

MERCADOLIBRE INC
Form 10-K
March 03, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2013

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)

Arias 3751, 7th Floor
Buenos Aires, C1430CRG, Argentina
(Address of registrant's principal executive offices)

(+5411) 4640-8000
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Class	Name of Exchange upon Which Registered
Common Stock, \$0.001 par value per share	Nasdaq Global Market
Securities registered pursuant to Section 12(g) of the Act: None	

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulations S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment of this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer", "accelerated filer" and "smaller reporting

company in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer (Do not check if smaller reporting company)

Smaller reporting company

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

The aggregate market value of the registrant's Common Stock, \$0.001 par value per share, at June 30, 2013, held by those persons deemed by the registrant to be non-affiliates (based upon the closing sale price of the Common Stock on the Nasdaq Global Market on June 30, 2013) was approximately \$3,470,000,342. Shares of the registrant's Common Stock held by each executive officer and director and by each entity or person that, to the registrant's knowledge, owned 10% or more of the registrant's outstanding common stock as of June 30, 2013 have been excluded from this number in that these persons may be deemed affiliates of the registrant. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of February 21, 2014, there were 44,153,892 shares of the registrant's Common Stock, \$0.001 par value per share, outstanding.

Documents Incorporated By Reference

Portions of the Company's Definitive Proxy Statement relating to its 2014 Annual Meeting of Stockholders, to be filed with the Securities and Exchange Commission by no later than April 30, 2014, are incorporated by reference in Part III, Items 10-14 of this Annual Report on Form 10-K as indicated herein.

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MERCADOLIBRE, INC.

FORM 10-K

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Any statements contained in this report that are not statements of historical fact, including statements about our beliefs and expectations, are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, and should be evaluated as such. The words anticipate, believe, expect, intend, plan, estimate, target, project, should, may, could, will and similar words and expressions are used to identify forward-looking statements. These forward-looking statements are contained throughout this report, for example in Risk Factors, Management's Discussion and Analysis of Financial Condition and Results of Operations and Business. Forward-looking statements generally relate to information concerning our possible or assumed future results of operations, business strategies, financing plans, competitive position, industry environment, potential growth opportunities, and the effects of future regulation and the effects of competition. Such forward-looking statements reflect, among other things, our current expectations, plans, projections and strategies, anticipated financial results, future events and financial trends affecting our business, all of which are subject to known and unknown risks, uncertainties and other important factors (in addition to those discussed elsewhere in this report) that may cause our actual results to differ materially from those expressed or implied by these forward-looking statements. These risks and uncertainties include, among other things:

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

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

government regulation;

litigation and legal liability;

systems interruptions or failures;

our ability to attract and retain qualified personnel;

consumer trends;

security breaches and illegal uses of our services;

competition;

reliance on third-party service providers;

enforcement of intellectual property rights;

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

seasonal fluctuations; and

political, social and economic conditions in Latin America in general, and in Venezuela and Argentina in particular, including Venezuela's status as a highly inflationary economy, and possible future currency devaluations and other changes to the exchange rate systems in those countries, considering the Complementary System for the Administration of Foreign Currencies (SICAD) for generally accepted accounting principles in the United States (U.S. GAAP).

Many of these risks are beyond our ability to control or predict. New risk factors emerge from time to time and it is not possible for management to predict all such risk factors, nor can it assess the impact of all such risk factors on our company's business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

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 this report. You should read that information in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 7 of Part II of this report and our audited consolidated financial statements and related notes in Item 8 of Part II of this report, as well as the factors discussed in the other reports and documents we file from time to time with the Securities and Exchange Commission, or SEC. 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 they are unknown to us or we do not perceive them to be material that could cause results to differ materially from our expectations.

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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 SEC.

PART I

ITEM 1. BUSINESS

MercadoLibre, Inc. (together with its subsidiaries us , we , our or the Company) hosts the largest online commerce platform in Latin America, which is focused on enabling e-commerce and its related services. Our platforms are designed to provide our users with a complete portfolio of services facilitating e-commerce transactions. We are market leaders in e-commerce in each of Argentina, Brazil, Chile, Colombia, Costa Rica, Ecuador, Mexico, Peru, Uruguay and Venezuela, based on unique visitors and page views. We also operate online commerce platforms in the Dominican Republic, Panama and Portugal.

Through our online commerce platform, we provide buyers and sellers with a robust online commerce environment that fosters the development of a large and growing e-commerce community in Latin America, a region with a population of over 598 million people and one of the fastest-growing Internet penetration rates in the world. We believe that we offer a technological and commercial solution that addresses the distinctive cultural and geographic challenges of operating an online commerce platform in Latin America.

We offer our users an eco-system of six related e-commerce services: the MercadoLibre Marketplace, The MercadoLibre Classifieds Service, the MercadoPago payments solution, the MercadoLibre Advertising program, the MercadoShops on-line stores solution and the Mercado Envios shipping service.

The MercadoLibre Marketplace, which we regularly refer to as our marketplace, is a fully-automated, topically-arranged and user-friendly online commerce service. This service permits both businesses and individuals to list general merchandising items and conduct their sales and purchases online in either a fixed-price or auction-based format. Any Internet user in the countries in which we operate can browse through the various products that are listed on our website and register with MercadoLibre to list, bid for and purchase such items and services.

To complement the MercadoLibre Marketplace, we developed MercadoPago, an integrated online payments solution. 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, receive and finance payments online.

Through our MercadoLibre Classified Service, our users can offer for sale and generate leads on listings in the motors, real estate and services categories.

As a further enhancement to the MercadoLibre Marketplace, in 2009, we launched our MercadoLibre Advertising program to enable businesses to promote their products and services on the Internet. Through MercadoLibre Advertising, users and advertisers are able to place display and/or text advertisements on our web pages in order to promote their brands and offerings. MercadoLibre Advertising offers advertisers a cost efficient and automated platform that enables them to acquire traffic through advertisements placed on our platform. Advertisers purchase, on a cost per click basis, advertising space that appears around product search results for specific categories and other pages. These advertising placements are clearly differentiated from product search results and direct traffic both to and from our platform depending on the advertiser.

Additionally, during 2010, we launched the MercadoShops on-line webstores solution. Through MercadoShops, users can set-up, manage and promote their own on-line webstores. These webstores are hosted by MercadoLibre and offer integration with the marketplace, payments and advertising services we offer. Users can choose from a basic, free webstore or pay monthly subscriptions for enhanced functionality and value added services on their webstores.

To close out our suite of e-commerce services, during 2013, we launched the MercadoEnvios shipping solution in Brazil and Argentina. Through MercadoEnvios, we offer cost efficient integration with existing logistics and shipping carriers to sellers on our platforms. Sellers opting into the program are able to offer a uniform and seamlessly integrated shipping experience to their buyers.

History of MercadoLibre

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

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

Country	MercadoLibre		MercadoPago
	Launch date	Office opening	Launch date
Argentina	August 1999	July 1999	November 2003
Brazil	October 1999	September 1999	January 2004
Mexico	November 1999	October 1999	January 2004
Uruguay	December 1999	September 2004	N/A
Colombia	February 2000	January 2000	December 2007
Venezuela	March 2000	March 2000	April 2005
Chile	March 2000	April 2000 (*)	September 2007
Ecuador	December 2000	N/A	N/A
Peru	December 2004	N/A	N/A
Costa Rica	November 2006	N/A	N/A
Dominican Republic	December 2006	N/A	N/A
Panama	December 2006	N/A	N/A
Portugal	January 2010	N/A	N/A

(*) The office was closed in 2009.

Our business is organized using the same technological platform in each country where we operate. However, the site of each country has its own specific local website which has no interaction with our website in other countries. For example, searches carried out on our Brazilian website show only results of listings uploaded on that particular website and do not show listings from other countries.

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

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

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

In November 2005, we acquired certain operations of a regional competitor in e-commerce, DeRemate.com Inc., or DeRemate, including all of its operations and the majority of the shares of capital stock of its subsidiaries in Brazil, Colombia, Ecuador, Mexico, Peru, Uruguay and Venezuela for an aggregate purchase price of \$12.1 million, net of cash acquired. This acquisition increased our user base by approximately 1.3 million confirmed registered users and solidified our market leadership position in Brazil, Mexico, Venezuela, Colombia, Peru, and Uruguay. In that year we did not acquire DeRemate's Argentine and Chilean subsidiaries, which continued to operate under the control of certain previous stockholders of DeRemate until 2008.

In August 2007, we completed our initial public offering pursuant to which 2,608,696 shares of common stock were sold by us, resulting in net proceeds to us of approximately \$49.6 million, and 13,468,489 shares were sold by certain selling stockholders.

In January 2008, we acquired 100% of the issued and outstanding shares of capital stock of Classified Media Group, Inc., or CMG, and its subsidiaries for an aggregate purchase price of \$19.0 million. CMG and its subsidiaries operate an online classified advertisements platform primarily dedicated to the sale of vehicles at www.tucarro.com in Venezuela, Colombia and Puerto Rico and real estate at www.tuinmueble.com in Venezuela, Colombia, Panama, the United States, Costa Rica and the Canary Islands.

In September 2008, we acquired the remaining operations of DeRemate.com in Chile, Argentina, Mexico and Colombia for an aggregate purchase price of \$37.6 million and we also purchased certain URLs, domains, trademarks, databases and intellectual property rights from it for \$2.4 million, subject to certain set off rights and working capital adjustment clauses.

In September 2011, we acquired 60% of the outstanding membership interest of Autopark LLC, a limited liability company organized under the laws of Delaware, which holds 100% of the ownership interests of AP Clasificados, an online classified advertisements platform in

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Mexico primarily dedicated to the sale of vehicles at www.autoplaza.com.mx and real estate at www.homeshop.com.mx. The aggregate purchase price paid in cash was \$5.5 million and includes URLs, domain names, trademarks, databases non-compete agreements and intellectual property rights that are used or useful in connection with the online platforms of the acquired business.

In March 2013, we acquired 100% of the equity interests in an Argentine software development company located in the Province of Cordoba, Argentina, for an aggregate purchase price of \$3.4 million. The objective of the acquisition was to enhance our software development capabilities.

Our strategy

We seek to serve people in Latin America by offering a collection of e-commerce services that can improve the quality of life of those who use it, while creating significant value for our stockholders. We serve our buyers by giving them access to a broader and more affordable variety of products and services than those available on other online and offline venues. We serve our sellers by allowing them to reach, in view, a larger and more geographically diverse user base at a lower overall cost and investment than offline venues. At the same time, we provide payment settlement services to facilitate such transactions, and advertising solutions to promote them. More broadly, we strive to turn inefficient markets into more efficient ones and in that process generate value for our stockholders. To achieve these objectives, we intend to pursue the following strategies:

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

Increase monetization of our transactions. We have focused and will continue to focus on improving the revenue generation capacity of our business by implementing initiatives designed to maximize the revenues we receive from transactions on our platform. Some of these initiatives include increasing our fee structure, selling advertising on our platform, offering other e-commerce services and expanding our paid-for fee-based features.

Take advantage of the natural synergies that exist between our services. We strive to leverage our different businesses to promote greater cross-usage among the businesses, thereby creating a virtuous ecosystem of e-commerce offerings. We promote the adoption of our MercadoPago payments solution on our marketplace as well as on our MercadoShops solution, to offer our MercadoClics advertising solutions to users of our marketplace, payments and shops solutions, and to encourage users of any of our services to experiment with the other solutions we offer.

Expand into additional transactional service offerings. Our strategic focus is to enable on-line transactions of multiple types of goods and services throughout Latin America. Consequently, we strive, and will

continue to strive, to launch on-line transactional offerings in new product and service categories where we believe business opportunities exist. These new transactional offerings include, but are not limited to, efforts involving: (a) the offer of additional product categories in our marketplace business, (b) the expansion of our presence in vehicle, real estate and services classifieds, (c) the penetration of our on-platform payments services and the expansion of our off-platform payments services, (d) the increase of our MercadoClics and on-line advertisement services (e) the penetration of our on-platform shipping service and (f) the offer of on-line software as e-commerce service solutions. We believe that a significant portion of our growth will be derived from these new or expanded product and service launches in the future.

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

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

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Increase operational efficiency. We believe our business model provides us with an opportunity to generate healthy profit margins. We plan to maximize this potential by achieving economics of scale, maintaining controls on overhead costs and reducing variable costs whenever possible.

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

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

The MercadoLibre Marketplace

The MercadoLibre Marketplace is an Internet-based commerce platform where buyers and sellers can meet, and consummate e-commerce transactions for a wide range of goods and services. The MercadoLibre Marketplace allows sellers to reach a large number of potential buyers more cost-effectively than through traditional offline commerce channels or other online venues. Our platform is a fully-automated, topically-arranged and user-friendly online commerce service which permits both businesses and individuals to list items and conduct their sales and purchases online in either a fixed-price or auction-based format. Any Internet user can browse through the various products and services that are listed on our website and register for free with MercadoLibre to list, bid for and purchase items and services. Additionally, sellers and advertisers can purchase, display and link advertising on our websites to promote their brands, businesses and products. The MercadoLibre Marketplace offers buyers a large selection of new and used items that are often more expensive or otherwise hard to find through traditional offline sellers, such as brick-and-mortar retail establishments, offline classified advertisements, community bulletin boards, auction houses and flea markets.

Our MercadoLibre Marketplace is organized using the same technological platform in each country where we operate. However, the site of each country has its own specific local website which has no interaction with our website in other countries. For example, searches carried out on our Brazilian site show only results of listings uploaded on that particular site and do not show listings from other countries. During 2013, visitors to our website were able to browse an average of over 18.1 million Marketplace listings daily, organized by country, in over 3,000 different product categories. We believe that we have achieved a critical mass of active buyers, sellers and product listings in most of the countries where we operate and that our business can be readily scaled to handle increases in our user base and transaction volume. At December 31, 2013, we had over 99.5 million confirmed registered MercadoLibre users, up from 81.5 million at December 31, 2012. During fiscal year 2013, in our Marketplace, we had 5.1 million unique sellers, 20.2 million unique buyers and 83.0 million successful items sold as compared to i) 4.4 million unique sellers, 16.9 million unique buyers and 67.4 million successful items sold at December 31, 2012; and to ii) 3.7 million unique sellers, 14.1 million unique buyers and 52.8 million successful items sold at December 31, 2011. All of these factors contributed to Marketplace gross merchandise volume of \$7.3 billion in 2013, as opposed to \$5.7 billion in 2012 and \$4.8 billion in 2011.

The Classifieds Solution

The MercadoLibre Classifieds solution enables users to list their offerings related to vehicles, real estate, and services outside the marketplace platform. Classifieds listings differ from marketplace listings, as they only charge optional placement fees, and never final value fees. Our classifieds pages are also a major source of traffic to the site, benefitting both marketplace and non-marketplace businesses.

In 2013, MercadoLibre visitors were able to browse an average of 1.1 million classifieds listings daily, including approximately 678,000 in Real Estate, 350,000 in motors, and 74,000 in services per day. During 2013, we had a total of 2.5 million unique sellers and 11.0 million paid listings through classifieds, as compared to i) 2.2 million unique sellers and 7.3 million paid listings in 2012 and ii) 1.8 million unique sellers and 4.7 million paid listings in 2011.

The MercadoPago online payments solution

To complement the MercadoLibre Marketplace, we developed MercadoPago, an integrated online payments solution. 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. MercadoPago enables any user registered with MercadoPago to securely and easily send and receive payments online to pay for purchases made in the MercadoLibre Marketplace. MercadoPago is currently available to MercadoLibre users in each of Brazil, Argentina, Mexico, Venezuela, Chile and Colombia.

MercadoPago is also available for purchases of goods and services outside the MercadoLibre Marketplace, as an open on-line payment service in Argentina, Brazil, Mexico, Venezuela, Chile and Colombia. The off platform service is designed to meet the growing demand for Internet-based payments systems in Latin America. Users are able to transfer money to other users with MercadoPago accounts and to incorporate MercadoPago as a means of payments on their independent commerce websites. This version of MercadoPago simplifies the

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payment of transactions in the MercadoLibre Marketplace achieving higher transaction velocity for most users. Direct payments allow online sellers to use MercadoPago to facilitate checkout and payment processes on their website and also enable users to simply transfer money to each other. The direct payments product allows users who are not registered with the MercadoLibre Marketplace to send and receive payments to each other as long as they register with MercadoPago. Furthermore, direct payment offers online sellers who accept MercadoPago as a mean of payment to integrate MercadoPago with their shopping cart, thereby streamlining the shopping and payment processes. We believe that the ease of use, safety and efficiency of MercadoPago will allow us to generate additional transactions in the future from web merchants that sell items outside the MercadoLibre Marketplace. We believe that there is a significant business opportunity to increase adoption of MercadoPago as a payment mechanism within and outside of the MercadoLibre Marketplace.

During the year ended December 31, 2013, our on and off-platform users paid approximately \$2,497.7 million using MercadoPago, which represented 34.2% of our gross merchandise volume for that year. During the year ended December 31, 2012, our on and off-platform users paid approximately \$1,786.7 million using MercadoPago, which represented 31.3% of our gross merchandise volume for that year. During the year ended December 31, 2011, our users paid approximately \$1,311.9 million using MercadoPago, which represented 27.2% of our gross merchandise volume for that year.

We seek to increase the adoption and penetration of MercadoPago among MercadoLibre Marketplace users. In the countries where MercadoPago was available, as of December 31, 2013, approximately 94.5% of the MercadoLibre Marketplace's listings accepted MercadoPago for payments and 37.4% of our total gross merchandise volume (excluding motor vehicles, vessels, aircraft and real estate) was completed through MercadoPago. Starting in Brazil in January 2010, in Argentina in March 2010, in Mexico in April 2011 and in Venezuela in July 2012, all paid listings in the MercadoLibre Marketplace (excluding free listings and classifieds) were required to offer MercadoPago.

MercadoLibre Advertising services

The MercadoLibre Advertising platform, which we commonly refer to as MercadoClics, enables large retailers, small and medium brands and various consumer brands to promote their products and services on the internet. Advertisers place text and/or display advertisements on our website in order to promote their brands and offerings. MercadoClics is the search advertising tool that enables advertisers to acquire traffic through text ads placed on search results on our platform. Advertisers purchase specific categories, on a cost per click basis, where their text ads could appear as a result of a bidding process with other relevant ads.

MercadoShops online stores service

MercadoShops is a software-as-a-service, fully hosted online webstore solution. Through MercadoShops users can set-up, manage and promote their own on-line webstores. These webstores are hosted by MercadoLibre and offer integration with the other marketplace, payments and advertising services we offer. Users can choose from a basic, free webstore or pay monthly subscriptions for enhanced functionality and added services on their stores.

MercadoEnvios shipping solution

MercadoEnvios is a shipping solution for marketplace users, currently available in Brazil and Argentina. Through integration with local carriers, MercadoEnvios achieves economies of scale driving down shipping costs and eliminating friction for buyers and sellers.

Marketing

Our marketing strategy is designed to grow our platform by promoting the MercadoLibre brand, attracting new users, and generating more frequent trading by our existing users. To this end, we employ various means of advertising, including placement in leading portals and networks across Latin America, our affiliates program, cable and air television, paid and natural positioning in leading search engines, email marketing, onsite marketing and presence in off-line events. Our investment in online and offline marketing activities was \$31.7 million during 2013, \$18.8 million during 2012 and \$19.9 million during 2011.

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

Entering into agreements with search platforms, portals, social networks and websites that we believe can reach our target audience. These agreements allow us to purchase online advertising positions where we can market ourselves and show relevant promotions to potential and already registered users.

Actively managing our MercadoSocios program, an affiliates program that financially rewarded site owners for directing to our platform buyers, sellers and new users who ultimately register with, and conduct transactions through our platform. The MercadoSocios program was available in Argentina, Brazil, Chile, Colombia, Mexico and Venezuela. With our MercadoSocios program, any website or online tool owner could place a link to our website with a pre-approved creative design that we provided or XML data feeds. If an Internet user clicked on the link, arrived at our website, registered as a user and completed transactions on our platform, we compensated the site or tool owner. However, since the program was created 14 years ago our marketing strategy has evolved and we now have available new marketing tools which deliver better results to us. For this reason, we discontinued the MercadoSocios program in 2013.

