our effective income tax rate, defined as the provision for income taxes as a percentage of pre tax income, was 20.0% and 19.1% for the three and six-month periods ended June 30, 2009, respectively, compared to 34.8% and 41.7% for the same periods ended June 30, 2008. The effective income tax rate excludes the effects of the deferred income tax, and of the IETU tax.

***Liquidity and Capital Resources***

Our main cash requirement historically has been working capital to fund MercadoPago financing operation in Brazil. We also require cash for capital expenditures relating to our technology infrastructure, software applications and office space. In addition, we require cash to repay the promissory notes related to DeRemate Operations acquisition. 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, selling credit cards coupons and through cash advances derived from our MercadoLibre marketplace business.

At June 30, 2009, our principal source of liquidity was \$48.0 million of cash and cash equivalents and short-term investments and \$22.4 million of long-term investments, provided by cash generated from operations as well as the net proceeds of our initial public offering.



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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 MercadoPago grows as a percentage of total revenues we anticipate that we will have increased working capital needs. Historically, we have funded these needs 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. Currently we are relying mostly on transferring credit card receivables to financial institutions in return for cash. The cost of discounting these receivables is built in the financing fees of MercadoPago.

The following table presents our cash flows from operating activities, investing activities and financing activities for the six-month periods ended June 30, 2009 and 2008:

(In millions)	Six Months Ended June 30,	
	2009	2008
	(Unaudited)	
Net Cash provided by (used in):		
Operating activities	\$ 12.7	\$ 6.6
Investment activities	(8.8)	2.1
Financing activities	(3.2)	(7.6)
Effect of exchange rate changes on cash and cash equivalents	1.2	0.9
Net increase in cash and cash equivalents	\$ 1.9	\$ 2.0

***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. Our net cash from operating activities was \$12.7 million for the six-month period ended June 30, 2009 as compared to \$6.6 million for the same period in 2008, an increase of \$6.1 million or 93.1%. The increase in net cash provided by operating activities during the six-month period ended June 30, 2009 was mainly attributable to an increase in net income of \$7.1 million to \$12.1 million for the six-month period ended June 30, 2009 when compared to \$5.0 million for the same period in 2008. Net cash provided by operating activities during the six-month period ended June 30, 2009 also grew by \$7.8 million versus the same period of 2008 as a consequence of decreases in working capital in our Payments segment, derived mostly from the sale of credit cards receivables to financial institutions and the increases of funds payable to customers due to a higher amount of transactions in 2009.

These increases in cash provided by operations were partially offset by increases in other assets for \$4.4 million related to the impact of foreign currency gains in Venezuela, an increase in account receivables in 2009 versus 2008 for \$1.6 million, a \$0.7 million decrease in accounts payable and accrued expenses and a \$0.6 decrease in other liabilities.

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

Net cash used in investing activities was \$(8.8) million for the six-month period ended June 30, 2009 compared to \$2.1 million during the same period in 2008. Net cash used in investing activities resulted mainly from purchases of investments for \$37.9 million. Additionally, net cash used in investing activities resulted from capital expenditures related to technological equipment, software licenses and to a lesser degree office equipment, reached the amount of \$3.1 million for the six-month period ended June 30, 2009. During the six-month period ended June 30, 2009, the increase of cash used in investment activities was partially offset by proceeds from the sale and maturity of investments for \$32.2 million as part of our financial strategy.

As of June 30, 2008, net cash used in investing activities resulted primarily from the purchase of 100% of the issued and outstanding shares of capital stock of CMG for a fair value of \$0.7 million, trademarks for \$5.6 million and goodwill for \$13.0 million. The outflow showed in our statement of cash flow amounted to \$16.8 million since it was net of cash acquired (0.5 million) and does not consider \$2.0 million recorded as compensation expense and not as

part of the purchase price (See Note 4 to our unaudited condensed consolidated financial statements and Compensation Cost related to acquisitions above). Additionally, purchases of investments accounted for \$(39.1) million of cash used in investing activities during the six-month period ended June 30, 2008, as part of our financial investment strategy and capital expenditures of \$2.7 million. This consumption of cash was partially offset during the first six months of 2008 by proceeds from the sale of investments for \$60.7 million also part of our financial strategy.

**Table of Contents*****Net cash used in financing activities***

Net cash used in financing activities was \$(3.2) million for the six-month period ended June 30, 2009 compared to \$(7.6) million for the same period in 2008. For the six-month period ended June 30, 2009, the main factor that contributed to our use of cash in financing activities was a reduction in short term debts related to a \$3.1 million payment of DeRemate acquisition seller financing. For the six-month period ended June 30, 2009, the main factor that contributed to our use of cash in financing activities was a reduction in our financing from loans backed by Payments credit card receivables. Since the fourth quarter of 2008, we decided to sell all the credit card coupons related to Funds Receivable from Customers in our MercadoPago business to financial institutions and accounted for as a sale of financial assets. For that reason we no longer recognized the credit card portfolio as assets and no liability was recorded. The difference in the accounting treatment generates a decrease in net cash used in financing activities. 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. These promissory notes mature 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 and can be prepaid by the Company without penalty. On June 3, 2009, the Company paid to the Sellers \$3,113,203 for principal and accrued interest. As of June 30, 2009 the balance of those promissory notes was disclosed in our balance sheet net of certain working capital adjustments for \$14.8 million as principal and \$0.6 million as interest accrued. Pursuant to the terms of the notes, we have agreed that, for as long as the notes are outstanding, we will not incur indebtedness, on a consolidated basis, in excess of \$55 million (including the debt incurred under the notes), except for intercompany debt or guarantees and guarantees provided by us or our affiliates under any discount of funds receivable from customers of MercadoPago.

***Capital expenditures***

Our capital expenditures increased \$0.4 million, to \$3.1 million for the six-month period ended June 30, 2009 as compared to \$2.7 million for the same period in 2008. This increase was due to purchases of hardware and software licenses necessary to maintain and update the technology of our platform, and to a lesser degree, the cost of computer software developed internally, office equipment and new office space. We anticipate continued investments in capital expenditures in the future as we strive to maintain our position in the Latin American e-commerce market.

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 June 30, 2009, the Argentine subsidiary has paid \$4.5 million into the trust. For U.S. GAAP purposes the investment was recorded as a long term investment instead of as Property and Equipment. As this investment represents an undivided interest for more than 20% of the total amount of the real estate trust, it is accounted for under the equity method and it is classified as Long-Term Investments in our balance sheet.

We believe that our existing cash and cash equivalents, including the net proceeds from our initial public offering, 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 the promissory notes related to the DeRemate Operations acquisition and other obligations going forward.

**Table of Contents****Off-balance sheet arrangements**

At June 30, 2009, we did not have any off-balance sheet arrangements or relationships with unconsolidated entities for the purpose of facilitating contractually narrow or limited purposes.

**Recent accounting pronouncements****Hierarchy of Generally Accepted Accounting Principles**

In May 2008, FAS No. 162 The hierarchy of generally accepted accounting principles was issued by the FASB. FAS No. 162, which became effective on November 13, 2008, identifies the sources of accounting principles and the framework for selecting the principles used in preparing the financial statements of nongovernmental entities that are presented in conformity with U.S. GAAP. On March 27, 2009, the FASB issued an Exposure Draft, The Hierarchy of Generally Accepted Accounting Principles, a replacement of FASB Statement No. 162, with a comment period ending May 8, 2009. After completion of the comment period, the Board will consider comment letters received and begin re-deliberations. The Codification is set to officially launch on July 1, 2009. Once the Codification is approved, all of its content will carry the same level of authority, effectively superseding FAS No. 162. After that date, only one level of authoritative GAAP will exist. All other literature will be considered non-authoritative. The Codification does not change US GAAP; instead, it introduces a new structure-one that is organized in an easily accessible, user-friendly online research system.

**Accounting for Transfers of Financial Assets**

In July 2009, the FASB issued FASB Statement No. 166, Accounting for Transfers of Financial Assets an amendment of FASB Statement No. 140 (FAS 166), amending the guidance on transfers of financial assets in order to address practice issues highlighted most recently by events related to the economic downturn. The amendments include: (1) eliminating the qualifying special-purpose entity concept, (2) a new unit of account definition that must be met for transfers of portions of financial assets to be eligible for sale accounting, (3) clarifications and changes to the derecognition criteria for a transfer to be accounted for as a sale, (4) a change to the amount of recognized gain or loss on a transfer of financial assets accounted for as a sale when beneficial interests are received by the transferor, and (5) extensive new disclosures. FAS 166 is effective to new transfers of financial assets occurring from January 1, 2010. The Company will evaluate how its consolidated financial statements and future transfers of financial assets will be affected.