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

Structuring our website so that it appears among the top natural results for certain keyword searches. Since 2005, we have been running an annual cable television commercial campaign on a regional basis to increase brand awareness and recognition. We believe that cable television subscribers in Latin America offer an attractive demographic group based on both socio-economic profiling and the high penetration of Internet usage among cable television subscribers. During 2011, our cable media campaign ran from May to December, and we also had offline campaigns on radio, newspaper and magazines for our classifieds business. During 2012, we did not invest in a cable television commercial campaign, but instead allocated most of our resources to on-line marketing investments. During the year 2013, we invested in cable television commercial campaigns while maintaining our marketing and external communication strategies in on-line marketing investments. In 2013, we significantly increased our off-line marketing spend, primarily on the aforementioned cable television campaign which helped to promote the rebranding of MercadoLibre and MercadoPago and to maintain our position as the top-of-mind ecommerce company in the countries in which we operate. We expect to keep investing in the future in off-line campaigns to enhance our already very strong brand awareness and recognition within the region. In addition to online and television advertising, we seek to reinforce our brand and increase transaction levels within the existing MercadoLibre user base through activities such as permission-based e-mail marketing and special promotions on our website. We utilize information regarding our users' past bids, sales and purchases in order to better target the messages that we communicate through these activities. Additionally, we use street billboards, radio and magazine ads to promote our vehicles' classifieds business.

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

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

Product development

At December 31, 2013, we had 403 employees on our information technology and product development staff, an increase from 327 employees at December 31, 2012, due to new hires of 44 employees and 32 employees from the acquisition of an Argentine software development company in March 2013. We incurred product development expenses (including salaries) in the amount of \$40.9 million in 2013, \$28.6 million in 2012 and \$23.3 million in 2011. We also incurred information technology capital expenditures, including software licenses, amounting to \$36.0 million in 2013, \$11.2 million in 2012 and \$8.4 million in 2011.

We continually work to improve both our MercadoLibre Marketplace and MercadoPago platforms so that they better serve our users' needs and function more efficiently. A significant portion of our information technology resources are

allocated to these purposes. We strive to maintain the right balance between offering new features and enhancing the existing functionality and architecture of our software and hardware.

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

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

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

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We develop most of our software technology in-house. Since our inception in 1999, we have had a development center in Buenos Aires where we concentrate the majority of our development efforts. In June of 2007, we also launched a second development center in the province of San Luis in Argentina. The center is a collaborative effort with the Technological University of La Punta. In this effort, the University offers us access to dedicated development facilities and a recruiting base for potential employees. In 2012, we opened our newest development center in Aguada Park, Montevideo, Uruguay, which is dedicated to software development activities. We also have other research and/or development centers in Mexico, Brazil and Venezuela.

In March 2013, we acquired 100% of equity interests in an Argentine software development company located in the Province of Cordoba, Argentina. The objective of the acquisition was to enhance our software development capabilities.

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

Since 2010, we have been working on a deep technology overhaul that is allowing us to switch from a closed and monolithic system to an open and decoupled one. We are splitting MercadoLibre into many small cells. A cell is a functional unit with its own team, hardware, data and source code. Cells interact with each other using (Application Programming Interfaces, or API. All the Front-Ends are also being rewritten on top of these APIs. This effort has consumed a large amount of capital, people and management focus, and we intend to keep investing in this area. On October 31, 2012, we opened our platform to the developers community in a launching event that took place in Sao Paulo, Brazil. We seek to continue spreading the opening of our platform to developers in the other locations in which we operate with the objective of enhancing our ecosystem.

We anticipate that we will continue to devote significant resources to product development in the future as we add new features and functionality to our services. The market in which we compete is characterized by rapidly changing technology, evolving industry standards, frequent new service and product announcements, introductions and enhancements and changing customer demands. Accordingly, our future success will depend on our ability to adapt to rapidly changing technologies, to adapt our services to evolving industry standards and to continually improve the performance, features and reliability of our service in response to competitive service and product offerings and evolving demands of the marketplace. In addition, the widespread adoption of new Internet, networking or telecommunications technologies or other technological changes could require us to make substantial capital expenditures to modify or adapt our services or infrastructure. See Risk Factors Risks related to our business Our future success depends on our ability to expand and adapt our operations to meet rapidly changing industry and technology standards in a cost-effective and timely manner, and on the continued market acceptance of our products and services.

Seasonality

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

Typically, the fourth quarter of the year is the strongest in every country where we operate due to the significant increase in transactions before the Christmas season (see Management's Discussion and Analysis of Financial

Condition and Results of Operations Seasonality for more detail). The first quarter of the year is generally our slowest period. The months of January, February and March correspond to summer vacation time in Argentina, Brazil, Chile, Peru and Uruguay. Additionally, the Easter holiday falls in March or April, and Brazil celebrates Carnival for one week in February or March. This first quarter seasonality is partially mitigated by the countries located in the northern hemisphere, such as Colombia, Mexico and Venezuela, the slowest months for which are the summer months of July, August and September.

Competition

The market for trading over the Internet is rapidly evolving and highly competitive, and we expect competition to intensify even further in the future. Barriers-to-entry for large, established Internet companies are relatively low, and current and new competitors can launch new sites at relatively low cost using commercially available software. While we are currently the market leaders in a number of the markets in which we operate, we currently or potentially compete with a limited number of smaller marketplace operators, such as Mas Oportunidades in Argentina and Rakuten in Brazil. We also compete with businesses that offer business-to-consumer online e-commerce services such as pure play Internet retailer Submarino (a website of B2W Inc.), NovoaPontocom, or others with a focus on specific vertical categories, such as Netshoes, which focuses on sports & apparel and Dafiti, which focuses on fashion.

There are also a growing number of bricks and mortar retailers who have launched on line offerings such as Americanas (a website of B2W Inc), Casas Bahia, Walmart and Falabella, and shopping comparison sites located throughout Latin America such as Buscape and Bondfaro. In the classified advertising market we compete with regional players such as OLX and Vivastreet, and with local players such as Webmotors, and Zap, which have strong positions in certain markets.

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In addition, we could face competition from a number of large online communities and services that have expertise in either, developing online commerce, facilitating online interaction, or both. Some of these competitors, such as Google, Yahoo, Microsoft, and Facebook currently offer a variety of online services, and have the potential to introduce online commerce to their large user populations. Other large companies with strong brand recognition and experience in online commerce, such as large newspaper or media companies, also compete in the online listing market in Latin America.

In September 2001, we entered into a strategic alliance with eBay, through which eBay became one of our stockholders and started working with us to better serve the Latin American online commerce community. As part of this strategic alliance, we acquired eBay's Brazilian subsidiary at the time, iBazar, and eBay agreed not to compete with us in the region during the term of the agreement, which ended on September 24, 2006. This agreement also provided us with access to certain know-how and experience, which accelerated aspects of our development. Even though eBay continues to be one of our stockholders, since the termination of this agreement, there are no contractual restrictions preventing eBay from competing with us. For example, in 2012, eBay acquired Alamaula.com, classifieds site which operates in many of the countries where we operate.

MercadoPago competes with existing online and offline means of payment businesses, including, among others, banks and other providers of traditional means of payment, particularly credit cards, checks, money orders, and electronic bank deposits, international online payments services such as Paypal and Google Checkout, local online payment services such as DineroMail in Argentina, Chile, Colombia and Mexico, and Bcash and PagSeguro in Brazil, money remitters such as Western Union, the use of cash, which is often preferred in Latin America, and offline funding alternatives such as cash deposit and money transfer services. Some of these services may operate at lower commission rates than MercadoPago's current rates.

Finally, Amazon started operations in Brazil during 2012 by offering on-line content. We do not compete in this space, however the consolidation and expansion of their operations in Brazil, could eventually lead to more direct competition.

Intellectual property

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

We pursue the registration of our trademarks and service marks in each country where we operate, in the United States and in certain other Latin American countries. Generally, we register the name MercadoLibre, MercadoLivre, MercadoPago and MercadoSocios as well as our handshake logo, and other names and logos in each country where we operate. As part of our acquisition of DeRemate, we acquired the trademarks of DeRemate and CMG, respectively, throughout the countries where they operated, as well as certain other jurisdictions.

Autopark LLC, an entity in which we own a 60% interest and have an option to acquire the remaining 40% ownership interest, has 100% ownership of AP Clasificados which owns trademarks of Autoplaza.com.mx and Homershop.com.mx in Mexico. We expect to acquire the remaining 40% ownership interest in Autopark in the future.

We have licensed in the past, and expect that we may license in the future, certain of our proprietary rights, such as trademarks or copyrighted material, to third parties. While we attempt to ensure that our licensees maintain the quality of the *MercadoLibre* brand, our licensees may take actions that could materially adversely affect the value of our proprietary rights or reputation.

Third party technologies

We also rely on certain technologies that we license from third parties, such as Oracle Corp., SAP AG, Salesforce.com Inc., Microstrategy, Teradata, Radware, Juniper Networks, Cisco Systems Inc., Arista Networks, Imperva, F5 Networks, and Netapp, the suppliers of key database technology, the operating system and specific hardware components for our services.

Third parties have from time to time claimed, and others may claim in the future, that we have infringed their intellectual property rights by allowing sellers to list certain items on MercadoLibre. See Item 3. Legal proceedings below and Item 1A. Risk factors Risks related to our business We could face legal and financial liability for the sale of items that infringe on the intellectual property and distribution rights of others and for information disseminated on the MercadoLibre Marketplace .

Table of Contents**Employees**

The following table shows the number of our employees by country at December 31, 2013:

Country	Number of Employees
Argentina	939
Brazil	600
Colombia	66
Chile	2
Mexico	73
Uruguay	348
Venezuela	143
Total	2,171

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

Our employees in Brazil are represented by an Information Technology Companies Labor Union in the State of São Paulo (*Sindicato dos Trabalhadores nas Empresas e Cursos de Informática do Estado de São Paulo*) and some of our employees in Argentina are represented by the Commercial Labor Union (*Sindicato de Empleados de Comercio*). Unions or local regulations in other countries could also require that employees be represented. We consider our relations with our employees to be good and we implement a variety of human resources practices, programs and policies that are designed to hire, develop, compensate and retain our employees.

We are very proud of our employees and believe that our team is one of the most important assets of our Company. We believe that our employees are among the most knowledgeable in the Latin American Internet industry, and they have developed a deep understanding of our business and e-commerce in general. We believe we have been successful in attracting and retaining outstanding individuals over the years. A significant portion of our personnel has been with us for several years, and we strive to obtain more talent by hiring individuals with an Internet-related background and experience. Similarly, our future success will depend on our ability to continue to attract, develop and retain capable professionals. See Item 1A. Risk factors Risks related to our business We depend on key personnel, the loss of which could have a material adverse effect on us.

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

Government regulation

We are subject to a variety of laws, decrees and regulations that affect companies conducting business on the Internet in some of the countries where we operate related to e-commerce, electronic or mobile payments, data collection, data protection, privacy, information requirements for Internet providers, taxation (including value added taxes, or VAT, or sales tax collection obligations) obligations to provide information to certain authorities about transactions occurring on our platforms or about our users, and other legislation which also applies to other companies conducting business

in general. It is not clear how existing laws governing issues such as general commercial activities, property ownership, copyrights and other intellectual property issues, taxation (including the imposition to provide certain information about transactions that occurred in our platforms, or about our users), libel and defamation, obscenity, consumer protection, digital signatures and personal privacy apply to online businesses. Some of these laws were adopted before the Internet was available and, as a result, do not contemplate or address the unique issues of the Internet. Due to these areas of legal uncertainty, and the increasing popularity and use of the Internet and other online services, it is possible that new laws and regulations will be adopted with respect to the Internet or other online services. These regulations could cover a wide variety of issues, including, without limitation, online commerce, Internet service providers' responsibility for third party content hosted in their servers, user privacy, electronic or mobile payments, freedom of expression, pricing, content and quality of products and services, taxation (including VAT or sales tax collection obligations, obligation to provide certain information about transactions that occurred through our platforms, or about our users), advertising, intellectual property rights, consumer protection and information security.

We are also subject to regulations in Argentina that impose sales taxes and VAT collection obligations on the Company based on users' sales through the platform. Other jurisdictions may issue new legislation in that regard. If users were to reduce or stop using our website or services as a result of these regulations, our business could be harmed.

In Brazil, since the approval of the Law No. 12,865 on October 9, 2013 and certain rules issued by the Brazilian Central Bank in November 2013, we are subject to new obligations imposed on certain payment processing functions carried out by non-financial institutions.

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These regulations cover a wide variety of issues, including, among other things: rules related to the requisite of obtaining Brazilian central Bank authorization to operate, requirements to offer or provide those services, penalties for non-compliance, the promotion of financial inclusion, the reduction of systemic, operational and credit risks, reporting obligations and governance.

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

There are laws and regulations that address foreign currency and exchange rates in every country in which we operate. In certain countries where we operate, we need governmental authorization to pay invoices to a foreign supplier or send money abroad due to foreign exchange restrictions. See Item 1A. Risk factors Risks related to doing business in Latin America Local currencies used in the conduct of our business are subject to depreciation, volatility and exchange controls for more information.

On May 15, 2007, the Argentine Ministry of Economy approved MercadoLibre S.A. (this subsidiary changed its legal name in 2010 to MercadoLibre S.R.L.), our wholly owned Argentine subsidiary, as a beneficiary of the Argentine Regime to promote the software industry. Benefits of receiving this status include a 70% discount on mandatory Argentine labor taxes, a 60% reduction of Argentine income tax payable and a fixed federal tax rate in Argentina until September of 2014 at the rate effective as of April of 2007.

On August 17, 2011, the Argentine government issued a new software development law and on September 9, 2013 the regulatory decree was issued, which established the new requirement to become beneficiary of the new software development law. The new decree establishes compliance requirements with annual incremental ratios related to exports of services and research and development expenses that must be achieved to remain within the tax holiday. The Argentine operation will have to achieve certain required ratios annually under the new software development law.

If we apply and we are successful in being admitted as beneficiaries under the new law, the current income tax relief would decrease, but it is currently estimated that the Argentine effective income tax rate would still be materially lower than the statutory income tax rate. Also, the tax holiday under the new law would last until 2019.

The Industry Secretary resolution which rules, among other provisions, on the mechanism to file the information to obtain the benefits derived from the new software development law was issued in late February 2014, and the Company is currently analyzing its provisions for both applying to qualify under the new law, and the potential effects that this new rule may have on the ability to continue to be benefited under the current law in 2014, as well as in subsequent years under the new law.

Segment and Geographic Information

For an analysis of financial information about our segments, see Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Reporting Segments and Geographic Information, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Description of Line Items Net revenues and Note 7, Segments to our consolidated financial statement included elsewhere in this report and incorporated by reference in this Item 1.

Offices

We are a Delaware corporation incorporated on October 15, 1999. Our registered office is located at 15 East North Street, Dover, Delaware. Our principal executive offices are located at Arias 3751, 7th Floor, Buenos Aires, Argentina, C1430CRG.

Available Information

We maintain a website, <http://www.mercadolibre.com>, which contains additional information concerning our Company. We make available free of charge through our website our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after we electronically file such material with, or furnish it to the SEC. Our Corporate Governance Guidelines, Code of Business Conduct and Ethics, and the charters of the Audit Committee, the Compensation and the Nominating and Corporate Governance Committee are also available on our website and are available in print to any stockholder upon request in writing to MercadoLibre, Inc., Attention: Investor Relations, Arias 3751, 7th floor, Buenos Aires, Argentina, C1430CRG. Information on or connected to our website is neither part of nor incorporated into this report on Form 10-K or any other SEC filings we make from time to time.

ITEM 1A. RISK FACTORS

For purposes of this section, the term stockholders means the holders of shares of our common stock. Set forth below are the risks that we believe are material to our stockholders and prospective stockholders. You should carefully consider the following factors in evaluating our

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*company, our properties and our business. The occurrence of any of the following risks might cause our stockholders to lose all or a part of their investment in our Company. The risks and uncertainties described below are not the only ones facing us. Other risks that we do not currently anticipate or that we currently deem immaterial also may affect our results of operations and financial condition. Some statements in this report including statements in the following risk factors section constitute forward-looking statements. Please refer to the section entitled *Special Note Regarding Forward-Looking Statements* at the beginning of this report.*

Risks related to our business

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

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

In addition, the Internet may not be commercially viable in Latin America in the long term for a number of reasons, including potentially inadequate development of the necessary network infrastructure or delayed development of enabling technologies, performance improvements and security measures. The infrastructure for the Internet may not be able to support continued growth in the number of Internet users, their frequency of use or their bandwidth requirements. In addition, the Internet could lose its viability due to delays in telecommunications technological developments, or due to increased government regulation. If telecommunications services change or are not sufficiently available to support the Internet, response times would be slower, which would adversely affect use of the Internet and our service in particular.

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

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

Any delay or problem with upgrading our existing information technology infrastructure could cause a disruption in our business and adversely impact our financial results.

Our ability to operate our business on a day-to-day basis largely depends on the efficient operation of our information technology infrastructure. We are frequently implementing hardware and software technology upgrades, which may include migrations to new technology systems, in an effort to improve our systems. Our information technology systems may experience errors, interruptions, delays or cessations of service. We are particularly susceptible to errors in connection with any systems upgrade or migration to a different hardware or software system and any such errors or interruptions could impede or delay our ability to process transactions on our site, which could reduce our revenue from activity on our site and adversely affect our reputation with, or result in the loss of users. Moreover, any errors, interruptions, delays or cessation of service result in significant disruptions to our business that could ultimately be more expensive, time consuming, and resource intensive than anticipated. Defects or disruptions in our technology infrastructure could adversely impact our ability to process transactions, our financial results and our reputation.

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

Unlike the United States, most of the countries where we operate do not have specific laws governing the liability of Internet service providers, such as ourselves, for fraud, intellectual property infringement, other illegal activities committed by individual users or third-party infringing content hosted on a provider's servers. This legal uncertainty allows for different judges or courts to decide very similar claims in different ways and establish contradictory jurisprudence. For example, in June 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. We have appealed this ruling. In December 2009, the effect of the ruling was suspended until the appeal is decided by State Court of Appeals. If the ruling is upheld, it could require us to restructure our business model in ways that would harm our business and or cause us to incur substantial costs.

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In addition, certain judges may decide that Internet service providers are liable to an intellectual property owner for a user's sale of counterfeit items using our platform, while others may decide that the responsibility lies solely with the offending user. This legal uncertainty allows for rulings against us and could set adverse precedents, which individually or in the aggregate could have a material adverse effect on our business, results of operations and financial condition. In addition, legal uncertainty may negatively affect our clients' perception and use of our services.

We are subject to a variety of laws, decrees and regulations that affect companies conducting business on the Internet in some of the countries where we operate related to e-commerce, information requirements for Internet providers, data collection, data protection, privacy, anti-money laundering, taxation (including VAT or sales tax collection obligations), obligations to provide certain information to certain authorities about transactions which are processed through our platforms or about our users and those regulations applicable to businesses in general and consumer protection. It is not clear how existing laws governing issues such as general commercial activities, property ownership, copyrights and other intellectual property issues, taxation (including taxation to provide certain information about transactions consummated through our platforms or about our users), libel and defamation, obscenity, and personal privacy apply to online businesses. Many of these laws were adopted before the Internet was available and, as a result, do not contemplate or address the unique issues of the Internet. Due to these areas of legal uncertainty, and the increasing popularity and use of the Internet and other online services, it is possible that new laws and regulations will be adopted with respect to the Internet or other online services. These laws and regulations could cover issues such as online commerce, Internet service providers' responsibility for third party content hosted in their servers, user privacy, freedom of expression, pricing, content and quality of products and services, taxation (including VAT or sales tax collection obligations, obligations to provide certain information about transactions occurred in our platforms or about our users), advertising, intellectual property rights, consumer protection, information security and electronic and mobile payments. If laws relating to these issues are enacted, they may have a material adverse effect on our business, results of operation and financial condition.

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

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

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

which would adversely affect us.

We are also subject to regulations in Argentina that impose VAT and sales tax collection obligations and taxes on banking transactions in certain provinces in connection with users' sales through our platform. It is possible that other jurisdictions will issue similar legislation in the future. If users were to reduce or stop using our website or services as a result, our business could be materially harmed. We are also subject to a regulation in the State of Sao Paulo, Brazil that imposes on us the obligation to provide the authority with the information of certain users in connection with their sales through our platform.

We are subject to regulatory activity and antitrust litigation under competition laws.

We receive scrutiny from various governmental agencies under competition laws in the countries where we operate. Some jurisdictions also provide private rights of action for competitors or consumers to assert claims of anti-competitive conduct. Other companies or governmental agencies may allege that our actions violate antitrust or competition laws, or otherwise constitute unfair competition. Contractual agreements with buyers, sellers, or other companies could give rise to regulatory action or antitrust litigation. Also, our unilateral business practices could give rise to regulatory action or antitrust litigation. Some regulators may perceive our business to have so much market power that otherwise uncontroversial business practices could be deemed anticompetitive. Such claims and investigations, even if without foundation, typically are very expensive to defend, involve negative publicity and substantial diversion of management time and effort, and could result in significant judgments against us.

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

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

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

Laws specifying the scope of liability of providers of online services for the activities of their users through their online service are currently unsettled in most of 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, animals, 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, appropriate authorities may impose fines against us. 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 platforms in the future. If we suffer potential liability for any unlawful activities of our users, we may need to implement additional measures to reduce our exposure to this liability, which may require, among other things, that we spend substantial resources and/or discontinue certain service offerings. Any costs that we incur as a result of this liability or asserted liability could have a material adverse effect on our business, results of operations and financial condition.

We believe that government and consumer protection agencies have received a substantial number of complaints about both the MercadoLibre Marketplace and MercadoPago. We believe that these complaints are small as a percentage of our total transactions, but they could become large in aggregate numbers over time. From time to time, we are involved in disputes or regulatory inquiries that arise in the ordinary course of business. The number and significance of these disputes and inquiries have increased as our business has expanded and our Company has grown larger. We are likely to receive new inquiries from regulatory agencies in the future, which may lead to actions against us. We have responded to all inquiries from regulatory agencies and described our services, operating procedures and requested information. If one or more of these agencies is not satisfied with our response to current or future inquiries, we could be subject to enforcement actions, fines or penalties, or forced to change our operating practices in ways that could harm our business, or 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, we may in the future receive additional requests from users requesting reimbursement or threatening legal action against us if we do not reimburse them, the result of which could materially adversely affect our business and financial condition. In addition, as discussed above, we may be liable in Brazil for fraud committed by sellers and losses incurred by buyers when purchase items through our platform in Brazil. We keep expanding the coverage of our Buyer's Protection Program. This coverage expansion may impact the number and amount of reimbursements we are required to make. Our users have been and will continue to be targeted by parties using fraudulent spoof and phishing emails that appear to be legitimate emails sent by MercadoLibre or MercadoPago or by a user of one of our businesses, but direct recipients to fake websites operated by the sender of the email or misstates that certain payment was credited in MercadoPago and request that the recipient send the product sold or send a password or other confidential information. Despite our efforts to mitigate spoof and phishing emails, those activities could damage our reputation and diminish the value of our brands or discourage use of our websites and increase our costs.

We have received in the past, and anticipate that we will receive in the future, claims from users who received spoof emails and sent the product and did not receive the purchase price. During 2013 the Superior Court of Justice of Brazil issued a negative ruling against our Brazilian subsidiary finding it responsible for a spoof suffered by a seller who received an email that appeared to be sent by MercadoPago, delivered the item but never got paid, and ordered it to pay damages to the plaintiff.

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

Table of Contents***We could face legal and financial liability for the sale of items that infringe on the intellectual property and distribution rights of others and for information disseminated on the MercadoLibre Marketplace.***

Even though we monitor listings on our websites, we are not able to detect every item that may infringe on the intellectual property rights of third parties. As a result, we have received in the past, and anticipate that we will receive in the future, complaints alleging that certain items listed and/or sold through the MercadoLibre Marketplace or Mercadoshops and/or using MercadoPago infringe third-party copyrights, trademarks or other intellectual property rights. Content owners and other intellectual property rights owners have been active in defending their rights against online companies, including us. We have taken steps to work in coordination and cooperation with the intellectual property rights owners to seek to eliminate allegedly infringing items listed in the MercadoLibre Marketplace. Our user policy prohibits the sale of goods which may infringe third-party intellectual property rights, and we may suspend the account of any user who infringes third-party intellectual property rights. Despite all these measures some rights owners have expressed that our efforts are insufficient. Content owners and other intellectual property rights owners have been active in asserting their purported rights against online companies. Allegations of infringement of intellectual property rights could result in threats of litigation and actual litigation against us by rights owners.

Specifically, allegations of infringement of intellectual property rights have already resulted in claims against us from time to time, including litigation in Brazil brought (without limitation) by Cartier International B.V., Montblanc Simplo GmbH, Richemont International S.A., Puma Sports Ltda., Lacoste do Brasil Indústria e Comercio Ltda., Sporloisirs S.A., Qix Skateboards Indústria e Comercio Ltda, Vintage Denim Ltda., Editora COC Empreendimentos Culturais Ltda., Barros Fischer e Associados Ltda., Fallms Distribuição de Fitas Ltda., 100% Nacional Distribuidora de Fitas Ltda., Xuxa Promoções e Produções Artísticas Limitada, Praetorium Instituto de Ensino, Pesquisas e Atividades de Extensão e Direito Ltda., Sette Informações Educacionais Ltda., Serasa S.A., Botelho Industria e Distribuição Cinematográfica Ltda., and Citizen Watch do Brasil S/A and in Argentina brought by Nike International Ltd., Iglesia Mesianica Mundial Sekai Kyusei Kio.

While we have been largely successful to date in settling existing claims by agreeing to monitor the brands, the current lack of laws related to the Internet results in great uncertainty as to the outcome of any future claims. Other companies providing similar services to us have also been subject to these types of claims in the United States and other countries. In June 2008, the Paris Court of Commerce ruled that eBay, Inc. and eBay International AG were liable to Louis Vuitton Malletier and Christian Dior Couture for failing to prevent the sale of counterfeit items on its websites that traded on plaintiffs' brand names and for interfering with the plaintiffs' selective distribution network. The court awarded plaintiffs approximately EUR 38.6 million in damages and issued an injunction prohibiting all sales of perfumes and cosmetics bearing the Dior, Guerlain, Givenchy and Kenzo brands over all worldwide eBay sites to the extent they are accessible from France. We cannot assure you that MercadoLibre and MercadoPago will not be subject to similar suits, which could result in substantial monetary awards or penalties and costly injunctions against us.

We continue to have outstanding litigation and, although we generally intend to defend each of these claims, we cannot assure you that we will be successful. This type of litigation is expensive for us, could result in damage awards or increased costs of doing business through adverse judgments or settlements, could require us to change our business practices in expensive ways, or could otherwise harm our business. Litigation against other online companies could result in interpretations of the law that could also require us to change our business practices or otherwise increase our costs.

We are subject to risks with respect to information and material disseminated through our platforms.

It is possible that third parties could bring claims against us for defamation, libel, invasion of privacy, negligence, or other theories based on the nature and content of the materials disseminated through our platforms. Other online

services companies are facing several lawsuits for this type of liability. As mentioned previously, the liability of online services companies for content hosted and the information carried on or disseminated through their services is currently unclear in the Latin American countries where we operate. This could allow for claims being made against us by purportedly aggrieved third parties. For example, the MercadoLibre service contains a User Feedback feature, which includes reviews and ratings from users regarding the reliability of other users in paying or delivering goods sold in a transaction promptly. Although users generate all the feedback, it is possible that a party could bring a claim for defamation or other injury against us for content posted through the User Feedback feature. If we or other online services providers are held liable or potentially liable for information carried on or disseminated through our platforms, we may have to implement measures to reduce our exposure to this liability. Any measures we may need to implement may involve spending substantial resources and/or discontinuing certain services. Any costs that we incur as a result of liability or asserted liability could have a material adverse effect on our business, results of operations and financial condition. In addition, public attention to liability issues, lawsuits and legislative proposals could impact the growth of Internet use, and subsequently have a negative impact on our business results.

The market in which we operate is rapidly evolving and we may not be able to maintain our profitability.

As a result of the emerging nature of the markets in which we compete, the increased variety of services offered on our website and the rapidly evolving nature of our business, it is particularly difficult for us to forecast our revenues or earnings accurately. In addition, we have no backlog and substantially all of our net revenues for each quarter are derived from listing fees, optional feature fees, up-front fees, final value fees, commissions on MercadoPago payments and advertising that are earned during that quarter. Our current and future expense levels are based largely on our investment plans and estimates of future revenues and are, to a large extent, fixed. We may not be able to adjust spending in a timely manner to compensate for any unexpected revenue shortfall. Accordingly, any significant shortfall in revenues relative to our planned expenditures would have an immediate adverse effect on our business, results of operations and financial condition.

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If we continue to grow, we may not be able to appropriately manage the increased size of our business.

We have experienced significant expansion in recent years and anticipate that further expansion will be required to address potential growth in our customer base and market opportunities. This expansion has placed, and is expected to continue to place, a significant strain on management and our operational and financial resources.

We must constantly add new hardware, update software, enhance and improve our billing and transaction systems, and add and train new engineering and other personnel to accommodate the increased use of our website and the new products and features we regularly introduce. This upgrade process is expensive, and the increasing complexity and enhancement of our website results in higher costs. Failure to upgrade our technology, features, transaction processing systems, security infrastructure, or network infrastructure to accommodate increased traffic or transaction volume could materially harm our business. Adverse consequences could include unanticipated system disruptions, slower response times, degradation in levels of customer support, impaired quality of users' experiences of our services and delays in reporting accurate financial information.

Our revenues depend on prompt and accurate billing processes. Our failure to grow our transaction-processing capabilities to accommodate the increasing number of transactions that must be billed on our website would materially harm our business and our ability to collect revenue.

Furthermore, we may need to enter into relationships with various strategic partners, websites and other online service providers and other third parties necessary to our business. The increased complexity of managing multiple commercial relationships could lead to execution problems that can affect current and future revenues and operating margins.

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

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

Our success, and in particular our ability to facilitate trades or payments successfully and provide high quality customer service, depends on the efficient and uninterrupted operation of our computer and communications hardware systems. Substantially all of our computer hardware for operating the MercadoLibre Marketplace and MercadoPago services is currently located at the facilities of the Savvis Datacenter in Sterling, Virginia, with a redundant database backup in Atlanta, Georgia. These systems and operations are vulnerable to damage or interruption from earthquakes, tornadoes, floods, fires and other natural disasters, power loss, computer viruses, telecommunication failures, physical or electronic break-ins, sabotage, intentional acts of vandalism, terrorism, and similar events. If our system suffers a major failure, it would take as much as several days to get the service running again because our Atlanta database is only a backup with very limited hardware.

We also have no formal disaster recovery plan or alternative providers of hosting services and do not carry business interruption insurance to compensate us for losses that may occur. Despite any precautions we have taken or plan to take, if there is a natural disaster or major failure, a decision by our providers to close one of the facilities we use without adequate notice, or other unanticipated problem at the Virginia or Atlanta facilities, the services we provide could suffer interruptions. We currently have no plans to upgrade the Atlanta facility capabilities. Additionally, in the occurrence of such pronounced, frequent or persistent system failures, our reputation and name brand could be materially adversely affected.

We are subject to security breaches or other confidential data theft from our systems, which can adversely affect our reputation and business.

A significant risk associated with online commerce and communications is the secure transmission of confidential information over public networks. Currently, a number of MercadoLibre users authorize us to bill their credit card accounts or debit their bank accounts directly, or use MercadoPago to pay for their transactions. We rely on encryption and authentication necessary to provide the security and authentication technology to transmit confidential information securely, including customer credit card numbers and other account information. Advances in computer capabilities, new discoveries in the field of cryptography, or other events or developments may result in a compromise or breach of the technology that we use to protect customer transaction data. If our security were compromised, it could have a material adverse effect on our reputation. We cannot assure you that our security measures will prevent security breaches or that failure to prevent them will not have a material adverse effect on our business, results of operations and financial condition.

As stated above, our users are targeted by parties using fraudulent spoof and phishing emails to misappropriate passwords, credit card numbers, or other personal information or to introduce viruses to our users' computers. Those emails appear to be legitimate emails sent by MercadoLibre or MercadoPago or by a user of one of our businesses, but direct recipients to fake websites operated by the sender of the email or intentionally misstate that payment for a product was credited in MercadoPago and request that the recipient of the email send the product sold or provide a password or other confidential information. Despite our efforts to mitigate spoof and phishing emails, those activities could damage our reputation and diminish the value of our brands or discourage use of our websites and increase our costs.

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We depend on key personnel, the loss of which could have a material adverse effect on us.

Our performance depends substantially on the continued services and on the performance of our senior management and other key personnel. Our ability to retain and motivate these and other officers and employees is fundamental to our performance.

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

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

Currently our revenues depend substantially on up-front fees, final value fees and fees related to our payment solution we charge to sellers and such revenues may decrease if market conditions force us to lower such fees or if we fail to diversify our sources of revenue.

Our revenues currently depend primarily on up-front fees, final value fees and fees related to our payment solution that we charge to our sellers for listing and upon selling their items and services. Our platform depends upon providing access to a large market at a lower cost than other comparable alternatives. If market conditions force us to substantially lower our listing or final value fees or fees related to our payment solution or if we fail to continue to attract new buyers and sellers, and if we are unable to effectively diversify and expand our sources of revenue, our profitability, results of operations and financial condition could be materially and adversely affected.

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

We derive substantially all of our revenues from fees charged to sellers for listing products for sale on our service, fees from successfully completed transactions and fees for making payments through MercadoPago. Our future revenues depend on continued demand for the types of goods that users list on the MercadoLibre Marketplace or pay with MercadoPago on or off the MercadoLibre Marketplace. The popularity of certain categories of items, such as computer and electronic products, cellular telephones, toys, apparel and sporting goods, among consumers may vary over time due to perceived availability, subjective value, and trends of consumers and society in general. A decline in the demand for or popularity of certain items sold through the MercadoLibre Marketplace without an increase in demand for different items could reduce the overall volume of transactions on our platforms, resulting in reduced revenues.

In addition, certain consumer fads may temporarily inflate the volume of certain types of items listed on the MercadoLibre Marketplace, placing a significant strain on our infrastructure and transaction capacity. These trends may also cause significant fluctuations in our operating results from one quarter to the next.

Retailers may encourage manufacturers to limit distribution of their products to dealers who sell through us, or may encourage the government to limit online commerce.

Manufacturers may attempt to enforce minimum resale price maintenance arrangements to prevent distributors from selling on our websites or on the Internet generally, or at prices that would make our site attractive relative to other alternatives. The adoption by manufacturers of policies, or the adoption of new laws or regulations or interpretations of existing laws or regulations by government authorities, in each case discouraging the sales of goods or services over the Internet, could force our users to stop selling certain products on our websites. Increased competition or anti-Internet distribution policies or regulations may result in reduced operating margins, loss of market share and diminished value of our brand. In order to respond to changes in the competitive environment, we may, from time to time, make pricing, service or marketing decisions or acquisitions that may be controversial with and lead to dissatisfaction among some of our sellers, which could reduce activity on our websites and harm our profitability.

The success of other e-commerce companies such as eBay or Amazon is not an indication of our future financial performance.

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

Finally, Amazon started operations in Brazil during 2012 by offering on-line content. We do not compete in this space, however the consolidation and expansion of their operations in Brazil, could eventually lead to more direct competition.

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We could be subject to liability and forced to change our MercadoPago business practices if we were found to be subject to or in violation of any laws or regulations governing banking, money transmission, tax regulation, anti-money laundering regulations or electronic funds transfers in any country where we operate; or if new legislation regarding these issues were enacted in the countries where MercadoPago operates.

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

In Brazil, since the approval of the Law No. 12,865 on October 9, 2013 and certain rules issued by the Brazilian Central Bank in November 2013, we are subject to new obligations imposed on certain payment processing functions carried out by non-financial institutions. These regulations cover a wide variety of issues, including, among other things, requisite to obtain Brazilian central Bank authorization to operate, requirements to offer or provide those services, penalties for non-compliance, the promotion of financial inclusion, the reduction of systemic, operational and credit risks, reporting obligations and governance.

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

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

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

We incur losses from claims that customers did not authorize a purchase, from buyer fraud and from erroneous transmissions. In addition to the direct costs of such losses, if they are related to credit card transactions and become

excessive, they could result in MercadoPago losing the right to accept credit cards for payment. If MercadoPago is unable to accept credit cards, our business will be adversely affected given that credit cards are the most widely used method for funding the MercadoPago accounts. We have taken measures to detect and reduce the risk of fraud on MercadoPago, such as running card security code (CSC) checks in some countries, having users call us to have them answer personal questions to confirm their identity or asking users to confirm the amount of a small debit for higher risk transactions, implementing caps on overall spending per users and data mining to detect potentially fraudulent transactions. However, these measures may not be effective against current and new forms of fraud. If these measures do not succeed, excessive charge-backs may arise in the future and our business will be adversely affected.

Our failure to manage MercadoPago customer funds properly would harm our business.

Our ability to manage and account accurately for MercadoPago customer funds requires a high level of internal controls. We have neither an established operating history nor proven management experience in maintaining, over a long term, these internal controls. As MercadoPago continues to grow, we must strengthen our internal controls accordingly. MercadoPago's success requires significant public confidence in our ability to handle large and growing transaction volumes and amounts of customer funds. Any failure to maintain necessary controls or to properly manage customer funds could severely reduce customer use of MercadoPago.

MercadoPago is a relatively new service that faces competition from other payment method and competitors may adversely affect the success of MercadoPago.

MercadoPago competes with existing online and offline payment methods, including, among others, banks and other providers of traditional payment methods, particularly credit cards, checks, money orders, and electronic bank deposits; international online payments services such as PayPal and Google Checkout, and local online payment services such as PayU in Argentina, Chile, Colombia and Mexico, and Bcash, PagSeguro and MOIP in Brazil; money remitters such as Western Union; the use of cash, which is often preferred in Latin America; and offline funding alternatives such as cash deposit and money transmission services. Some of these services may operate at lower commission rates than MercadoPago's current rates and, accordingly, we are subject to market pressures with respect to the commissions we charge for MercadoPago services.

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MercadoPago's competitors may respond to new or emerging technologies and changes in customer requirements faster and more effectively than us. They may devote greater resources to the development, promotion, and sale of products and services than we do for MercadoPago. Competing services tied to established banks and other financial institutions may offer greater liquidity and create greater consumer confidence in the safety and efficacy of their services than MercadoPago. Established banks and other financial institutions currently offer online payments and those which do not yet provide such a service could quickly and easily develop it, including mobile phone carriers.

We are currently in the process of rolling out our direct payments product in some countries in order to provide a better experience to our users. For the same reason we are also charging a single final value fee for the right to use MercadoLibre and MercadoPago in those transactions. This change may result in our experiencing a lower combined take rate. We consider MercadoPago's direct payment's product to be in early release and have identified several opportunities to improve upon the product. In addition, the transition to the new system may not be a smooth one. The occurrence of any of these events could adversely affect our business.

We continue to expand MercadoPago's services internationally. We have no experience with the online payment solution in Costa Rica, the Dominican Republic, Ecuador, Panama, Peru, Portugal or Uruguay. The introduction of MercadoPago in certain new markets we may require a close commercial relationship with one or more local banks. These or other factors may prevent, delay or limit our introduction of MercadoPago in other countries, or reduce its profitability.

We rely on banks or payment processors to fund transactions, and changes to credit card association fees, rules or practices may adversely affect our business.

Because MercadoPago is not a bank, we cannot belong to or directly access credit card associations, such as Visa and MasterCard. As a result, we must rely on banks or payment processors to process the funding of MercadoPago transactions and MercadoLibre Marketplace collections, and must pay a fee for this service. From time to time, credit card associations may increase the interchange fees that they charge for each transaction using one of their cards. The credit card processors of MercadoPago and the MercadoLibre Marketplace have the right to pass any increases in interchange fees on to us as well as increase their own fees for processing. These increased fees increase the operating costs of MercadoPago, reduce our profit margins from MercadoPago operations and, to a lesser degree, affect the operating margins of the MercadoLibre Marketplace.

We are also required by MercadoPago and MercadoLibre's processors to comply with credit card association operating rules. The credit card associations and their member banks set and interpret the credit card rules. Some of those member banks compete with MercadoPago. Visa, MasterCard, American Express or other credit card companies could adopt new operating rules or re-interpret existing rules that we or MercadoPago's processors might find difficult or even impossible to follow. As a result, we could lose our ability to provide MercadoPago customers the option of using credit cards to fund their payments and MercadoLibre users the option to pay their fees using a credit card. If MercadoPago were unable to accept credit cards, our MercadoPago business would be adversely affected.