**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 June 30, 2009 are as follows:

(in millions)	Total	Payment due by period			
		Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years
Operating lease obligations (1)	\$ 3.2	\$ 1.8	\$ 1.3	\$ 0.1	\$
Purchase obligations (2)	7.9	7.4	0.5		
Total	\$ 11.1	\$ 9.2	\$ 1.8	\$ 0.1	\$

(1) Includes leases of office space.

(2) On June 19, 2008, our Argentine

subsidiary  
agreed to  
participate in a  
real estate trust,  
which  
investment  
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. We  
expect to  
relocate our  
office  
headquarters to  
this newly  
acquired office  
space upon  
completion of  
the building,  
which we  
expect to occur  
in the second  
quarter of 2010.  
As of June 30,  
2009, the  
Argentine  
subsidiary has  
invested  
\$4.5 million in  
the  
aforementioned  
trust and is  
expected to  
invest an  
additional  
\$4.8 million in  
the following  
12 months. Due  
to the impact of  
inflation and/or  
currency

fluctuations,  
future payments  
could differ  
from our  
estimates.  
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.

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In connection with the DeRemate acquisition, the Company issued to the Sellers unsecured promissory notes. As of June 30, 2009, the outstanding principal amount of the debt was \$15 million. These promissory notes mature as follows: (i) 9 million on September 5, 2009, (ii) 3 million on December 5, 2009 and, (iii) 3 million on March 5, 2010. The promissory notes were issued on September 5, 2008 and 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 and can be prepaid by the Company without penalty.

We have leases for office space in certain countries in which we operate. These are our only operating leases. Purchase obligation amounts include an 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 U.S. 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 June 30, 2009, the Seller financing related to the acquisition of DeRemate consisting of unsecured promissory notes for an aggregate principal amount of \$15.0 million, which will be settled for \$14.8 million due to \$0.2 million of working capital adjustments was denominated in U.S. dollars. We also 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. At June 30, 2009, the total cash and cash equivalents denominated in foreign currencies totaled \$12.2 million, and accounts receivable and funds receivable from customers in foreign currencies totaled \$6.3 million. To manage exchange rate risk, our treasury policy is to transfer all cash and cash equivalents in excess of working capital requirements into dollar-denominated accounts in the United States. At June 30, 2009, our dollar-denominated cash and cash equivalents and short-term investments totaled \$35.8 million and our dollar-denominated long-term investments totaled \$1.8 million. For the six-month period ended June 30, 2009, we incurred foreign currency gains in the amount of \$0.5 million as the cash and investment balances of the subsidiaries held in U.S. 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 June 30, 2009 compared to three-month period ended June 30, 2008 and the six-month period ended June 30, 2009 compared to the six-month period ended June 30, 2008—Other income (expenses) for more detail).

Our Venezuelan subsidiaries re-measure their foreign currency cash and cash equivalents and investments at the parallel exchange rate of 6.40 Bolivares Fuertes per US dollar. Since there is an observable market rate of exchange for securities traded in the parallel market, based on facts and circumstances, this market rate has been used for the re-measurement of foreign currency denominated transactions that could be settled through the parallel market mechanism. According to paragraph 27 of FAS 52 Foreign Currency Translation, in the absence of unusual circumstances, the rate applicable to conversion of a currency for purposes of dividend remittances shall be used to translate foreign currency statements. Furthermore, based on the International Practices Task Force Joint Meeting with SEC Staff of June 2, 2008, the existence of a parallel market does not constitute unusual circumstances potentially justifying the use of an exchange rate other than the official rate for purposes of foreign currency translation. The official exchange rate of 2.15 Bolivares Fuertes per US dollar is used for dividend remittance. The foreign currency effect generated by applying different exchange rates on the above mentioned assets has been accounted for in non-current other assets for a total amount of \$12.3 million.





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In addition, if the U.S. 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 U.S. 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 six-month period ended June 30, 2009, 49.8% of our revenues were denominated in Brazilian reais, 19.4% in Venezuelan Bolivares Fuertes, 15.7% in Argentine pesos, 9.4% in Mexican pesos and 5.7% in the currency of other countries.