We could lose the right to accept credit cards or pay fines if MasterCard and/or Visa determine that users are using MercadoPago to engage in illegal or high risk activities or if users generate a large amount of chargebacks. Accordingly, we are working to prevent high risk merchants from using MercadoPago. Additionally, we may be unable to access financing in the credit and capital markets at reasonable rates to fund our MercadoPago and for that reason our profitability and total payments volume could materially decline.

Our operating results may be impacted by an economic crisis.

General adverse economic conditions, including the possibility of recessionary conditions in the countries in which we operate or Latin America generally or a worldwide economic slowdown, would adversely impact our operating results and business. If the current weakness in the global economy persists or worsens, or the present global economic uncertainties continue to persist, many of our users, may delay or reduce their purchases of goods on the MercadoLibre Marketplace, which would reduce our revenues and have a material adverse impact on our business. Furthermore, future changes in trends could result in a material impact to future consolidated statements of income and cash flows.

The failure of the financial institutions with which we conduct business may have a material adverse effect on our business, operating results, and financial condition.

The financial services industry experienced a period of unprecedented turmoil in 2008 and 2009, characterized by the bankruptcy, failure or sale of various financial institutions and an unprecedented level of intervention from the United States and other governments. If the condition of the financial services industry again deteriorates or becomes weakened for an extended period of time, the following factors could have a material adverse effect on our business, operating results, and financial condition:

Disruptions to the capital markets or the banking system may materially adversely affect the value of investments or bank deposits we currently consider safe or liquid. We may be unable to find suitable alternative investments that are safe, liquid, and provide a reasonable return. This could result in lower interest income or longer investment horizons;

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We may be required to increase the installment and financing fees we charge to customers for purchases made in installments or cease offering installment purchases altogether, each of which may result in a lower volume of transactions completed;

We may be unable to access financing in the credit and capital markets at reasonable rates in the event we find it desirable to do so. Due to the nature of our MercadoPago business, we generate high account receivable balances that we typically sell to financial institutions, and accordingly, lack of access to credit, or bank liquidations could cause us to experience severe difficulties in paying our sellers; and

The failure of financial institution counterparties to honor their obligations to us under credit instruments could jeopardize our ability to rely on and benefit from those instruments. Our ability to replace those instruments on the same or similar terms may be limited under difficult market conditions.

A rise in interest rates may negatively affect our MercadoPago payment volume.

In each of Brazil, Argentina and Mexico, we offer users the ability to pay for goods purchased in installments using MercadoPago. In 2013, 2012 and 2011, installment payments represented 52.2%, 48.3% and 52.5%, respectively, of MercadoPago's total payment volume. To facilitate the offer of the installment payment feature, we pay interest to credit card processors and issuer banks in Mexico and Argentina and we pay interest to advance credit card coupons in Brazil. In all of these cases, if interest rates increase, we may have to raise the installment fees we charge to users which would likely have a negative effect on MercadoPago's total payment volume.

Changes in MercadoPago's funding mix could adversely affect MercadoPago's results.

MercadoPago pays significant transaction fees when senders fund payment transactions using credit cards, PagoMisCuentas and Pago Fácil, nominal fees when customers fund payment transactions from their bank accounts in Brazil, Argentina and Mexico, and no fees when customers fund payment transactions from an existing MercadoPago account balance. Senders funded approximately 79.5%, 76.6% and 76.0% of MercadoPago's payment volume using credit cards during 2013, 2012 and 2011, respectively (either in a single payment or in installments), and MercadoPago's financial success will remain highly sensitive to changes in the rate at which its senders fund payments using credit cards. Senders may prefer credit card funding rather than bank account transfers for a number of reasons, including the ability to pay in installments in Brazil, Mexico and Argentina, the ability to dispute and reverse charges if merchandise is not delivered or is not as described, the ability to earn frequent flyer miles or other incentives offered by credit cards, the ability to defer payment, or a reluctance to provide bank account information to us. Also, in Brazil, Mexico and Argentina, senders may prefer to pay by credit card without using installments to avoid the associated financial costs resulting in lower revenues to us.

Changes in MercadoPago ticket mix could adversely affect MercadoPago's results.

The transaction fees MercadoPago pays in connection with certain means of payment such as OXXO are fixed regardless of the ticket price, and certain costs incurred in connection with the processing of credit card transactions are also fixed. Currently, MercadoPago charges a fee calculated as a percentage of each transaction. If MercadoPago receives a larger percentage of low ticket transactions its margin may erode or we may need to raise prices by including a fixed fee per transaction which, in turn, may affect the volume of transactions.

Recently approved legislation in Brazil relating to certain payment processing functions carried out by non-financial institutions, require, among other things, our MercadoPago operations to secure authorization from

the Brazilian Central Bank to continuing its operations and may limit our services, any of which could have a material adverse effect on our business and results of operations.

On May 17, 2013, the Brazilian government issued Medida Provisoria 615/13, or the Provisional Measure, which granted to the Brazilian Central Bank powers of regulation and supervision of certain payment processing functions carried out by certain non-financial institutions in Brazil. This regulation covers a wide variety of issues, including, among other things, rules related to authorization requirements for certain payment processing functions by non-financial institutions, penalties for non-compliance, the promotion of financial inclusion, the reduction of systemic, operational and credit risks, reporting obligations and governance. The Provisional Measure was approved by Congress as Law No. 12,865 on October 9, 2013. On November 4, 2013 the Brazilian Central Bank published certain rules relating to this law, covering among other issues, its powers of supervision and oversight of certain payment institutions and processing and payment functions carried out by certain non-financial institutions in Brazil.

As approved and regulated by the Brazilian Central Bank, our MercadoPago business in Brazil will be subject to Law No. 12,865. The law imposes payment institutions to request authorization until August 2014 and payment means until November 2014, therefore our Mercado Pago operation should request both authorizations until August 2014. The law also establishes certain requisites related to our services and operations. To comply with the Law, we shall implement certain changes to our operations and systems which will require us to incur in greater expenses and devote more resources related to areas to be developed and/or updated.

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If we are unable to obtain the aforementioned authorization it could cause us to (i) shut down our MercadoPago business for an indefinite period of time, which would be costly and time consuming, (ii) pay penalties for non-compliance, (iii) limit the services we offer through MercadoPago or change our business practices, any of which could materially adversely affect our business and results of operations.

A rise in our Shipping costs may negatively affect our MercadoEnvios Shipping transaction volume.

In Brazil and Argentina, we offer users our MercadoEnvios Shipping service through integration with local carriers. To achieve economies of scale, driving down shipping costs and eliminating friction for buyers and sellers, we pay to the local carriers the shipping costs and transfer those costs to our customers. If shipping costs increase, we may have to raise our shipping fees we charge to users which would likely have a negative effect on MercadoEnvios's shipping volume.

We rely on local carriers to develop our Shipping service and changes to our shipping fees, rules or practices may adversely affect our business.

Because MercadoEnvios is not a carrier, we must rely on local carriers in Brazil and Argentina to deliver items; we must pay a fee for this service and transfer those fees to our customers. From time to time, local carriers may increase their fees that they charge for each transaction. If we cannot transfer these increased fees to our customers, the increase in operating costs of MercadoEnvios, could generate net losses in our MercadoEnvios operations.

In addition, the failure of the Shipping providers with which we conduct business may have a material adverse effect on our Shipping service, operating results, and financial condition. As a result, we could lose our ability to provide shipping services to our customers.

We could be subject to liability and forced to change our MercadoEnvios business practices if we were found to be subject to or in violation of any laws or regulations governing shipping in the countries where we operate; or if new legislation regarding this service were enacted in the countries where MercadoEnvios operates.

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

We have no business insurance coverage, which would require us to spend significant resources in the event of a disruption of our services or other contingency.

Insurance companies in Latin America offer limited business insurance products. We do not carry any business liability or disruption insurance coverage for our operations. Any business disruption, litigation, system failure or natural disaster may cause us to incur substantial costs and divert resources, which could have a material adverse effect on our business, results of operation and financial condition.

We may not be able to adequately protect and enforce our intellectual property rights. We could potentially face claims alleging that our technologies infringe the property rights of others.

We regard the protection of our copyrights, service marks, trademarks, domain names, trade dress and trade secrets as critical to our future success and rely on a combination of copyright, trademark, service mark and trade secret laws and contractual restrictions to establish and protect our proprietary rights in our products and services. We have entered into confidentiality and invention assignment agreements with our employees and certain contractors, and non-disclosure agreements with our employees and certain suppliers and strategic partners in order to limit access to and disclosure of our proprietary information. We cannot assure you that these contractual arrangements or the other steps that we have taken or will take in the future to protect our intellectual property will prove sufficient to prevent misappropriation of our technology or to deter independent third-parties from developing similar or competing technologies.

We pursue the registration of our domain names, trademarks, logos and service marks in each country where we operate, in the United States and in certain other Latin American countries. Effective trademark, service mark, copyright, domain name and trade secret protection may not be available or granted to us by the appropriate regulatory authority in every country in which our services are made available online. For example, since 1999, we have filed several applications to register the name MercadoLivre and our logo in Brazil. We have been granted the trademarks Mercadolivre (name and design, without the exclusivity to the use of the words Mercado and Livre) and MercadoPag (name and design). Nonetheless, many applications are still pending and certain applications were denied in that country under the argument that the name was descriptive of its activities. We cannot assure you that we will succeed in obtaining these trademarks or in our challenges to existing or future applications by other parties or by the Instituto Nacional da Propriedade Industrial (the National Institute of Industrial Property). If we are not successful, MercadoLibre's ability to protect its brand in Brazil against third-party infringers would be compromised and we could face claims by any future trademark owners. Any past or future claims relating to these issues, whether meritorious or not, could

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cause us to enter into costly royalty and/or licensing agreements. If any of these claims against us are successful we may also have to modify our brand name in certain countries. Any of these circumstances could adversely affect our business, results of operations and financial condition.

We have licensed in the past, and expect that we may license in the future, certain of our proprietary rights, such as trademarks or copyrighted material, to third parties. While we attempt to ensure that our licensees maintain the quality of the MercadoLibre brand, our licensees may take actions that could materially adversely affect the value of our proprietary rights or reputation, which could have a material adverse effect on our business, results of operations and financial condition.

To date, we have not been notified that our technology infringes on the proprietary rights of third parties, but third parties may claim infringement on our part with respect to past, current or future technologies or features of our services. We expect that participants in our markets will be increasingly subject to infringement claims as the number of services and competitors in the e-commerce segment grows. Any of these claims could have a material adverse effect upon our business, results of operations and financial condition.

Since 2001, eBay has been subject to a lawsuit alleging infringement of patents relating to online consignment auction technology, multiple database searching and electronic consignment systems. In September 2001, MercExchange LLC filed a complaint against eBay and their subsidiaries in the U.S. District Court for the Eastern District of Virginia alleging infringement of three patents (relating to online consignment auction technology, multiple database searching and electronic consignment systems) and seeking a permanent injunction and damages (including treble damages for willful infringement). Following a trial and jury verdict, in August 2003, the court entered judgment for MercExchange in the amount of approximately \$30 million plus pre-judgment interest and post-judgment interest, but refused to grant an injunction. eBay appealed the verdict and judgment in favor of MercExchange, and MercExchange filed a cross-appeal. In May 2006, following appeals to the U.S. Court of Appeals for the Federal Circuit and the U.S. Supreme Court, the Supreme Court ruled that an outright denial of an injunction in a patent case is not appropriate, and remanded the case to the district court for further proceedings. On August 28, 2006, MercExchange renewed its motion for a permanent injunction in the U.S. District Court for the Eastern District of Virginia. Final briefs on such motion were filed in March 2007, and in July 2007, the U.S. District Court for the Eastern District of Virginia denied MercExchange's motion for permanent injunction. MercExchange subsequently entered a notice of appeal. In December 2007, the court entered judgment for MercExchange for \$25 million plus prejudgment and post judgment interest. eBay subsequently entered a notice of appeal.

In February 2008, eBay and all parties involved agreed to settle and dismiss all claims and appeals stemming from the lawsuit. As a part of the settlement, eBay purchased all three patents involved in the lawsuit, and related technology and inventions, as well as a license to another search-related patent portfolio that was not asserted in the lawsuit.

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

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

We rely on certain technologies that we license from third parties, such as Oracle Corp., SAP AG, Salesforce.com Inc., Microstrategy, Radware, Juniper Networks, Cisco Systems Inc, F5 Networks, and Netapp, the suppliers of key database technology, operating system and specific hardware components for our services. We cannot assure you that

these third-party technology licenses will continue to be available to us on commercially reasonable terms. If we were not able to make use of this technology, we would need to obtain substitute technology that may be of lower quality or performance standards or at greater cost, which could materially adversely affect our business, results of operations and financial condition. Although we generally have been able to renew or extend the terms of contractual arrangements with these third party service providers on acceptable terms, we cannot assure you that we will continue to be able to do so in the future.

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

A number of parties provide beneficial services to us or to our users. These services include the hosting of our servers, our shipping providers and the postal and payments infrastructures that allow users to deliver and pay for the goods and services traded amongst themselves, in addition to paying their MercadoLibre Marketplace bills. Financial, regulatory, or other problems that might prevent these companies from providing services to us or our users could reduce the number of listings on our websites or make completing transactions on our websites more difficult, which would harm our business. Any security breach at one of these companies could also affect our customers and harm our business.

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

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

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

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

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

Additionally, acquisitions could result in potentially dilutive issuances of equity securities, the incurrence of debt, contingent liabilities and/or amortization expenses related to goodwill and other intangible assets, which could materially adversely affect our business, results of operations and financial condition. Any future acquisitions of other businesses, technologies, services or products might require us to obtain additional equity or debt financing, which might not be available on favorable terms, or at all. If debt financing for potential future acquisitions is unavailable, we may determine to issue shares of our common stock or preferred stock in connection with such an acquisition and any such issuance could result in the dilution of our common stock.

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

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

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

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

Our direct competitors include various online sales and auction services, including MasOportunidades.com, OLX.com and Alamaula.com in Argentina, and a number of other small services, including those that serve specialty markets. We also compete with business-to-consumer online e-commerce services, such as pure play Internet retailer Submarino (a website of B2W Inc), and a growing number of bricks and mortar retailers who have launched on line offerings such as Americanas (a website of B2W Inc), Casas Bahia and Falabella, OLX, QueBarato and with shopping comparison sites located throughout Latin America such as Buscape and Bondfaro, located throughout Latin America. In addition, we compete with online communities that specialize in classified advertisements. Although no regional competitor exists in the classified market, local players such as Webmotors, VivaStreet and Zap have important positions in certain markets.

We face competition from a number of large online communities and services that have expertise in developing online commerce and facilitating online interaction. Certain of these competitors, including Google, Amazon, Microsoft and Yahoo! currently offer a variety of business-to-consumer commerce services, searching services and classified advertising services, and certain of these companies may introduce broader online commerce to their large user populations. Other large companies with strong brand recognition and experience in online commerce, such as large newspaper or media companies also compete in the online listing market. Companies with experience in online commerce, such as Amazon, may also seek to compete in the online listing market in Latin America. We also compete with traditional brick-and-mortar retailers to the extent buyers choose to purchase products in a physical establishment as opposed to on our platform. In connection with our payment solution, our direct competitors include international online payments services such as PayPal and Google Checkout, and local online payment services such as DineroMail in Argentina, Chile, Colombia and Mexico, and Bcash, PagSeguro and MOIP in Brazil; money remitters such as Western Union. Any or all of these companies could create competitive pressures, which could have a material adverse effect on our business, results of operations and financial condition.

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In addition, if certain websites stop linking to or containing links in their properties that send us traffic across the internet in the future, our GMV could substantially decrease and we could suffer a material adverse effect on our business, financial condition and results of operations.

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

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

Risks related to doing business in Latin America

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

We conduct significant operations in Venezuela, offering both our MercadoLibre Marketplace and MercadoPago online payments solution, and have 143 employees who work in the country at December 31, 2013. For the year ended December 31, 2013, 17.9% of our consolidated net revenues and 18.8% of our consolidated net assets are derived from our Venezuelan subsidiaries, while 9.8% of our consolidated cash and investments are held in local Venezuelan currency by our Venezuelan subsidiaries. The political and economic conditions in Venezuela are very unstable, with economy considered hyperinflationary under U.S. GAAP since 2010, so we cannot predict the impact of any future political and economic events on our business. We cannot predict the economic and regulatory impact of the Venezuelan government's initiatives, including whether it will extend nationalization to e-commerce or other businesses, implement further price or profit controls or further restrict our ability to obtain or distribute U.S. dollars, all of which could impact our business and our results of operations. Nationalization of telecommunications, electrical or other companies could reduce our or our customers' access to our website or our services or increase the costs of providing or accessing our services. Certain political events have also resulted in significant civil unrest in the country. Continuation or worsening of the political and economic conditions in Venezuela could materially and adversely impact our future business, financial condition and results of operations.

In recent years, Venezuela has suffered severe electricity shortages that prompted the Venezuelan government to declare an energy emergency. This situation could impact the operation of our automobile classifieds points of sale in Venezuela as well as our Venezuelan users' ability to access the Internet, either of which could have a material adverse impact on our business.

During November 2013, the Venezuelan Government, established a maximum of BF\$ 250 Bolivares Fuertes per square meter for properties leased for the development of commercial, industrial or production activities, and prohibiting leases in foreign currencies and changes to lease prices during the term of the contract.

In addition, the Venezuelan government has imposed foreign exchange and price controls on the local currency in recent years. These foreign exchange controls increase our costs and significantly limit our ability to convert local currency into U.S. dollars and transfer funds out of Venezuela. In fact, since the Venezuelan government's devaluation in February 2013, we have been unable to obtain U.S. dollars through the auction process established by government and we do not know when or if we will be able to obtain U.S. dollars through such a process in the future. As a result, the foreign exchange and price controls enacted in recent years by the Venezuelan government, and by future actions in this regard, could have a material adverse effect on our Venezuelan customers and our business, financial condition and results of operations. Moreover, we cannot predict the long-term effects of exchange controls on our ability to process payments from Venezuelan customers or on the Venezuelan economy in general.

As of December 31, 2009, Venezuela had an official exchange rate which was 2.15 Bolivares Fuertes per U.S. dollar and a parallel exchange rate that was 6.05 Bolivares Fuertes per U.S. dollar. On January 8, 2010, the Venezuelan government announced that the fixed official rate of 2.15 Bolivares Fuertes per U.S. dollar would be changed to a dual system that included a rate of 2.6 Bolivares Fuertes per U.S. dollar for food and heavy machine importers and a rate of 4.3 Bolivares Fuertes per U.S. dollar for all others.

Starting in the fourth quarter of 2009, as a result of the changes in facts and circumstances that affected our ability to convert currency for dividends remittances using the official exchange rate in Venezuela, our Venezuelan subsidiaries' assets, liabilities, income and expense accounts were translated using the parallel exchange rate.

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Until May 13, 2010, the only way by which U.S. dollars could be purchased outside the official currency market was using an indirect mechanism consisting in the purchase and sale of securities, including national public debt bonds (DPNs) denominated in Bolivares Fuertes and bonds issued by the government that were denominated in U.S. dollars. This mechanism for transactions in certain securities created an indirect parallel foreign currency exchange market in Venezuela that enabled entities to obtain foreign currency through financial brokers without going through CADIVI. Although the parallel exchange rate was higher, and accordingly less beneficial than the official exchange rate, some entities used the parallel market to exchange currency due to CADIVI's frequent failure to approve exchange transactions in a timely manner. Until May 13, 2010, our Venezuelan subsidiaries used this mechanism to buy U.S. dollars and accordingly, we used the parallel average exchange rate to re-measure those foreign currency transactions for purposes of our financial statements.

However, on May 14, 2010, the Venezuelan government enacted reforms to its exchange regulations and closed down the parallel market by declaring that foreign-currency-denominated securities issued by Venezuelan entities were included in the definition of foreign currency, thus making the Central Bank of Venezuela (the BCV) the only institution that could legally authorize the purchase or sale of foreign currency bonds, thereby excluding non-authorized brokers from the foreign exchange market. Trading of foreign currencies was re-opened as a regulated market on June 9, 2010 with the BCV as the only institution through which foreign currency-denominated transactions could be brokered.

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

On February 8, 2013, the Venezuelan Government, through Foreign Exchange Agreement No. 14, devalued as from February 9, 2013, the official exchange rate to 6.3 Bolivares Fuertes per U.S. dollar.

In addition, on February 8, 2013, the Venezuelan Government, through Decree No. 9381, has created the *Organo Superior para la Optimización del Sistema Cambiario*, which is a committee that would have the authority to design, plan and execute foreign exchange policies. Finally, on February 9, 2013, the BCV eliminated the SITME, which was the former system that allowed companies limited access to foreign currencies for payments to foreign suppliers. The elimination of the SITME and devaluation of the official exchange rate required re-measurement of our Venezuelan subsidiaries' non-U.S. dollar denominated monetary assets and liabilities as from February 9, 2013. The effect of using the devalued official rate of 6.3 Bolivares Fuertes per U.S. dollar instead of the SITME rate generated a foreign currency loss amounted to approximately \$6.4 million in the first quarter of 2013.

On March 19, 2013, the BCV announced the creation of the Sistema Complementario de Administración de Divisas, or SICAD, which acts jointly with the Commission for the Administration of Foreign Exchange Control (CADIVI) to design, plan and execute the government's foreign exchange policies. In order to operate within this new system, a company needs to register with the Registro Automatizado (Automatized Register, or RUSAD). The acquisition of foreign currencies under this new system is permitted for making payments to foreign suppliers and is organized under an auction process, where the minimum exchange rate to be offered is 6.30 Bolivares Fuertes per U.S. dollar. Since its initial implementation, we have been unable to access the auction process and there is no information available on the details or planned frequency of the SICAD mechanism.

More recently, in December 2013, the Venezuelan regulation that created the SICAD mechanism was amended to expand its use, and to require publication of the average exchange rate implied by transactions settled in SICAD auctions. The published rate from the week of December 23, 2013 to January 14, 2014 was 11.3BsF/US\$. The

published rate from January 15, 2014 to February 14, 2014 was 11.36BsF/US\$. At the date of this report, the published rate is 11.80 BsF/US\$.

On January 23, 2014, the Exchange Agreement number 25 was published in the Special Official Gazzette Number 6,122, providing that, since January 24, 2014, the exchange rate applicable to foreign currency sales for certain transactions such as, but not limited to: contracts for leasing and services, use and exploitation of patents, trademarks, foreign investments and payments of royalties, contracts for technology import and technical assistance, which will be the exchange rate from the most recent auction conducted by the SICAD and published on its website.

For accounting purposes, Venezuela was designated as a highly inflationary economy beginning January 1, 2010 because the three-year cumulative blended inflation rate exceeded 100%. For this reason, as from that date, we are required to account for the operations of our Venezuelan subsidiaries using the functional currency of MercadoLibre, Inc., which is the U.S. dollar, rather than the Bolivares Fuertes as the functional currency. Because there is no parallel exchange market in Venezuela as of December 31, 2013, we were required under U.S. GAAP to translate our Venezuelan subsidiaries non-U.S. dollar denominated monetary assets and liabilities by using the official exchange rate of 6.3 Bolivares Fuertes per U.S. Dollar. As a consequence that the exchange rate that would be used from January 2014 (the SICAD rate, which amounts currently to 11.8BsF/USD), we will experience a significant decrease in our Venezuelan Subsidiary s revenues, expenses and net asset position. Any of these situations would have an adverse impact on our results of operations and earnings and we cannot assure you that the impact would not be material.

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

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

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

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

Pending legislation in Venezuela that would limit the maximum sale price that a seller could receive in connection with the sale of an automobile on our MercadoLibre Marketplace in Venezuela, could have a material adverse impact on our Venezuelan business and results of operations.

During August 2013, the Congress of Venezuela approved new legislation that imposes certain limits on the maximum sale prices that would be permitted for the sale of used and new vehicles in the country. Among other provisions, the legislation imposes certain obligations on our MercadoLibre Marketplace and Tucarro website in Venezuela to ensure that classified ads listed on these platforms comply with the maximum sales price restrictions. Automobile sales represent a meaningful part of our business in Venezuela. As of the day of this report, this legislation has not been published in the Official Gazette nor enacted by the executive branch of government. If this legislation is finally enacted into law, it could cause us to, among other things, remove listings by sellers that fail to comply with the maximum sales price restrictions, to pay penalties for non-compliance, to limit our services or to change our business practices, any of which could have a material adverse impact on our Venezuelan business and results of operations.

On December 2013, the Decree N° 625 was published on the Official Gazette N° 6,117, which established a new set of rules regarding among others, the production and prices of motor vehicles assembled and sold in Venezuela. According to this Decree, the sale price of used cars should not exceed the sale price of new cars established by the government and the vehicles assembly companies. The Government and the vehicles assembly companies had to establish the prices of the new vehicles within twenty days after the publication of the Decree, however as of the date of this report, they have not been published yet.

Legislation in Venezuela that limits the maximum profit percentage regarding the sale of goods and services could have an adverse impact on our Venezuelan business and results of operations.

The Decree of Fair Prices was published in the Official Gazette N° 40,340 dated January 23, 2014 which establishes a maximum profit margin of 30% of the cost structure of good or service sold in each participant in the commercialization chain. The Decree expresses that its purpose is to assure the development of the national economy by determining fair prices of goods and services, through the analysis of cost structures, setting of the maximum profit

percentage, and the effective auditing of the economic and commercial activity in Venezuela. The determination, modification, and control of prices will be under the scope of the National Superintendence for Defense of Socioeconomic Rights (SUNDDE).

The Decree establishes different penalties ranging between 1 and 14 years of imprisonment, or expropriation, adoption of measures as temporary occupation and/or seizure of goods. The SUNDDE may impose fines ranging from 200 Tax Units to 50,000 Tax Units; temporarily suspend the Single Registry of Persons that Develop Economic Activities (RUPDAE) from 3 months to 10 years; issue measures of temporary occupation with intervention of warehouses, storehouses, industries, commercial establishments, transport of goods, for up to 180 days; temporarily shut down warehouses, storehouses or establishments used for commerce, preservation, storage, production, or processing of goods for up to 180 days, or close them down; confiscate goods; revoke licenses, permits, or authorizations and, specially, those related to the access to foreign currency.

As a consequence, and depending on how the decree is finally implemented, we may experience a significant decrease in our Venezuelan subsidiary's revenues, results of operations and earnings and we cannot assure you that the impact would not be material. Finally, our Venezuelan subsidiaries could generate net loss in the near future.

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

Governments in Latin America frequently intervene in the economies of their respective countries and occasionally make significant changes in policy and regulations. Governmental actions to control inflation and other policies and regulations have often involved, among other measures, price controls, currency devaluations, capital controls and limits on imports. Our business, financial condition, results of operations and prospects may be adversely affected by changes in government policies or regulations, including such factors as: exchange rates and exchange control policies; inflation rates; interest rates; tariff and inflation control policies; price control policies; import duties and restrictions; liquidity of domestic capital and lending markets; electricity rationing; tax policies, including royalty, tax increases and retroactive tax claims; and other political, diplomatic, social and economic developments in or affecting the countries where we operate. An eventual reduction of foreign investment in any of the countries where we operate may have a negative impact on such country's economy, affecting interest rates and the ability of companies such as ours to access financial markets. In addition, our employees in Brazil and some of our employees in Argentina are currently represented by a labor union and employees in other Latin American countries may eventually become unionized. We may incur increased payroll costs and reduced flexibility under labor regulations if unionization in other countries were to occur, any of which may negatively impact our business.

Latin America, including Argentina, has experienced adverse economic conditions.

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

In addition, as a result of this economic instability, the Argentine peso has been subject to significant devaluation in the past and may be subject to significant fluctuations in the future. In August 2008, Standard & Poor's Inc. downgraded Argentina's foreign debt rating based upon renewed concerns regarding economic conditions and rising fears of increased inflationary pressures. Such economic turmoil has given rise to significant uncertainties about Argentina's economic and political future. It is currently unclear whether the economic and political instability experienced over the past several years will continue and it is possible, that despite recent economic growth, Argentina may return to a deeper recession, higher inflation and unemployment and greater social unrest. We conduct significant operations in Argentina, offering both our MercadoLibre Marketplace and MercadoPago online payments solution in Argentina and have our corporate headquarters in that country. Argentina is our second leading revenue producing country. As a result, our business is to a very large extent dependent upon the economic conditions prevalent in Argentina and adverse economic conditions in that country, as well as any other Latin American country in which we operate, could have a material adverse effect on our business, financial condition and results of

operations.

Local currencies used in the conduct of our business are subject to depreciation, volatility and exchange controls.

The currencies of many countries in Latin America, including Brazil, Argentina, Mexico and Venezuela, which together accounted for 94.4%, 93.6% and 93.6% of our net revenues for 2013, 2012 and 2011, respectively, have experienced volatility in the past, particularly against the U.S. dollar. Currency movements, as well as higher interest rates, have materially and adversely affected the economies of many Latin American countries, including countries which account, or are expected to account, for a significant portion of our revenues. The depreciation of local currencies creates inflationary pressures that may have an adverse effect on us and generally restricts access to the international capital markets. For example, the devaluation of the Argentine peso has had a negative impact on the ability of Argentine businesses to honor their foreign currency denominated debt, led to very high inflation initially, significantly reduced real wages, had a negative impact on businesses whose success is dependent on domestic market demand, and adversely affected the government's ability to honor its foreign debt obligations. On the other hand, the appreciation of local currencies against the U.S. dollar may lead to the deterioration of public accounts and the balance of payments of the countries where we operate, and may reduce export growth in those countries.

We may be subject to exchange control regulations which might restrict our ability to convert local currencies into U.S. dollars. For example, in 2001 and 2002, Argentina imposed exchange controls and transfer restrictions substantially limiting the ability of companies to retain foreign currency or make payments abroad. Since 2011, the Argentine government has implemented certain measures that control and restrict the ability of companies and individuals to exchange Argentine Pesos for foreign currencies. Those measures include, among other things, the requirement to obtain the prior approval from the Argentine Tax Authority of the foreign currency transaction (for example and without limitation, for the payment of non-Argentine goods and services, payment of principal and interest on non-Argentine debt and also payment of dividends to parties outside of the country), which approval process could delay, and eventually restrict, the ability to exchange Argentine pesos for other currencies, such as U.S. dollars. Those approvals are administered by the Argentine Central Bank through the Local

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Exchange Market (Mercado Unico Libre de Cambios or MULC), which is the only market where exchange transactions may be lawfully made. Further, restrictions also currently apply to the acquisition of any foreign currency for holding as cash within Argentina. In addition, Brazilian law provides that whenever there is a serious imbalance in Brazil's balance of payments or reason to foresee a serious imbalance, the Brazilian government may impose temporary restrictions on the remittance to foreign investors of the proceeds of their investments in Brazil. Recently, Venezuela has modified its exchange control regulations. These modified regulations have further impaired our ability to convert local currency into U.S. dollars, see Risk related to doing business in Latin America Political and economic conditions in Venezuela may have an adverse impact on our operations above.

Our reporting currency is the U.S. dollar but our revenues are generated in the currencies of each country where we operate. Therefore, if the U.S. dollar strengthens relative to these foreign currencies (i.e. the foreign currencies devalue against the U.S. dollar), the economic value of our revenues in U.S. dollar terms will decline.

We are subject to increased risks relating to foreign currency exchange rate fluctuations. Because we conduct our business outside the United States and receive almost all of our revenues in currencies other than the U.S. dollar, but report our results in U.S. dollars, we face exposure to adverse movements in currency exchange rates. The currencies of certain countries where we operate, including most notably Brazil, Argentina, Mexico and Venezuela, have historically experienced significant devaluations. The results of operations in the countries where we operate are exposed to foreign exchange rate fluctuations as the financial results of the applicable subsidiaries are translated from the local currency into U.S. dollars upon consolidation. If the U.S. dollar weakens against foreign currencies, as occurred in previous years, the translation of these foreign-currency-denominated transactions will result in increased net revenues, operating expenses, and net income. Similarly, our net revenues, operating expenses, and net income will decrease if the U.S. dollar strengthens against the foreign currencies of countries in which we operate. For the year ended December 31, 2013, 43.7% of our net revenues were denominated in Brazilian Reals, 25.8% in Argentine Pesos, 17.9% in Venezuelan Bolivares Fuertes, and 6.9% in Mexican Pesos. The foreign currency exchange rates for the full year 2013 relative to 2012 resulted in lower net revenues of approximately \$60.9 million and a decrease in aggregate cost of net revenues and operating expenses of approximately \$39.6 million. The foreign currency exchange rates for the full year 2012 relative to 2011 resulted in higher net revenues of approximately \$41.6 million and an increase in aggregate cost of net revenues and operating expenses of approximately \$30.1 million. The abovementioned foreign currency exchange rate effect includes the Venezuelan translation effect discussed in Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations Critical accounting policies and estimates Foreign Currency Translation . While we have entered in the past into transactions to hedge portions of our foreign currency translation exposure, these are expensive, and in addition it is very difficult to perfectly predict or completely eliminate the effects of this exposure. Should the U.S. dollar strengthen relative to the foreign currencies in which we operate, particularly Argentina and Venezuela, our net revenues, operating expenses, and net income will decrease and such decrease may be significant.

Exchange controls implemented by the Argentine Government on the acquisition of U.S. dollars and other foreign currencies could have a material adverse impact on our operations, business, financial condition and results of operations

The Argentine government has implemented certain measures that control and restrict the ability of companies and individuals to exchange Argentine Pesos for foreign currencies. Those measures include, among other things, the requirement to obtain the prior approval from the Argentine Tax Authority of the foreign currency transaction (for example and without limitation, for the payment of non-Argentine goods and services, payment of principal and interest on non-Argentine debt and also payment of dividends to parties outside of the country), which approval process could delay, and eventually restrict, the ability to exchange Argentine pesos for other currencies, such as U.S. dollars. Those approvals are administered by the Argentine Central Bank through the MULC, which is the only

market where exchange transactions may be lawfully made. Further, restrictions also currently apply to the acquisition of any foreign currency for holding as cash within Argentina.

There can be no assurance that the Central Bank of Argentina or other government agencies will not increase such controls or restrictions or make modifications to these regulations or establish more severe restrictions on currency exchange, making payments to foreign creditors or providers, dividend payments to foreign shareholders or require its prior authorization for such purposes. As a result of these exchange controls and restrictions could materially adversely affect the business, financial condition and results of operations of our Argentine subsidiary and could significantly impact our ability to comply our foreign currency obligations, each of which could have a material adverse effect on our Company.

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

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

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Developments in other markets may affect the Latin American countries where we operate, our financial condition and results of operations.

The market value of companies like us may be, to varying degrees, affected by economic and market conditions in other global markets. Although economic conditions vary from country to country, investors' perceptions of the events occurring in one country may substantially affect capital flows into and securities from issuers in other countries, including Latin American countries. Various Latin American economies have been adversely impacted by the political and economic events that occurred in several emerging economies in recent times, including Mexico in 1994, the collapse of several Asian economies between 1997 and 1998, the economic crisis in Russia in 1998, the Brazilian devaluations in January of 1999 and in 2002, the Argentine crisis of 2001 and the market decline after September 11, 2001. Furthermore, Latin American economies may be affected by events in developed economies which are trading partners or that impact the global economy.

Developments of a similar magnitude to the international markets in the future can be expected to adversely affect the economies of Latin American countries and therefore us.

E-commerce transactions in Latin America may be impeded by the lack of secure payment methods.

Unlike in the United States, consumers and merchants in Latin America can be held fully liable for credit card and other losses due to third-party fraud. As secure methods of payment for e-commerce transactions have not been widely adopted in Latin America, both consumers and merchants generally have a relatively low confidence level in the integrity of e-commerce transactions. In addition, many banks and other financial institutions have generally been reluctant to give merchants the right to process online transactions due to these concerns about credit card fraud. Unless consumer fraud laws in Latin American countries are modified to protect e-commerce merchants and consumers, and until secure, integrated online payment processing methods are fully implemented across the region, our ability to generate revenues from e-commerce may be limited, which could have a material adverse effect on our Company.

If we fail to qualify under a new Argentine software development law that provides for a tax rate that is lower than the statutory rate in Argentina, our earnings may be negatively impacted.

Our Argentine subsidiary currently benefits from a tax holiday which grants such subsidiary relief from 60% of total income tax determined in each year. Mainly for that reason, our Argentine subsidiary's effective income tax rate for the twelve-month period ended December 31, 2013 and 2012 was 17.7% and 14.9%, respectively, which is significantly lower than the local statutory rate of 35%. This current tax holiday is scheduled to expire in 2014.

On August 17, 2011, the Argentine government issued a new software development law, which, among other things, would extend our tax holiday for an additional five year period to 2019 and would provide certain other benefits. Under the new software development law, it is likely that our Argentine operation would be taxed at a higher effective income tax rate than we are subject to under the current tax holiday, though still below the statutory rate. On September 9, 2013, a regulatory decree was issued establishing new requirements to become a beneficiary of the new software development law. The new decree established compliance requirements with annual incremental ratios related to exports of services and research and development expenses that must be achieved to qualify for relief under the new software development law. On February 19, 2014, the Argentine industry secretary responsible for establishing the qualifying process under the new software development law issued a resolution that established the mechanism to apply for relief under the new law.

We intend to apply for the relief and other benefits under the new software development law in 2014, but there can be no assurance that we will qualify or what level of tax relief we might obtain if we do qualify under the new software development law. In addition, even if we do qualify for the benefits provided under the new law, we could lose the benefits from the current software development law in 2014. In the event we fail to qualify for relief under the new law in 2014, because the current tax holiday is scheduled to expire this year, our effective income tax rate in Argentina could increase to the statutory rate of 35%.

Moreover, in the event we are unable to obtain approval for relief under the new software development law until 2015 due to governmental delays, we may be subject to the statutory tax rate of 35% for 2014 and/or 2015. In the event our Argentine operations are taxed at the statutory rate in 2014 or future years, our earnings will be negatively impacted.

Risks related to our shares

The price of our shares of common stock may fluctuate substantially, and our stockholders' investment may decline in value.

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

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

We continue to be significantly influenced by a group of stockholders that control a significant percentage of our common stock and the value of our common stock could be negatively affected by any significant disposition of our shares by any of these stockholders.

Certain stockholders own a significant percentage of our common stock. As of December 31, 2013, eBay owned approximately 8.1 million shares of our common stock (which represents 18.4% of our outstanding common stock as of December 31, 2013). Certain members and certain entities affiliated with family members of our management also hold a significant percentage of our common stock. These stockholders retain the power to influence the outcome of important corporate decisions or matters submitted to a vote of our stockholders. The interests of these stockholders may conflict with, or differ from, the interests of other holders of our common stock. For example, these stockholders could cause us to make acquisitions that increase the amount of our indebtedness or outstanding shares of common stock, sell revenue-generating assets or inhibit change of control transactions that benefit other stockholders. They may also pursue acquisition opportunities that may be complementary to our business, and as a result, those acquisition opportunities may not be available to us. So long as these stockholders continue to own a substantial number of shares of our common stock, they will significantly influence all our corporate decisions and together with other stockholders may be able to effect or inhibit changes in control of our Company.

Additionally, the actual sale, communication of an intention to sell or perceptions that any of the above mentioned stockholders may sell any significant amount of our common stock could negatively impact the market value of our

common stock.

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

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

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These provisions include:

advance notice requirements for stockholder proposals and director nominations;

a staggered board of directors;

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

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

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

the inability of stockholders to act by written consent;

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

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

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

These provisions of our certificate of incorporation and by-laws may delay, defer or prevent a transaction or a change in control that might otherwise be in the best interests of our stockholders.

We may require additional capital in the future, and this additional capital may not be available on acceptable terms or at all.

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

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

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

Certain stockholders or entities controlled by them or their permitted transferees beneficially own shares of our common stock that have not been registered for resale with the SEC. The holders of these restricted shares may sell their shares in the public market from time to time without registering them, subject in the case of our affiliates, to certain limitations on the timing, amount and method of those sales imposed by regulations promulgated by the SEC. Holders of restricted stock will also have the right to cause us to register the resale of shares of common stock beneficially owned by them.

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

Our stockholders may not receive dividends or dividends may not grow over time.

During 2013, the Company paid quarterly dividends on shares of our common stock throughout the year. Although the Company announced its intention to pay regular quarterly dividends on shares of our common stock in the future, we have not established a minimum dividend payment level and our ability to pay dividends in the future may be adversely affected by a number of factors, including the risk factors described herein. All dividends will be declared at the discretion of our Board of Directors and will depend on our earnings, our financial condition and other factors as our Board of Directors may deem relevant from time to time. Our Board of Directors is under no obligation or requirement to declare a dividend. We cannot assure you that we will achieve results that will allow us to pay a specified level of dividends, if any, or to grow our dividends over time.