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

(In millions)	Six months ended June 30,	
	2009	2008
Brazil	36.4	35.1
Venezuela	14.2	10.0
Argentina	11.5	8.5
Mexico	6.9	6.7
Other countries	4.2	3.0
<b>Total Net Revenues</b>	<b>73.2</b>	<b>63.3</b>

The table below shows the impact on the Company's Net Revenues, Expenses, Other income and Income tax, Net Income and Shareholders' Equity for a +/-10% fluctuation on all the foreign currencies to which we are exposed as of June 30, 2009 and for the six-month period ended June 30, 2009:

(In millions)	-10% (1)	Actual	+10% (2)
Net revenues	79.7	73.2	67.9
Expenses	(58.7)	(54.0)	(50.2)
Income from operations	21.0	19.2	17.7
Other income (expenses) and income tax related to P&L items	(8.0)	(7.6)	(6.4)
Foreign Currency impact related to the remeasurement of our Net Asset position	(3.1)	0.5	2.6
Net income	9.9	12.1	13.9
Total Shareholders' Equity	105.6	106.4	107.2

(1) Appreciation of the subsidiaries local currency against U.S. Dollar

(2) Depreciation of the subsidiaries

local currency  
against U.S.  
Dollar

The table above shows a decrease in our net income when the U.S. dollar weakens against foreign currencies because the re-measurement of our net asset position in US Dollars has a greater 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 an increase in our net income when the U.S. dollar strengthens against foreign currencies because the re-measurement of our net asset position in US Dollars has a greater 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 2009 have not entered into any such agreement.

**Table of Contents*****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 June 30, 2009, MercadoPago funds receivable from customers totaled approximately \$1.9 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. In addition, the Seller financing related to the acquisition of DeRemate consisting of unsecured promissory notes for an aggregate principal amount of \$15.0 million mature as follows: (i) 9 million on September 5, 2009, (ii) 3 million on December 5, 2009 and, (iii) 3 million on March 5, 2010. The promissory notes were issued on September 5, 2008 and 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 and can be prepaid by the Company without penalty. Fixed rate liabilities may have their fair market value adversely impacted due to a decrease in interest rates.

Under our current policies, we do not use interest rate derivative instruments to manage exposure to interest rate changes. Due to the short-term nature of the main part of our investments and because almost 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 June 30, 2009 or interest expenses derived from discounting our MercadoPago receivables or our promissory notes issued in connection with the DeRemate acquisition.

We consider a majority of our investments to be short-term investments, which are classified on our balance sheet as current assets in the amount of \$28.6 million, because the investments 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 approved the 2009 employee retention program ( the 2009 LTRP ) that will be payable as described in Management's Discussion and Analysis of Financial Conditions and Results of Operations Recent Developments. .

The 2009 Variable Payment LTRP liability subjects us to equity price risk. At June 30, 2009, the total contractual obligation fair value of our 2009 Variable Payment LTRP liability amounts to \$2,359,372. As of June 30, 2009, the accrued liability related to the 2009 Variable Payment portion of the LTRP included in Social security payable in our condensed consolidated balance sheet amounts to \$350,566. The following table shows a sensitivity analysis of the risk associated with our total contractual obligation related to the 2009 variable payment if our stock price were to increase or decrease by up to 40%.

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	As of June 30, 2009	
	MercadoLibre, Inc Equity Price	2009 variable LTRP liability
(In US dollars)		
Change in equity price in percentage		
40%	33.12	3,303,121
30%	30.76	3,067,184
20%	28.39	2,831,246
10%	26.03	2,595,309
Static (*)	23.66	2,359,372
-10%	21.29	2,123,435
-20%	18.93	1,887,498
-30%	16.56	1,651,560
-40%	14.20	1,415,623

(\*) 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 six-month period ended June 30, 2009 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, 2008 as filed with the Securities and Exchange Commission on February 27, 2009 and Part II, Item 1 Legal Proceedings of our Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2009 as filed with the Securities and Exchange Commission on May 11, for additional discussion of the litigation and regulatory risks facing our company.

As of June 30, 2009, our total reserves for proceeding-related contingencies were approximately \$1.0 million for 327 legal actions against us in which we have determined that a loss is probable. We do not reserve for losses we determine to be possible or remote.

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As of June 30, 2009, there were 297 lawsuits pending against our Brazilian subsidiary in the Brazilian ordinary courts. In addition, as of June 30, 2009, there were more than 2,175 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. Set forth below is a description of the legal proceedings that we have determined to be material to our business. We have excluded ordinary routine legal proceedings incidental to our business. In each of these proceedings we also believe we have meritorious defenses, and intend to continue defending these actions. We have established a reserve for these proceedings.