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

In connection with our initial public offering, we became subject to the periodic reporting requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act, and the other rules and regulations of the SEC and the Nasdaq Global Market. We are also subject to various other regulatory requirements, including the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act. Section 404 of the Sarbanes-Oxley Act requires that we evaluate and determine the effectiveness of our internal control over financial reporting. If we have a material weakness or significant deficiency in our internal control over financial reporting, we may not detect errors on a timely basis and our financial statements may be materially misstated. As a result, our stockholders could lose confidence in our financial reporting, which could harm the trading price of our stock. In addition, in connection with our initial public offering in August 2007, we became subject to the rules of the Nasdaq Global Market. Our compliance with these rules and regulations has increased our legal and financial compliance costs and make some activities more time-consuming and costly.

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

Although we are a Delaware corporation, our subsidiaries and most of our assets are located outside of the U.S. Furthermore, most of our directors and officers and some experts named in this report reside outside the U.S. As a result, you may not be able to enforce judgments against us or our directors or officers in U.S. courts judgments based on the civil liability provisions of U.S. federal securities laws. It is unclear if original actions of civil liabilities based solely upon U.S. federal securities laws are enforceable in courts outside the U.S. It is equally unclear if judgments entered by U.S. courts based on the civil liability provisions of U.S. federal securities laws are enforceable in courts outside the U.S. Any enforcement action in a court outside the U.S. will be subject to compliance with procedural requirements under applicable local law, including the condition that the judgment does not violate the public policy of the applicable jurisdiction.

Table of Contents**ITEM 1B. UNRESOLVED STAFF COMMENTS**

Not applicable.

ITEM 2. PROPERTIES

Our principal administrative, marketing and product development facilities are located in our offices in Bogotá, Colombia; Buenos Aires, Córdoba and San Luis, Argentina; Santana do Parnaíba, Brazil; Caracas and Valencia, Venezuela; Mexico City, Mexico; Aguada Park, Uruguay. Currently, all of our offices are occupied under lease agreements, except for our Argentine and Venezuelan offices. The leases for our facilities provide for renewal options. After expiration of these leases, we can renegotiate the leases with our current landlords, or move to another location. From time to time we consider various alternatives related to our long-term facility needs. While we believe our existing facilities are adequate to meet our immediate needs, it may become necessary to lease or acquire additional or alternative space to accommodate any future growth. The following table shows the location of our offices and centers, and the expiration date of the leases under which they operate.

City and Country	Facility	Address	Approximate Square Meters	Lease Expiration Date
Bogotá, Colombia	TuCarro Colombia operation	Transversal 23 N° 97-73, Piso 4°, Oficina 405, Bogotá D.C., Colombia	622	January 2017
Bogotá, Colombia	Colombia operation	Transversal 23 N° 97-73, Piso 4°, Oficina 405, Bogotá D.C., Colombia	622(1)	January 2017
Bogotá, Colombia	TuCarro Colombia operation	Carrera 43A No. 1 sur 100 Oficina 1104 Medellín, Colombia	36(2)	February 2016
Buenos Aires, Argentina	Corporate headquarters, Argentina operation	Arias 3751 pisos 5°, 6°, 7°, 8°, 9°, Buenos Aires, 1430 Argentina	5,340	N/A
Buenos Aires, Argentina	Corporate headquarters, Argentina operation	Libertador 77 pisos 16°, 17°, 18°, Vicente López, Buenos Aires, Argentina	3,865	N/A
Buenos Aires, Argentina	Customer service center	Av. Costanera Rafael Obligado y Geronimo Salguero, Buenos Aires, Argentina	1,842(1)	January 2015
Caracas, Venezuela	Venezuela operation	Planta 6 (nivel 8) del Edificio Torre La Castellana, situado entre las Avenidas Eugenio Mendoza y José Ángel Lamas, Urbanización La	992	N/A

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		Castellana, Municipio Chacao del Estado Bolivariano de Miranda. 1060.		
Valencia, Venezuela	TuCarro Venezuela operation	Av. Cementerio, CC Cristal, Torre Cristal (Torre empresarial), piso 4, oficina 4 -7, Valencia, Edo. Carabobo, Venezuela.	73	N/A
Caracas, Venezuela	Property on operating lease	Planta Oficina Nivel Doce (12) del Edificio Bancaracas, situado entre las Avenidas Principal de la Urbanización La Castellana, Avenida San Felipe y Segunda Transversal de la citada urbanización, Municipio Chacao del Estado Bolivariano de Miranda. 1060.	943,64	N/A
Caracas, Venezuela	Property on operating lease	Av. Blandín, Centro San Ignacio, oficinas TO-P7-06, TO-P7-09, TO-P8-01, TO-P8-02, TO-P8-03, TO-P8-04, TO-P8-05, TO-P8-06, TO-P8-09 y TO-P8-10, ubicados en los pisos siete (07) y ocho (08) de la Torre Copérnico, Urbanización La Castellana, Municipio Chacao del Estado Bolivariano de Miranda. 1060.	1.367,48	N/A
Córdoba, Argentina	Technology Development center	Av. La Voz del Interior 7000, Córdoba, Argentina	1,095.47(3)	June, 2016
Córdoba, Argentina	Technology Development center	Av. La Voz del Interior 7000, Córdoba, Argentina	516(3)	February, 2014
Córdoba, Argentina	Technology Development center	Parque Empresarial Aeropuerto	266	N/A
Lithia Springs, Georgia, U.S.A.	SAVVIS Data Center	375 Riverside Parkway Lithia Springs, Georgia 30122,	36	December 2014
Mexico City, Mexico	Mexico operation	Félix Cuevas No. 6 Int. 501 Col. Tlacoquemecatl del Valle, Delegación Benito Juarez, CP 03200 Mexico DF., Mexico	562	May 2016
Sterling, Virginia, U.S.A.	SAVVIS Data Center	45901 Nokes Blvd. Sterling, Virginia 20166	253	December 2014
San Luis, Argentina	Technology Development center	Av. Universitaria s/n, Ciudad de la Punta, San Luis, Argentina	794(2)	December 2014

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Santana do Parnaíba, Brazil	Brazilian Subsidiary main office Customer service center	Avenida Marte, 489 Andar Térreo, 1°, 2° andar Partes A e B Cep 06541-005 Santana de Parnaíba, São Paulo, Brazil	4,090(1)	July 2014
Sterling, Virginia, U.S.A.	SAVVIS Data Center	21110 Ridgetop Circle Sterling, Virginia	160	December 2014
Aguada Park, Uruguay	Uruguay operation. Customer service center	Edificio1, Zona Franca, Pisos19 y 20, Oficinas1901 y 2001, Aguada Park, Montevideo, Uruguay	1,672	October 2021

- (1) This surface includes the area of the office leased and parking spaces.
- (2) This surface corresponds to the area of the office leased and it does not include any parking spaces.
- (3) This surface includes exclusive and common areas.

Table of Contents**ITEM 3. 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 for additional discussion of the litigation and regulatory risks facing our company.

As of December 31, 2013, our total reserves for proceeding-related contingencies were approximately \$3.3 million to cover legal actions against the Company where we have determined that a loss is probable. We do not reserve for losses we determine to be possible or remote.

As of December 31, 2013, there were 624 lawsuits pending against our Brazilian subsidiary in the Brazilian ordinary courts. In addition, as of December 31, 2013, there were 3,149 lawsuits pending against our Brazilian subsidiary in the Brazilian consumer courts, where a lawyer is not 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.

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 those proceedings which we have considered that a loss is probable.

Litigation

On March 17, 2006, Vintage Denim Ltda., or Vintage, sued the Company's Brazilian subsidiaries MercadoLivre.com Atividades de Internet Ltda. and eBazar.com.br Ltda. in the 29th Civil Court of the County of São Paulo, State of São Paulo, Brazil. Vintage requested a preliminary injunction alleging that these subsidiaries were infringing Diesel trademarks and their right of exclusive distribution as a result of sellers listing allegedly counterfeit and original imported Diesel branded clothing through the Brazilian page of the Company's website, based on Brazilian Industrial Property Law (Law 9,279/96). Vintage sought an order enjoining the sale of Diesel-branded clothing on the Company's platform. A preliminary injunction was granted on April 11, 2006 to prohibit the offer of Diesel-branded products, and a fine for non-compliance was imposed in the approximate amount of \$5,300 per defendant per day of non-compliance. The Company appealed that fine and obtained its suspension in 2006. Because the appeal of the preliminary injunction failed, in March of 2007, Vintage presented petitions alleging the Company's non-compliance with the preliminary injunction granted to Vintage and requested a fine of approximately \$3.5 million against the Company's subsidiaries, which represents approximately \$5,300 per defendant per day of alleged non-compliance since April 2006. In July 2007, the judge ordered the payment of the fine mandated in the preliminary injunction, without specifying the amount. In September 2007, the judge decided that (i) the Brazilian subsidiaries were not responsible for alleged infringement of intellectual property rights by its users; and that (ii) the plaintiffs did not prove the alleged infringement of its intellectual property rights. However, the decision maintained the injunction until such ruling is non-appealable. The plaintiff appealed the judge's ruling regarding the subsidiary's non-responsibility and the Company appealed the decision that maintained the preliminary injunction. On July 26, 2011 the State Court of Appeals of the State of São Paulo confirmed the judge's ruling regarding our subsidiary's non-responsibility. Vintage appealed the decision of the State Court of Appeals of the State of São Paulo to the Brazilian Federal Superior Court of Justice. As of December 31, 2013, the decision on the appeal regarding our subsidiary's lack of responsibility was still pending on the Superior Court, therefore, the preliminary injunction is still enforceable. In the opinion of the

Company and its legal counsel, as of December 31, 2013, the amount of \$3.5 million was not reserved since, \$3.1 million was considered remote and \$0.4 million was considered reasonably possible but not probable.

On March 7, 2007, Xuxa Promoções e Produções Artísticas Ltda., or Xuxa, sued MercadoLivre in the Court of Barra da Tijuca, Rio de Janeiro, State of Rio de Janeiro, Brazil. Xuxa, a popular television personality in Brazil, alleged that counterfeit copies of one of her CDs and of a movie with her participation as an actress (for which she owns the copyright and distribution rights) are being sold on MercadoLivre's platform, and as such MercadoLivre is infringing her intellectual and property rights. Xuxa seeks an injunction, the establishment of preventive measures, fines, and compensatory and statutory damages. An injunction ordering the removal of any offers of copies of this CD and movie was granted to Xuxa. MercadoLivre presented its defense and appealed the injunction, which appeal is still pending before the Brazilian Federal Superior Court of Justice. As of December 31, 2013 the lower court's ruling was still pending.

On August 23, 2007, Serasa S.A., (or Serasa), sued MercadoLivre 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 MercadoLivre 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 MercadoLivre (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) to prohibit on the 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 noncompliance was imposed. On December 17, 2007, MercadoLivre presented the information requested. The Company appealed the preliminary injunction to the State

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Court of São Paulo and presented the defense on January 7, 2008. Serasa replied to MercadoLivre's appeal on January 30, 2008. On March 26, 2008, MercadoLivre was summoned with a petition presented by Serasa alleging non-compliance with the injunction. MercadoLivre presented its response on March 31, 2008, arguing that it is in full compliance with the injunction. On August 26, 2008 the State Court of São Paulo lifted the prohibition to allow in the Brazilian website any content related to Serasa as established in the injunction but it was not appealed by the plaintiff. On June 5, 2009 the judge declared that MercadoLivre shall not be held liable for the content posted by its users. Nonetheless, the sentence ordered MercadoLivre to remove certain contents related to the plaintiff. Serasa filed a motion for clarification of that decision, which was rejected by the judge. In July 2009, Serasa presented an appeal to the higher court. In August 2009 MercadoLivre presented the response to the appeal. As of the date of this report, the State Court of Appeals' ruling is still pending.

On November 23, 2007 Botelho Indústria e Distribuição Cinematográfica Ltda., (or Botelho), sued MercadoLivre in the Third Civil Court of the City of Rio de Janeiro, State of Rio de Janeiro, Brazil. Botelho alleged that MercadoLivre was infringing its intellectual property rights as a result of users selling unauthorized copies of Botelho's courses through the Brazilian website. Botelho seeks an injunction, fines, and compensatory and statutory damages, which was not yet analyzed by the judge. In February 2008, MercadoLivre presented arguments to give the judge support and background to analyze the requested injunction. The Company presented its defense on March 5, 2008. A conciliation and settlement hearing was held on September 29, 2008, but no settlement was reached. On September 19, 2012, the Lower Court Judge ruled in favor of MercadoLivre and dismissed the claims against MercadoLivre. Botelho appealed the decision on December 11, 2012. As of December 31, 2013, the Rio de Janeiro State Court of Appeals' ruling was still pending. In the opinion of the MercadoLivre's management and its legal counsel the risk of loss is reasonably possible but not probable.

On October 25, 2007, Iglesia Mesianica Mundial Sekai Kyusei Kio en la Argentina, (or Iglesia Mesianica), filed a suit against the Company's Argentine subsidiary, MercadoLibre S.A. (which changed its name legal to MercadoLibre S.R.L.) (or MercadoLibre), in the Thirteenth Civil Court of the City of Buenos Aires, Argentina. Iglesia Mesianica alleged in the complaint that MercadoLibre should be held liable as a result of users selling books that allegedly plagiarized certain Iglesia Mesianica's books through the Argentine page of MercadoLibre's website. Iglesia Mesianica seeks monetary damages in the amount of approximately \$95,000. The Company presented its defense in May 2008 and also filed a preliminary objection arguing the lack of jurisdiction of the Civil Court and requested that the case should be heard by a Federal Court instead. Iglesia Mesianica responded to the preliminary objection and the court rejected it in September 2010. On November 30, 2011, the court decided to begin with the evidence stage, and ordered the production of the parties' evidence. As of the date of this annual report, according to the opinion of external legal counsel of the Company, the risk of loss of this case is remote.

On February 22, 2008, Nike International Ltd., (or Nike), requested a preliminary injunction against the Company's Argentine subsidiary DeRemate.com de Argentina S.A. (or DeRemate), in the Court on Civil and Commercial Matters in Buenos Aires, Argentina. Nike alleged that this subsidiary was infringing Nike trademarks as a result of sellers listing allegedly counterfeit Nike branded products through the website www.deremate.com.ar. A preliminary injunction was granted in February 2008 to suspend the offer of Nike-branded products until sellers could be properly identified. DeRemate appealed the decision. In November 2008, the Federal Court of Appeals on Civil and Commercial Matters lifted the prohibition to allow on the website of DeRemate any listing related to Nike branded products subject to our requesting certain personal information from users listing those items. On March 25, 2008 Nike sued DeRemate in the same venue, for the same reasons argued in the request preliminary injunction. DeRemate presented its defense on September 11, 2009. The court's ruling is still pending. As of the date of this report, according to the opinion of external legal counsel of DeRemate, the risk of loss in this case is remote.

On July 25, 2008, Nike requested a preliminary injunction against the Argentine subsidiary MercadoLibre in the First Civil and Commercial Federal Court, Argentina. The Company was officially notified on August 14, 2008. Nike requested the injunction alleging that this subsidiary was infringing Nike trademarks as a result of sellers listing allegedly counterfeit Nike branded products through MercadoLibre's website. A preliminary injunction was granted on August 11, 2008 to suspend the offer of Nike-branded products until sellers could be properly identified.

MercadoLibre appealed the decision on August 22, 2008. On March 23, 2009 the Federal Court of Appeals on Civil and Commercial Matters, lifted the prohibition to allow in the Argentine website any listing related to Nike branded products subject to our requesting certain personal information from users willing to list those items. On May 22, 2009, MercadoLibre was summoned about a lawsuit filed by Nike against the Argentine subsidiary in the same venue, for the same reasons argued in the request preliminary injunction. On May 27, 2009 MercadoLibre presented a preliminary objection requesting that Nike deposit as a security bond for costs. The court established that a bond for costs of approximately \$3,500 should be deposited by Nike and both parties appealed this amount which was confirmed by the same Federal Court of Appeals. MercadoLibre presented its defense on April 21, 2010. As of the date of this report, according to the opinion of external legal counsel of MercadoLibre, the risk of loss in this case is remote.

On August 25, 2010, Citizen Watch do Brasil S/A, or Citizen, sued Brazilian subsidiaries in the 31th Central Civil Court State of São Paulo, Brazil. Citizen alleged that the Brazilian subsidiaries were infringing Citizen's trademarks as a result of users selling allegedly counterfeit Citizen watches through the Brazilian page of the Brazilian subsidiaries website. Citizen sought an order enjoining the sale of Citizen-branded watches on the Brazilian subsidiaries Marketplace with a \$6,000 daily non-compliance penalty. On September 23, 2010, the Brazilian subsidiaries were summoned of an injunction granted to prohibit the offer of Citizen products on its platform, but the penalty was established at \$6,000 per day. On September 26, 2010, the Brazilian subsidiaries presented their defense and appealed the decision of the injunction relief to the State Court of Appeals of São Paulo on September 27, 2010. On October 22, 2010 the injunction granted to Citizen was suspended. On March 23, 2011, the Company's appeal regarding the injunction granted to Citizen was ruled in favor of the Brazilian subsidiaries. On May 4, 2011, Citizen presented a motion to clarify the decision but it was dismissed on March 14, 2012. On May 28, 2012, the Plaintiff filed a special recourse related to the injunction relief to the State Court of Appeals, and the Brazilian subsidiaries presented their

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defense on August 16, 2012 which was not admitted. In September 2012, the Plaintiff filed a legal action against the Brazilian subsidiaries with same arguments alleged in the injunction request and seeking for compensatory and statutory damages and defenses were presented on March 20, 2013. On January 9, 2013, Citizen presented a motion to request the appeal to be ruled by the Brazilian Superior Court of Justice (Superior Tribunal de Justiça). On March 1, 2013, the Company presented its response to that appeal. On August 27, 2013, the Brazilian Superior Court of Justice ruled against Citizen's appeal. The Superior Court of Justice ruled that the Brazilian subsidiaries were not responsible for alleged infringement of intellectual property rights by its users and that they should comply with the notice and take down procedure it already have in place. On October 4, 2013, Citizen presented a motion to clarify mentioned decision issued by the Brazilian Superior Court of Justice and such motion was denied on November 11, 2013. Citizen then filed, on November 25, 2013, an Extraordinary Appeal aiming the decision rendered by Brazilian Superior Court of Justice to be reviewed by Brazilian Federal Supreme Court. In September 2012, the Plaintiff filed a legal action against the Brazilian subsidiaries with same arguments alleged in the injunction request and seeking for compensatory and statutory damages and defenses were presented on March 20, 2013. As of December 31, 2013, the lower court's ruling was still pending. In the opinion of the Brazilian subsidiaries' management and its legal counsel, the risk of loss is reasonably possible but not probable.

On June 12, 2007, a state prosecutor of the State of São Paulo, Brazil presented a claim against MercadoLivre. The state prosecutor alleges that MercadoLivre should be held liable for any fraud committed by sellers on MercadoLivre's website, or responsible for damages suffered by buyers when purchasing an item on the Brazilian version of the MercadoLivre website. On June 26, 2009, the Lower Court Judge ruled in favor of the State of São Paulo prosecutor, declaring that MercadoLivre shall be held joint and severally liable for fraud committed by sellers and damages suffered by buyers when using the website, and ordering MercadoLivre remove from the Terms of Service of the Brazilian website any provision limiting MercadoLivre's 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, which was not granted. On September 29, 2009, MercadoLivre presented an appeal and requested to suspend the effects of the ruling issued by the lower court until the appeal is decided by State Court of Appeals, which request was granted on December 1, 2009. As of December 31, 2013, the decision on the appeal was still pending. In the opinion of our management and its legal counsel the risk of loss is reasonably possible.

On August 19, 2011, a state prosecutor of the State of Rio de Janeiro, Brazil presented a claim against the Company's Brazilian subsidiary. The state prosecutor alleges that the Brazilian subsidiary should improve our customer service level and provide (among other things) a telephone number for customer support and requested an injunction against our Brazilian subsidiary. On October 22, 2012, a lower court judges ruled in favor of the Company and dismissed the claim against us. The Public Prosecutor appealed the decision and the Company presented its defense and MercadoLivre presented its defense on December 12, 2012. On April 9, 2013, the State Court of Appeals ruled in favor of the Company confirming the dismissal of the claim. On May 28, 2013 the decision was appealed by the state prosecutor to the Brazilian Superior Court of Justice and we presented our response on July 2, 2013. As of December 31, 2013, the Brazilian Superior Court of Justice ruling was still pending. In the opinion of the Company's management and its legal counsel, the risk of loss is remote.