**Litigation**

On August 23, 2007, Serasa S.A., or Serasa, sued our Brazilian subsidiary in the Sixth Civil Court of Santo Amaro, City of São Paulo, State of São Paulo, Brazil. Serasa, a company which provides credit-related analysis, information services and data bank and payment habits related to individuals and corporations, alleged that our Brazilian subsidiary should be responsible for the sale by its users of allegedly unlawful content and unfair uses of its services and Serasa's trade name and trademarks. Serasa seeks an injunction, fines, and compensatory damages. On November 5, 2007 a preliminary injunction was granted to Serasa, ordering our Brazilian subsidiary (a) to remove any content offering: (i) consultation of Serasa's database; and (ii) passwords, texts or any material that promises to consult, remove or teach how to remove someone name from Serasa's database; (b) the prohibition to allow in its website any content similar to the aforementioned; and (c) to provide certain personal data of certain users who have offered such products. In addition to the preliminary injunction, a fine of approximately \$5,500 per day of non-compliance was imposed. On December 17, 2007, our Brazilian subsidiary presented the information requested. On January 7, 2008, we filed an interlocutory appeal at the State Court of São Paulo requesting reversal of item (b) of the injunction and presented our defense on January 7, 2008. Serasa filed its counter-arguments to our appeal on January 30, 2008. On March 26, 2008, we were summoned with a petition presented by Serasa alleging non-compliance with the injunction. We presented our response on March 31, 2008, arguing that we are in full compliance with the injunction which was accepted by the judge. Serasa replied our defense on June 6, 2008. On June 17, 2008, Serasa appealed the decision by which the Judge stated that the Brazilian subsidiary complied with the injunction. On August 26, 2008 the State Court of São Paulo granted the interlocutory appeal filed by our Brazilian subsidiary, in order to allow in the Brazilian website any content related to Serasa as established in the item (b) of the injunction abovementioned. On March 13, 2009 a conciliation hearing was held, but no conciliation was reached. On June 5, 2009 the judge declared that the Brazilian Subsidiary shall not be held liable for the content posted by its users. Nonetheless, the sentence ordered the Brazilian Subsidiary to remove certain contents related to the plaintiff. Serasa filed a motion for clarification of that decision, which was rejected by the Judge.

On February 29, 2008, Mr. Eduardo Paoletti presented a claim against our Brazilian subsidiary and Banco do Brasil S.A. and Banco Nossa Caixa S.A., in the Forty Second Civil Court of the Central Court of the City of São Paulo. Plaintiff alleges that his personal information was used by third parties to (i) register in our Brazilian website and (ii) open bank accounts in the aforementioned banks in order to commit fraud against users of our Brazilian website. Plaintiff alleges that our Brazilian subsidiary should be held joint and severally responsible with the other defendants for damages. Mr. Paoletti seeks compensatory and statutory damages estimated for approximately \$1.8 million. We were summoned on June 19, 2008 and presented our defense on July 28, 2008. On September 12, 2008, Mr. Paoletti presented a rebuttal to the defense and on November 28, 2008, the Brazilian subsidiary presented an argument against Mr. Paoletti's rebuttal. A conciliation and settlement hearing has been set for May 14, 2009. On May 27, 2009 the judge ruled in favor of Mr. Paoletti imposing on all the plaintiffs a joint obligation to pay approximately \$8,000 in material damages and approximately \$3,000 in moral damages to Mr. Paoletti. On June 26, Mr. Paoletti and one of the banks presented a recourse against the decision to a higher court.

On May 5, 2008 Nike International Ltd. or Nike sued our Argentine subsidiary in the First Civil and Commercial Federal Court, Argentina, alleging that this subsidiary was infringing Nike trademarks as a result of sellers listing

allegedly counterfeit Nike branded products through the Argentine page of our website. On May 26, 2009 we presented a preliminary objection requesting that Nike deposit as a security bond for costs. The issue is currently pending to be decided.

On May 7, 2009, we received notice that the Consumer Protection Agency in Venezuela ( INDEPABIS ) was conducting an investigation over car dealers listings on our tucarro.com.ve website. The Agency had temporarily suspended additional car listings on the TuCarro Venezuelan site during 20 days; however during that time, visitors were able to navigate the site and access current listings and advertising. On May 8, 2009, we presented an opposition to the suspension and on May 26, 2009, the Company received notice that the suspension was lifted. The Company immediately restored full functionality to the website and tucarro.com.ve. There is no further administrative proceeding pending against the Company with respect to this matter at this time, however we cannot assure that proceedings will not be initiated in the future.