In 2007 São Paulo tax authorities have asserted taxes and fines against our Brazilian subsidiary relating to the period from 2005 to 2007 in an approximate amount of \$5.9 million according to the exchange rate in effect at that time. In 2007, the Company presented administrative defenses against the authorities' claim and the tax authorities ruled against the Brazilian subsidiary. In 2009, the Company presented an appeal to the Conselho Municipal de Tributos or São Paulo Municipal Council of Taxes which reduced the fine. On February 11, 2011, the Company appealed this decision to the Câmaras Reunidas do Egrégio Conselho Municipal de Tributos or Superior Chamber of the São Paulo Municipal Council of Taxes which affirmed the reduction of the fine. As of the date of this report, the total amount of the claim is approximately \$5.8 million including surcharges and interest. With this decision the administrative stage

is finished. On August 15, 2011, the Company made a deposit in court of approximately R\$ 9.5 million, which including accrued interests amounted to R\$ 10.4 million or \$4.4 million, according to the exchange rate at December 31, 2013, and filed a lawsuit in 8th Public Treasury Court of the County of São Paulo, State of São Paulo, Brazil, to contest the taxes and fines asserted by the Tax Authorities. As of December 31, 2013, the 8th Public Treasury Court of the County of São Paulo ruling was still pending.

In September 2012, São Paulo tax authorities have asserted taxes and fines against our Brazilian subsidiary related to our Brazilian subsidiary's activities in São Paulo for the period from 2007 through 2010. In January 2005 the Company moved our operations to Santana de Parnaíba City, Brazil and began paying taxes to that jurisdiction and therefore the Company believes that has strong defenses to the claims of the São Paulo authorities with respect to this period. On July 27, 2012, the Company presented administrative defenses against the authorities' claim. On February 2, 2013, São Paulo tax authorities ruled against the Brazilian subsidiary maintaining claimed taxes and fines. On March 4, 2013, the Company presented an appeal to the Conselho Municipal de Tributos or São Paulo Municipal Council of Taxes. On August 23, 2013, the Câmaras Reunidas do Egrégio Conselho Municipal de Tributos or Superior Chamber of the São Paulo Municipal Council of Taxes ruled against the Company's appeal. On September 5, 2013, the Company presented a special appeal to the Superior Chamber of the São Paulo Municipal Council of Taxes. On October 18, 2013, the mentioned appeal was denied to our Brazilian subsidiary and confirmed the fines. With this decision the administrative stage is finished. On November 13, 2013, the Company filed a lawsuit before the 9th Treasury Court of the City of São Paulo, State of São Paulo, Brazil, to contest the taxes and fines asserted by the Tax Authorities. On November 14, 2013, the Company made a deposit in court related to the lawsuit filed, of approximately R\$ 41 million, or \$17.5 million, according to the exchange rate at December 31, 2013. On January 28, 2014, São Paulo Municipal Council was summoned and as of the date of this report São Paulo Municipal Council had not presented its defense. The Company's management and its legal counsel believe that the risk of loss is remote, and as a result, the Company has not reserved any provisions for this claim.

In January 2005, the Brazilian subsidiary moved its operations to Santana de Parnaíba City, Brazil and began paying taxes to that jurisdiction and therefore we believe we have strong defenses to the claims of the São Paulo authorities with respect to these periods. The Company's management and its legal counsel believe that the risk of loss is remote, and as a result, has not reserved any provisions for these claims for the period from 2005 through 2010.

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On September 2, 2011, the Brazilian Federal tax authority have asserted taxes and fines against our Brazilian subsidiary relating to the income tax for the 2006 period in an approximate amount of R\$5.2 million or \$2.2 million, according to the exchange rate at December 31, 2013. On September 30, 2011, the Company presented administrative defenses against the authorities' claim. On August 24, 2012, the Company presented its appeal to the Board of Tax Appeals (CARF - Conselho Administrativo de Recursos Fiscais) against the tax authorities' claims. On December 5, 2013, the Board of Tax Appeals ruled against MercadoLivre's appeal. We expect to appeal the decision to the Superior Administrative Court of Tax Appeals after we are summoned. The Company's management and its legal counsel believe that the risk of loss is henceforth possible, but not probable, and as a result, MercadoLivre has not reserved any provisions for this claim.

On August 23, 2012, the tax authority of the City of Buenos Aires, Argentina has asserted taxes and fines against MercadoLibre, relating to the Sales Tax for the period 2007-2011 in an approximate amount of AR\$3.45 million or \$0.5 million, according to the exchange rate as of December 31, 2013. On September 13, 2011 the Company presented administrative recourses against the tax authorities' claim. On October 29, 2013, the tax authority of the City of Buenos Aires confirmed the taxes and fines asserted against the Argentine subsidiary which was appealed by the Company on November 28, 2013. The Company's management and its legal counsel believe that the risk of loss is possible but not probable, and as a result, the Company has not reserved any provisions for this claim.

On November 20, 2013, a state prosecutor of the County of Porto Alegre, State of Rio Grande do Sul, Brazil, presented a claim against our Brazilian subsidiary before the 15th Civil Court of Porto Alegre, State of Rio Grande do Sul, Brazil. The state prosecutor alleged that MercadoLivre should be held liable for any offer or sale of any unlawful products or services through its website. A preliminary injunction was granted on November 25, 2013 ordering the Brazilian subsidiary to monitor and prevent any offer of unlawful products or services. On January 22, 2014, the Brazilian subsidiary was summoned. As of the date of this report the Company's defense and appeal against the preliminary injunction was not presented. In the opinion of the Company's management the risk of losing the case is reasonably possible, but not probable.

Intellectual Property Claims

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

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

Table of Contents**PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES****Market Price of and Dividends on the Registrant's Common Equity**

Shares of our common stock, par value \$0.001 per share, or our common stock, trade on the Nasdaq Global Market (NASDAQ) under the symbol MELI. As of December 31, 2013, the closing price of our common stock was \$107.79 per share. As of February 21, 2014, we had approximately 21 holders of record of our common stock. This figure does not reflect the beneficial ownership of shares held in nominee name. The following table sets forth, for the indicated periods, the high and low per share sale prices for our common stock on the Nasdaq Global Market:

	High	Low
2012:		
1st quarter	\$ 104.50	\$ 77.48
2nd quarter	\$ 101.72	\$ 65.57
3rd quarter	\$ 90.91	\$ 64.18
4th quarter	\$ 92.67	\$ 69.73
2013:		
1st quarter	\$ 96.73	\$ 79.81
2nd quarter	\$ 128.46	\$ 90.04
3rd quarter	\$ 137.60	\$ 104.30
4th quarter	\$ 145.99	\$ 99.07

Recent Sales of Unregistered Securities

There were no sales of unregistered securities by us during the three-month period ending December 31, 2013.

Dividend Policy

In each of February, May, August and October of 2011, our Board of Directors declared quarterly cash dividends of \$3.5 million (or \$0.08 per share on our outstanding shares of common stock). The dividends were payable on April 15, July 15, October 15, 2011 and January 17, 2012 to stockholders of record as of the close of business on March 31, June 30, September 30, and December 30, 2011, respectively.

In each of February, May, August and October of 2012, our Board of Directors declared quarterly cash dividends of \$4.8 million (or \$0.109 per share on our outstanding shares of common stock). The dividends were paid on April 16, July 16, October 15, 2012 and January 17, 2013 to stockholders of record as of the close of business on March 30, June 29, September 28, and December 31, 2012.

In each of February, April, July and October of 2013, our Board of Directors declared quarterly cash dividends of \$6.3 million (or \$0.143 per share on our outstanding shares of common stock). The dividends were paid on April 15, July 15, October 15, 2013 and January 15, 2014 to stockholders of record as of the close of business on March 29, June 28, September 30, and December 31, 2013.

On February 27, 2014, our board of directors declared a quarterly cash dividend of \$7.3 million (or \$0.166 per share on our outstanding shares of common stock). The dividend is payable on April 15, 2014 to stockholders of record as of the close of business on March 31, 2014.

We currently expect to continue paying comparable cash dividends on a quarterly basis. However, any future determination as to the declaration of dividends on our common stock will be made at the discretion of our board of directors and will depend on our earnings, operating and financial condition, capital requirements and other factors deemed relevant by our board of directors, including the applicable requirements of the Delaware General Corporation Law.

Equity Compensation Plan Information

Information regarding securities authorized for issuance under the Company's equity compensation plan as of December 31, 2013 is set forth in Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholders Matters.

Table of Contents**Performance Graph**

The graph below shows the total stockholder return of an investment of \$100 on August 10, 2007 (the first day of trading of our common stock on the Nasdaq Stock Exchange) through December 31, 2013 for (i) our common stock; (ii) The Nasdaq Composite Index; (iii) The S&P 500 Index; and (iv) the Dow Jones Ecommerce Index. The Dow Jones Ecommerce Index is a weighted index of stocks of companies in the e-commerce industry. Stock price performance shown in the graph below is not indicative of future stock price performance:

We cannot assure you that our share performance will continue into the future with the same or similar trends depicted in the graph above. We will not make or endorse any predictions as to our future stock performance.

The foregoing graph and chart shall not be deemed incorporated by reference by any general statement incorporating by reference this Annual Report on Form 10-K into any filing under the Securities Act of 1933, as amended, or under the Securities Exchange Act of 1934, as amended, except to the extent we specifically incorporate this information by reference, and shall not otherwise be deemed filed under those acts.

ITEM 6. SELECTED FINANCIAL DATA

The following summary financial data is qualified by reference to and should be read in conjunction with

Management's Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and related notes thereto included elsewhere in this report.

(in millions)	Years ended December 31,				
	2013	2012	2011	2010	2009
Statement of income data:					
Net revenues	\$ 472.6	\$ 373.6	\$ 298.9	\$ 216.7	\$ 172.8
Cost of net revenues	(130.1)	(98.1)	(72.1)	(46.5)	(36.0)
Gross profit	342.5	275.5	226.9	170.2	136.9
Operating expenses:					
Product and technology development	(40.9)	(28.6)	(23.3)	(15.9)	(12.1)
Sales and marketing	(90.5)	(72.0)	(65.0)	(48.9)	(42.9)
General and administrative	(57.6)	(45.2)	(38.8)	(30.8)	(25.8)
Total operating expenses	(189.0)	(145.9)	(127.1)	(95.6)	(80.9)
Income from operations	153.5	129.6	99.8	74.6	56.0
Other income (expenses):					
Interest income and other financial gains	10.7	11.9	9.9	4.9	2.7
Interest expense and other financial charges	(2.4)	(1.1)	(3.6)	(7.6)	(13.4)

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Foreign currency gain / (loss)	1.3		2.4	(0.1)	(2.7)
Other income (expenses), net		(0.2)	0.1		
Net income before income / asset tax	163.1	140.2	108.5	71.9	42.7
Income / asset tax (expense)	(45.6)	(38.9)	(31.7)	(15.8)	(9.5)
Net income	\$ 117.5	\$ 101.3	\$ 76.8	\$ 56.0	\$ 33.2
Less: Net Income attributable to Noncontrolling		0.1			
Net income available to common shareholders	\$ 117.5	\$ 101.2	\$ 76.8	\$ 56.0	\$ 33.2

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The table above may not total due to rounding.

(in millions)	At December 31,				
	2013	2012	2011	2010	2009
Balance sheet data:					
Total assets	\$ 592.4	\$ 478.7	\$ 355.9	\$ 269.7	\$ 182.6
Long term debt	2.5	0.1	0.1	0.2	
Total liabilities	244.9	184.9	132.8	98.0	68.4
Net assets	347.5	293.8	223.1	171.7	114.2
Redeemable Noncontrolling interest	4.0	4.0	4.0		
Common stock	0.1	0.1	0.1	0.1	0.1
Equity	343.5	289.8	219.2	171.7	114.2
Cash dividend declared per common share	\$ 0.572	\$ 0.436	\$ 0.32	\$	\$

	Year Ended December 31,				
	2013	2012	2011	2010	2009
Earnings per share data:					
Basic net income available to common stockholders per common share	\$ 2.66	\$ 2.30	\$ 1.73	\$ 1.27	\$ 0.75
Diluted net income per common share	\$ 2.66	\$ 2.30	\$ 1.73	\$ 1.27	\$ 0.75
Weighted average shares ⁽¹⁾:					
Basic	44,152,600	44,147,861	44,138,397	44,124,018	44,086,892
Diluted	44,152,600	44,149,838	44,151,437	44,146,858	44,144,368

(1) Shares outstanding at December 31, 2013 were 44,153,473.

(in millions)	2013	2012	2011	2010	2009
Number of confirmed registered users at end of the period ¹	99.5	81.5	65.8	52.9	42.6
Number of confirmed new registered users during the period ²	18.0	15.6	12.9	10.3	8.9
Gross merchandise volume ³	7,305.3	5,703.9	4,820.1	3,405.9	2,750.7
Number of successful items sold ⁴	83.0	67.4	52.8	39.2	29.5
Total payment volume ⁵	2,497.7	1,786.7	1,311.9	697.5	382.5
Total payment transactions ⁶	31.5	23.5	14.3	6.7	3.1
Capital expenditures	117.6	18.1	24.7	13.6	4.8

Depreciation and Amortization	11.9	8.9	7.3	4.9	3.9
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- (1) Measure of the cumulative number of users who have registered on the MercadoLibre Marketplace and confirmed their registration.
- (2) Measure of the number of new users who have registered on the MercadoLibre Marketplace and confirmed their registration.
- (3) Measure of the total U.S. dollar sum of all transactions completed through the MercadoLibre Marketplace, excluding motor vehicles, vessels, aircraft and real estate.
- (4) Measure of the number of items that were sold/purchased through the MercadoLibre Marketplace.
- (5) Measure of total U.S. dollar sum of all transactions paid for using MercadoPago.
- (6) Measure of the number of all transactions paid for using MercadoPago.

Non-GAAP Measures of Financial Performance

To supplement our consolidated financial statements presented in accordance with generally accepted accounting principles (GAAP), MercadoLibre monitors free cash flows as a non-GAAP measure of certain components of financial performance.

This non-GAAP measure is not in accordance with, or an alternative to, measures prepared in accordance with GAAP and may be different from non-GAAP measures used by other companies. In addition, this non-GAAP measure is not based on any comprehensive set of accounting rules or principles. Non-GAAP measures have limitations in that they do not reflect all of the amounts associated with MercadoLibre's results of operations as determined in accordance with GAAP. This measure should only be used to evaluate MercadoLibre's results of operations in conjunction with the corresponding GAAP measures.

Reconciliation to the nearest GAAP measure can be found in the table included below, in this section.

Non-GAAP measures are provided to enhance investors' overall understanding of our current financial performance and our prospects for the future. Specifically, we believe the non-GAAP measure provides useful information to both management and investors by excluding payment for the acquisition of property, equipment, intangible assets and businesses net of cash acquired, that may not be indicative of our core operating results and business outlook. In addition, because we report Free Cash Flows on our earnings release, we believe that the inclusion of this non-GAAP measure provides consistency in our financial reporting.

Free cash flow represents cash from operating activities less payment for the acquisition of property, equipment and intangible assets and businesses net of cash acquired. MercadoLibre considers free cash flow to be a liquidity measure that provides useful information to management and investors about the amount of cash generated by the business after the purchases of property and equipment, of intangible assets and of businesses net of cash acquired, which can then be used to, among other things, invest in MercadoLibre's business, make strategic acquisitions, and repurchase stock. A limitation of the utility of free cash flow as a measure of financial performance is that it does not represent the total increase or decrease in our cash balance for the year.

The following table shows a reconciliation of Operating Cash Flows to Free Cash Flows:

(In millions)	Years ended December 31,		
	2013	2012	2011

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Net Cash provided by Operating Activities	\$ 142.5	\$ 139.9	\$ 89.4
Payment for acquired business, net of cash acquired	(3.4)		(5.5)
Purchase of intangible assets	(0.5)	(1.4)	(0.3)
Purchase of property and equipment	(113.8)	(16.7)	(18.9)
Free Cash Flow	24.8	121.8	64.7

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

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 years ended December 31, 2011, 2012, and 2013;

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

a discussion of the market risks that we face.

Business Overview

MercadoLibre, Inc. (together with its subsidiaries us, we, our or the Company) hosts the largest online commerce platform in Latin America, which is focused on enabling e-commerce and its related services. Our platforms are designed to provide our users with a complete portfolio of services facilitating e-commerce transactions. We are market leaders in e-commerce in each of Argentina, Brazil, Chile, Colombia, Costa Rica, Ecuador, Mexico, Peru, Uruguay and Venezuela, based on unique visitors and page views. Additionally, we also operate online commerce platforms in the Dominican Republic, Panama and Portugal.

Through our online commerce platform, we provide buyers and sellers with a robust online commerce environment that fosters the development of a large and growing e-commerce community in Latin America, a region with a population of over 598 million people and one of the fastest-growing Internet penetration rates in the world. We believe that we offer a technological and commercial solution that addresses the distinctive cultural and geographic challenges of operating an online commerce platform in Latin America.

We offer our users an eco-system of six related e-commerce services: the MercadoLibre Marketplace, the MercadoLibre Classifieds Service, the MercadoPago payments solution, the MercadoLibre Advertising program, the MercadoShops on-line stores solution and the Mercado Envios shipping service.

The MercadoLibre Marketplace, which we sometimes refer to as our marketplace, is a fully-automated, topically-arranged and user-friendly online commerce service. This service permits both businesses and individuals to list general merchandising items and conduct their sales and purchases online in either a fixed-price or auction-based format. Any Internet user in the countries in which we operate can browse through the various products that are listed on our website and register with MercadoLibre to list, bid for and purchase such items and services.

To complement the MercadoLibre Marketplace, we developed MercadoPago, an integrated online payments solution. 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, receive and finance payments online.

Through online classified listings in the motors, real estate and services categories, our users can offer for sale and generate leads on listings in these non-general merchandising categories.

As a further enhancement to the MercadoLibre Marketplace, in 2009, we launched our MercadoLibre Advertising program to enable businesses to promote their products and services on the Internet. Through MercadoLibre Advertising, users and advertisers are able to place display and/or text advertisements on our web pages in order to promote their brands and offerings. MercadoLibre Advertising offers advertisers a cost efficient and automated platform that enables advertisers to acquire traffic through advertisements placed on our platform. Advertisers purchase, on a cost per click basis, advertising space that appears around product search results for specific categories and other pages. These advertising placements are clearly differentiated from product search results and direct traffic both to and from our platform depending on the advertiser.

Additionally, during 2010, we launched the MercadoShops on-line stores solution. Through MercadoShops users can set-up, manage and promote their own on-line webstores. These webstores are hosted by MercadoLibre and offer integration with the other marketplace, payments and advertising services we offer. Users can choose from a basic, free webstore or pay monthly subscriptions for enhanced functionality and value added services on their stores.

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To close out our suite of e-commerce services, during 2013, we launched the MercadoEnvios shipping solution in Brazil and Argentina. Through this solution, we offer cost efficient integration with existing logistics and shipping carriers to sellers on our platforms. Sellers opting into the program are able to offer a uniform and seamlessly integrated shipping experience to their buyers.

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

In May 2000, we obtained significant financing and reached gross merchandise volume of \$14.3 million. In 2001, we launched a new version of our site and brand and launched our operations in Ecuador. Our gross merchandise volume for the year ended December 31, 2001 grew to \$21.3 million. Our gross merchandise volume reached \$55.4 million for 2002, \$164.3 million for 2003 and \$299.3 million for 2004. In November of 2005, we acquired certain operations of DeRemate.com, Inc. and our gross merchandise volume reached \$607.7 million. During 2006, we launched sites in Costa Rica, the Dominican Republic and Panama, and our gross merchandise volume reached \$1,075.1 million. Our gross merchandise volume was \$1,511.5 million for 2007.

In August 2007, we completed our initial public offering through which 16,077,185 shares of our common stock were sold at a 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.