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### **State of São Paulo Fraud Claim**

On June 12, 2007 a state prosecutor of the State of São Paulo, Brazil presented a claim against our Brazilian subsidiary. The state prosecutor alleges that our Brazilian subsidiary should be held liable for any fraud committed by sellers on the Brazilian version of our website, or responsible for damages suffered by buyers when purchasing an item on the Brazilian version of the MercadoLibre website. We were summoned on December 12, 2007 and presented our defense on January 4, 2008. On June 26, 2009, the Judge of the first instance court ruled in favor of the State of São Paulo prosecutor, declaring that our Brazilian subsidiary shall be held joint and severally liable for frauds committed by sellers and damages suffered by buyers when using the website, and ordering us to remove from the Terms of Service of the Brazilian website any provision limiting our responsibility with a penalty of approximately \$2,500 per day of non-compliance. On June 29, 2009 the Company presented a recourse to the lower court. The decision is still pending.

### **State of Bahia Fraud Claim**

On December 12, 2007, a state prosecutor of the State of Bahia, Brazil presented a claim against our Brazilian subsidiary. The state prosecutor alleges that our Brazilian subsidiary should be held liable for any fraud committed by sellers on the Brazilian version of our website, or responsible for damages suffered by buyers when purchasing an item on the Brazilian version of the MercadoLibre website and should exclude from its Terms of Service any provision limiting its responsibility. The state prosecutor of the State of Bahia also seeks compensatory damages estimated for approximately \$100,000. On July, 8, 2009, an injunction was granted by the judge, ordering the immediate removal from the Terms of Service of the Company of any provision limiting its responsibility with a penalty of approximately \$10,000 per day of non-compliance. The judge also scheduled a hearing for August, 12, 2009. On July 21, 2009 we presented a request for the withdrawal of the effects of the preliminary injunction. On July, 28 2009, the judge suspended the effects of the preliminary injunction until the hearing. We presented our defense on August 5, 2009.

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

In addition to the risk factors disclosed in “Part I – Item 1A. Risk Factors” of our Annual Report on Form 10-K for the fiscal year ended December 31, 2008, set forth in this section are additional risk factors we believe are applicable to our business. The following risk factor updates and supersedes risk factors in our Annual Report to the extent of any inconsistency.

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

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

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



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We believe that government and consumer protection agencies have received a substantial number of complaints about both the MercadoLibre marketplace and MercadoPago. We believe that these complaints are small as a percentage of our total transactions, but they could become large in aggregate numbers over time. In fact, various governmental regulatory agencies have already contacted us from time to time with questions about our operations and may continue to do so. On June 26, 2009, a judge of a first instance court in the State of São Paulo ruled that our Brazilian subsidiary should be held liable for fraud committed by sellers and losses incurred by buyers when purchasing items on the Brazilian version of the MercadoLibre website. Similar claims are pending in other States in Brazil. We are appealing this ruling, however if during these inquiries any of our processes are found to violate laws on consumer protection, or to constitute unfair business practices, we could be subject to civil damages, enforcement actions, fines or penalties. Such actions or fines could require us to restructure our business processes in ways that would harm our business and cause us to incur substantial costs.

In addition, our success depends largely upon sellers accurately representing and reliably delivering the listed goods and buyers paying the agreed purchase price. We have received in the past, and anticipate that we will receive in the future, complaints from users who did not receive the purchase price or the goods agreed to be exchanged. While we can suspend the accounts of users who fail to fulfill their delivery obligations to other users, we do not have the ability to require users to make payments or deliver goods sold. We also receive complaints from buyers regarding the quality of the goods purchased or the partial or non-delivery of purchased items. We have tried to reduce our liability to buyers for unfulfilled transactions or other claims related to the quality of the purchased goods by offering a free Buyer Protection program to buyers who meet certain conditions. Although the number of claims that we have paid through this program is not currently significant, payments made during 2008 totaled \$0.1 million, we may in the future receive additional requests from users requesting reimbursement or threatening legal action against us if we do not reimburse them. We are in the process of introducing a new version of the Buyer's Protection Program, which will have broader and higher coverage. This new version may impact the number and amount of reimbursements we are required to make.

Any litigation related to unpaid or undelivered purchases or defective items could be expensive for us, divert management's and could result in increased costs of doing business. In addition, any negative publicity generated as a result of the fraudulent or deceptive conduct of our users could damage our reputation and diminish the value of our brand name.

## **Item 2    Unregistered Sales of Equity Securities             and Use of Proceeds**

### **Issuer Purchases of Equity Securities**

The following table describes common stock repurchases made by the Company during the second quarter of 2009:

Period		Total Number of Shares	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans (1)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans
April 1, 2009	April 30, 2009				17.4 million (2)
May 1, 2009	May 31, 2009				17.4 million (2)
June 1, 2009	June 30, 2009				17.4 million (2)

(1) On November 14, 2008, we announced that our board of directors approved a share repurchase plan authorizing us to repurchase, from available capital, up to \$20 million of our outstanding common stock from time to time through November 13, 2009. The timing and amount of any share repurchase under the share repurchase plan will be determined by our management 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 Exchange Act. The share repurchase plan does not require

us to acquire any specific number of shares and may be temporarily or permanently suspended or discontinued by us at any time. A committee of the board of directors will reevaluate the operation of the plan each fiscal quarter.

- (2) The approximate total dollar value of shares that may yet be purchased is the difference between the total amount of repurchases authorized and the total amount spent on repurchases to date. To enhance our share repurchase plan, during the six-month period ended June 30, 2009, we sold equity put options. These put options entitled the holders to sell shares of our common stock to us on certain dates at specified prices. As of June 30, 2009, there were no options to

purchase shares  
of our common  
stock  
outstanding.

**Table of Contents****Item 4 Submission of Matters to a Vote of  
Security Holders**

The Annual Meeting of Stockholders of MercadoLibre, Inc. was held at the offices of Hunton & Williams LLP, 1111 Brickell Avenue, Suite 2500, Suite 2500, Miami, Florida, at 1:00 p.m., local time, on June 10, 2009 for the following purposes:

To elect two members to the board of directors as Class II directors for a term of three years each; and

To consider and vote upon a proposal to approve the adoption of the 2009 Equity Compensation Plan, which contains terms substantially similar to the terms of the MercadoLibre 1999 Stock Option and Restricted Stock Plan scheduled to expire in November 2009.

The number of outstanding shares of our Common Stock as of April 15, 2009, the record date for the Annual Meeting, was 44,073,967 shares. 34,567,993 shares of Common Stock were represented in person or by proxy at the Annual Meeting.

Pursuant to our Articles of Incorporation, shareholders are entitled to one vote for each share of Common Stock.

The following Class II directors were elected at the Annual Meeting: (i) Martín de los Santos and (ii) Nicolás Galperín.

The following table sets forth the number of votes cast for, against, or withheld for each director nominee, as well as the number of abstentions and broker non-votes as to each such director nominee:

Director Nominee	Votes Cast For	Votes Cast Against	Votes Withheld	Abstentions	Broker Non- Votes
Martín de los Santos	33,319,407		1,248,586		
Nicolás Galperín	34,412,289		155,704		

With respect to the proposal to approve of the adoption of the 2009 Equity Compensation Plan: (i) 26,732,681 votes were cast for such proposal, (ii) 918,950 votes were cast against such proposal and (iii) 19,203 shares abstained from voting on such proposal. In addition, there were 6,897,159 broker non-votes with respect to such proposal. No votes were withheld. Accordingly, the proposal to approve of the adoption of the 2009 Equity Compensation Plan was approved.

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**Item 6 Exhibits**

- 10.1 2009 Equity Compensation Plan (1)
- 10.2 2009 Long-Term Retention Plan (2)
- 31.1 Certification of Chief Executive Officer pursuant to Securities Exchange Act Rule 13a-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.\*
- 31.2 Certification of Chief Financial Officer pursuant to Securities Exchange Act Rule 13a-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.\*
- 32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.\*\*
- 32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.\*\*

\* Filed herewith

\*\* Furnished  
herewith

(1) Incorporated by  
reference to the  
Company's  
Registration  
Statement on  
Form S-8  
(No. 333-159891)  
filed with the  
Securities and  
Exchange  
Commission on  
June 11, 2009

(2) Incorporated by  
reference to the  
Company's  
Current Report on  
Form 8-K filed  
with the Securities  
and Exchange  
Commission on  
July 21, 2009

**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: August 7, 2009

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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