In January 2008, we 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 operate an online classified advertisements platform primarily dedicated to the sale of vehicles at www.tucarro.com in Venezuela, Colombia and Puerto Rico and real estate at www.tuinmueble.com in Venezuela, Colombia, Panama, the United States, Costa Rica and the Canary Islands. On the acquisition date, we paid \$19 million subject to certain escrows and working capital adjustment clauses. On June 27, 2008, the Company released to the former CMG shareholders \$1.9 millions in full satisfaction of the management escrow. On January 22, 2009, we released the escrow balance of \$1.1 million to the sellers of CMG.

In September 2008, we 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. On February 12, 2009, the purchase price allocation period ended and we agreed with the sellers to a working capital adjustment of \$480,912 to be paid by the sellers to us.

In September 2011, we acquired 60% of outstanding membership interest of Autopark LLC, a limited liability company organized under the laws of Delaware with 100% ownership of AP Clasificados, an online classified advertisements platform in Mexico primarily dedicated to the sale of vehicles at www.autoplaza.com.mx and real estate at www.homeshop.com.mx. The aggregate purchase price paid in cash was \$5.5 million and includes URLs, domain names, trademarks, databases non-compete agreements and intellectual property rights that are used or useful in connection with the online platforms of the acquired business.

In March 2013, we acquired the 100% of equity interest in an Argentine software development company located in the Province of Cordoba, Argentina. The objective of the acquisition was to enhance the capabilities of the Company in terms of software development. The aggregate purchase price for the business acquisition was \$3.4 million.

Recent developments

Office building acquisition agreements

In April 2013, we acquired three floors or 3,918 square meters in a new office building located in Buenos Aires for a total amount of \$18.5 million plus VAT. The price was paid in Argentine pesos.

In May 2013, we acquired 1,158 square meters, 13 parking spaces and 4 storage spaces, in an office building located in Caracas for a total amount of \$20.0 million or BF\$126.0 million. The price was paid in Bolivares Fuertes.

In October 2013, we acquired an office property totaling 1,367 square meters, in Caracas, Venezuela. The purchase price of BF\$328.2 million, or approximately \$52.1 million, was paid in local currency. The Company's Venezuelan subsidiary funded a portion of the purchase price with its own funds and the balance of approximately BF\$85.1 million, or \$13.5 million, pursuant to an unsecured line of credit. The unsecured line of credit has a 12-month term and was obtained from a Venezuelan bank at a fixed interest rate of 13% per annum. As of December 31, 2013, the balance of the loan amounted to approximately BF\$80.1 million, or \$12.7 million.

Table of Contents*Venezuela foreign currency status*

During December 2013, the Venezuelan regulation that created the SICAD mechanism was amended to expand its use, and to require publication of the average exchange rate implied by transactions settled in SICAD auctions. The published rate from the week of December 23, 2013 to January 14, 2014 was 11.3BsF/US\$. The published rate from January 15, 2014 to February 14, 2014 was 11.36BsF/US\$. At the date of this report, the published rate is 11.80 BsF/US\$.

On January 23, 2014, the Exchange Agreement number 25 was published in the Special Official Gazette Number 6,122, providing the exchange rate applicable to foreign currency sales for certain transactions such as but not limited to: contracts for leasing and services, use and exploitation of patents, trademarks, foreign investments and payments of royalties, contracts for technology import and technical assistance, which will be the exchange rate from the most recent auction conducted by the SICAD and published on its website.

As a result of the above described change in regulations, the Company will have to use the auction resulting SICAD exchange rate to re-measure the Venezuelan subsidiaries' non-U.S. dollar denominated monetary assets and liabilities from January 2014, which management estimates would result in a loss of approximately between \$1.5 million and \$ 2.5 million to be recorded in the first quarter of fiscal year 2014. Also, the use of the SICAD exchange rate from fiscal year 2014 implies that the Company's revenues and costs will be re-measured using the auction resulting rate, which would vary from auction to auction.

On February 19, 2014, the Venezuelan Government issued Decree N° 798 which would allow the purchase of foreign exchange currencies, through authorized foreign exchange operators offered, by individuals and companies such as Petroleos de Venezuela, S.A. (the oil state-owned corporation of Venezuela), the Central Bank of Venezuela and other public entities authorized by the Ministry of Finance. The purchase/sale of foreign currency through this mechanism would be regulated by Foreign Exchange Agreements to be issued by the Government. At the date of issuance of this report, the regulatory decree that should establish the details of how such mechanism would work has not yet been issued.

Reporting Segments and Geographic information

Our segment reporting is based on geography, which is the current criterion we are using to evaluate our segment performance. Our geographic segments include Brazil, Argentina, Mexico, Venezuela and other countries (including Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Panama, Peru, Portugal, Uruguay and the United States of America (real estate classifieds in the State of Florida only)). Although we discuss long-term trends in our business, it is our policy to not provide earnings guidance in the traditional sense. We believe that uncertain conditions make the forecasting of near-term results difficult. Further, we seek to make decisions focused primarily on the long-term welfare of our Company and believe focusing on short term earnings does not best serve the interests of our stockholders. We believe that execution of key strategic initiatives as well as our expectations for long-term growth in our markets will best create stockholder value. We, therefore, encourage potential investors to consider this strategy before making an investment in our common stock. A long-term focus may make it more difficult for industry analysts and the market to evaluate the value of our Company, which could reduce the value of our common stock or permit competitors with short term tactics to grow stronger than us.

The following table sets forth the percentage of our consolidated net revenues by segment for the years ended December 31, 2013, 2012 and 2011:

(% of total consolidated net revenues) (*)	Years ended December 31,		
	2013	2012	2011
Brazil	43.7%	48.1%	55.5%
Argentina	25.8	23.7	19.0
Venezuela	17.9	14.6	11.6
Mexico	6.9	7.2	7.5
Other Countries	5.6	6.4	6.4

(*) Percentages have been calculated using whole-dollar amounts rather than rounded amounts that appear in the table. The table above may not total due to rounding.

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The following table summarizes the changes in our net revenues by segment for the years ended December 31, 2013, 2012 and 2011:

	Year ended December 31, 2013		Change from 2012 to 2013 (*)		Year ended December 31, 2012		Change from 2011 to 2012 (*)	
	2013	2012	in Dollars	in %	2012	2011	in Dollars	in %
Net Revenues:								
Brazil	\$ 206.4	\$ 179.6	\$ 26.8	14.9%	\$ 179.6	\$ 165.9	\$ 13.7	8.3%
Argentina	122.1	88.5	33.6	38.0	88.5	56.7	31.8	56.1
Venezuela	84.6	54.7	29.9	54.7	54.7	34.8	19.8	57.0
Mexico	32.8	27.0	5.9	21.7	27.0	22.3	4.7	21.2
Other Countries	26.7	23.8	2.9	12.1	23.8	19.2	4.6	23.8
Total Net Revenues	\$ 472.6	\$ 373.6	\$ 99.0	26.5%	\$ 373.6	\$ 298.9	\$ 74.7	25.0%

(*) Percentages have been calculated using whole-dollar amounts rather than rounded amounts that appear in the table. The table above may not total due to rounding.

Description of line items**Net revenues**

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

Within each of our segments, the services we provide generally fall into two distinct revenue streams, Marketplace which includes our core business and Non-Marketplace which includes ad sales, real estate listings, motors listings, financing fees, off-platform payment fees and other ancillary businesses.

The following table summarizes our consolidated net revenues by revenue stream for the years ended December 31, 2013, 2012 and 2011:

Consolidated net revenues by revenue stream	Years ended December 31,		
	2013	2012	2011
Marketplace	\$ 331.3	\$ 262.0	\$ 217.9
Non-Marketplace (*)	141.3	111.6	81.0
Total	\$ 472.6	\$ 373.6	\$ 298.9

(*) Includes, among other things, Ad Sales, Real Estate, Motors, Financing Fees, Off-platform Payment Fees and other ancillary services.

Revenues from Marketplace transactions are generated from:

up-front fees; and

final value fees.

For Marketplace services, final value fees representing a percentage of the sale value are charged to the seller once the item is successfully sold. Up-front fees are charged to the seller in exchange for improved exposure of the listings throughout our platform and are not subject to the successful sale of the items listed.

Revenues for the Non-Marketplace services are generated from:

financing fees;

off-platform payment fees;

motors up-front fees;

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ad sales up-front fees;

real estate listings up-front fees;

and fees from other ancillary businesses.

With respect to our MercadoPago service, we generate payment related revenues, reported within each of our reporting segments, attributable to:

commissions representing a percentage of the payment volume processed that are charged to sellers in connection with off-Marketplace-platform transactions; and

revenues from financing that occur when a buyer elects to pay in installments through our MercadoPago platform, for transactions that occur either on or off our marketplace platform.

Although we also process payments on our marketplace, we do not charge sellers an added commission for this service, as it is already included in our marketplace final value fee we charge.

Through our classifieds offerings in motors, real estate and services, we generate revenues from up-front fees. These fees are charged to sellers who opt to give their listings greater exposure throughout our websites.

Our Advertising revenues are generated by selling either display or text link ads throughout our web-site to interested advertisers.

Finally, our shipping revenues are generated when a buyer elects to receive the item through our shipping service. These revenues are included in other ancillary services.

When more than one service is included in one single arrangement with the customer, we recognize revenue according to multiple element arrangements accounting, distinguishing between each of the services provided and allocating revenues based on their respective selling prices.

We have a highly fragmented customer revenue base given the large numbers of sellers and buyers who use our platforms. For the three years ended December 31, 2013, 2012 and 2011, no single customer accounted for more than 5.0% of our net revenues. Our MercadoLibre Marketplace is available in 13 countries (Argentina, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Mexico, Panama, Peru, Portugal, Uruguay and Venezuela), and MercadoPago is available in six countries (Argentina, Brazil, Chile, Colombia, Mexico and Venezuela). The functional currency for each country's operations is the country's local currency, except for Venezuela where the functional currency is the U.S. dollar due to Venezuela's status as a highly inflationary economy. See Critical accounting policies and estimates Foreign Currency Translation included below. 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 a cost of net revenues. These taxes represented 6.0%, 6.0% and 7.2% of net revenues for the years ended December 31, 2013, 2012 and 2011, respectively.

Cost of net revenues

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

Product and technology development expenses

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

Sales and marketing expenses

Our sales and marketing expenses consist primarily of marketing costs for our platforms through online and offline advertising, bad debt charges, chargebacks related to our MercadoPago operations, 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 majority of our marketing efforts on the Internet. In that regard, we enter into agreements with portals, search engines, social networks, ad networks and other sites in order to attract Internet users to the MercadoLibre Marketplace and convert them into confirmed registered users and active traders on our platform. Additionally, we allocate a portion of our marketing budget to cable television advertising in order to improve our brand awareness and to complement our online efforts.

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

General and administrative expenses

Our general and administrative expenses consist primarily of salaries for management and administrative staff, compensation for outside directors, long term retention plan compensation, expenses for legal, accounting and other professional services, insurance expenses, office space rental expenses, travel and business expenses, as well as depreciation and amortization costs. Our general and administrative expenses include the costs of the following areas: general management, finance, administration, accounting, legal and human resources.

Other income (expenses), net

Other income (expenses) consists primarily of interest income derived from our investments and cash equivalents, interest expense related to financial liabilities, foreign currency gains or losses, 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 in our deferred tax assets and liabilities during each period.

The following table summarizes the composition of our income/asset taxes for the years ended December 31, 2013, 2012 and 2011:

(in millions)	Year ended December 31,		
	2013	2012	2011
Current:			
Foreign	\$ 49.5	\$ 39.4	\$ 29.8
Deferred:			
Federal	0.8	1.0	2.1
Foreign	(4.9)	(1.6)	(0.3)
	(4.1)	(0.6)	1.8
	45.4	38.8	31.6

Asset Tax:

Foreign	0.2	0.1	0.0
Expense	\$ 45.6	\$ 38.9	\$ 31.7

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The following table presents certain unaudited quarterly financial information for each of the twelve quarters set forth below:

	Quarter Ended			
	March 31,	June 30,	September 30,	December 31,
<u>2013</u>				
Net Revenues	\$ 102,725,747	\$ 112,183,360	\$ 123,055,431	\$ 134,630,171
Gross profit	74,076,580	81,106,149	88,910,442	98,424,659
Net Income	17,522,591	30,021,018	29,146,247	40,836,407
Net Income per share-basic	0.40	0.67	0.66	0.93
Net Income per share-diluted	0.40	0.67	0.66	0.93
Weighted average shares				
Basic	44,151,323	44,152,933	44,152,933	44,153,185
Diluted	44,151,357	44,152,933	44,152,933	44,153,185
<u>2012</u>				
Net Revenues	\$ 83,736,006	\$ 88,844,059	\$ 97,266,784	\$ 103,754,645
Gross profit	62,639,709	64,951,178	71,573,179	76,351,784
Net Income	19,637,038	25,394,824	26,067,897	30,246,388
Net Income per share-basic	0.45	0.57	0.59	0.69
Net Income per share-diluted	0.45	0.57	0.59	0.69
Weighted average shares				
Basic	44,142,076	44,147,999	44,150,387	44,150,920
Diluted	44,147,796	44,152,133	44,157,321	44,152,895
<u>2011</u>				
Net Revenues	\$ 61,459,668	\$ 69,378,160	\$ 81,628,144	\$ 86,465,653
Gross profit	47,127,964	52,439,042	61,567,671	65,741,114
Net Income	14,057,634	14,820,826	26,296,449	21,621,431
Net Income per share-basic	0.32	0.34	0.60	0.47
Net Income per share-diluted	0.32	0.34	0.60	0.47
Weighted average shares				
Basic	44,131,383	44,138,105	44,141,925	44,142,020
Diluted	44,147,667	44,152,296	44,151,218	44,152,658

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

Critical accounting policies and estimates

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

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

Table of Contents***Foreign Currency Translation***

Historically, all of our foreign operations have used the local currency as their functional currency. Accordingly, these foreign subsidiaries translate assets and liabilities from their local currencies to U.S. dollars using year-end exchange rates while income and expense accounts are translated at the average exchange rates in effect during the year. The resulting translation adjustment is recorded as part of other comprehensive income (loss), a component of equity. Gains and losses resulting from transactions denominated in non-functional currencies are recognized in earnings. Net foreign currency exchange losses or gains are included in the consolidated statements of income under the caption Foreign currency gain .

Venezuelan currency status

In accordance with U.S. GAAP, we have classified our Venezuelan operations as highly inflationary since January 1, 2010, using the U.S. dollar as the functional currency for purposes of reporting our financial statements. Therefore, no translation effect has been accounted for in other comprehensive income related to our Venezuelan operations.

On May 14, 2010, the Venezuelan government enacted reforms to its exchange regulations making the Venezuelan Central Bank, or BCV, the only institution that could legally authorize the purchase or sale of foreign currency bonds, thereby excluding non-authorized brokers from the foreign exchange market.

Under the Foreign Currency Securities Transaction System, or SITME, entities domiciled in Venezuela could purchase U.S. dollar-denominated securities only through banks authorized by the BCV to import goods, services or capital goods. We began to use the SITME rate and started re-measuring foreign currency transactions using the SITME rate published by BCV, which has been settled at 5.3 Bolivares Fuertes per U.S. dollar.

On February 8, 2013, the Venezuelan Government, through Foreign Exchange Agreement No. 14, devalued as from February 9, 2013, the official exchange rate to 6.3 Bolivares Fuertes per U.S. dollar.

In addition, on February 8, 2013, the Venezuelan Government, through Decree No. 9381, has created the *Organo Superior para la Optimización del Sistema Cambiario* , which is a committee that would have the authority to design, plan and execute foreign exchange policies. Finally, on February 9, 2013, the BCV eliminated the SITME, which was the former system that allowed companies limited access to foreign currencies for payments to foreign suppliers. The elimination of the SITME and devaluation of the official exchange rate required re-measurement of our Venezuelan subsidiaries non-U.S. dollar denominated monetary assets and liabilities as from February 9, 2013. The effect of using the devalued official rate of 6.3 Bolivares Fuertes per U.S. dollar instead of the SITME rate generated a foreign currency loss amounted to approximately \$6.4 million in the first quarter of 2013.

On March 19, 2013, the BCV announced the creation of the *Sistema Complementario de Administración de Divisas*, or SICAD, which acts jointly with the Commission for the Administration of (CADIVI). In order to operate within this new system, a company has to be registered at the Registro Automatizado RUSAD. The acquisition of foreign currencies under that system is organized under an auction process to obtain foreign currencies for payments to foreign suppliers, where the minimum exchange rate to be offered is 6.30 Bolivares Fuertes per U.S. dollar. Starting from the implementation of SICAD and as of the date of this report, we have been unable to access the auction process under SICAD.

Accordingly, as of December 31, 2013, the exchange rate used to re-measure our net monetary assets of our Venezuelan operations was the official rate of 6.30 Bolivares Fuertes per U.S. dollar. Moreover, transactions carried out by the Company s Venezuelan subsidiaries were re-measured at the monthly average exchange rate for the year

ended December 31, 2013. The SITME rate used to re-measure foreign currency transactions during 2012 was 5.3 Bolivares Fuertes per U.S. dollar.

During December 2013, the Venezuelan regulation that created the SICAD mechanism was amended to expand its use, and to require publication of the average exchange rate implied by transactions settled in SICAD auctions. The published rate from the week of December 23, 2013 to January 14, 2014 was 11.3BsF/US\$. The published rate from January 15, 2014 to February 14, 2014 was 11.36BsF/US\$. At the date of this report, the published rate is 11.80 BsF/US\$.

On January 23, 2014, the Exchange Agreement number 25 was published in the Special Official Gazzette Number 6,122, providing the exchange rate applicable to foreign currency sales for certain transactions such as but not limited to: contracts for leasing and services, use and exploitation of patents, trademarks, foreign investments and payments of royalties, contracts for technology import and technical assistance, which will be the exchange rate from the most recent auction conducted by the SICAD and published on its website.

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As a result of the above described change in regulations, the Company will have to use the auction resulting SICAD exchange rate to re-measure the Venezuelan subsidiaries' non-U.S. dollar denominated monetary assets and liabilities from January 2014, which management estimates would result in a loss of approximately between \$1.5 million and \$ 2.5 million to be recorded in the first quarter of fiscal year 2014. Also, the use of the SICAD exchange rate from fiscal year 2014 implies that the company's revenues and costs will be re-measured using the auction resulting rate, which would vary from auction to auction. The table below provides specific pro-forma information of our Venezuelan segment reporting for the period indicated assuming as if the exchange rate of 11.36 Bolivares Fuertes per U.S. dollar had been applied with effect starting on January 1, 2013 to December 31, 2013:

In U.S. dollars	Year Ended December 31, 2013	
	Actual (*)	Sensitivity (**)
Net revenues	\$ 84,572,485	\$ 46,307,989
Direct costs	(29,578,762)	(18,605,968)
Direct contribution	54,993,723	27,702,020
Direct Contribution Margin %	65.0%	59.8%

(*) As reported.

(**) Computing, as pro-forma calculation, the effect of using for the fiscal year, the exchange rate to be used for re-measurement purposes as from January 2014 (first application of the SICAD rate).

On February 19, 2014, the Venezuelan Government issued Decree N° 798 which would allow the purchase of foreign exchange currencies, through authorized foreign exchange operators offered, by individuals and companies such as Petroleos de Venezuela, S.A. (the oil state-owned corporation of Venezuela), the Central Bank of Venezuela and other public entities authorized by the Ministry of Finance. The purchase/sale of foreign currency through this mechanism would be regulated by Foreign Exchange Agreements to be issued by the Government. At the date of issuance of this report, the regulatory decree that should establish the details of how such mechanism would work has not yet been issued.

Until 2010 we were able to obtain U.S. dollars for any purpose, including dividends distribution, using alternative mechanisms other than through the CADIVI. Those U.S. dollars, obtained at a higher exchange rate than the one offered by CADIVI, and held in balance at U.S. bank accounts of our Venezuelan subsidiaries, were used for dividend distributions from our Venezuelan subsidiaries. CADIVI is the only mean by which U.S. dollars for dividend distributions could be requested. We did not request authorization to CADIVI in 2012 and 2013 to acquire U.S. dollars to make dividend distributions. We have not distributed dividends from our Venezuelan subsidiaries since 2011.

The following table sets forth net revenues for the years ended December 31, 2013, 2012 and 2011 and assets, liabilities and Net Assets of our Venezuelan subsidiaries, before intercompany eliminations, as of December 31, 2013 and 2012:

	December 31,		
	2013	2012	2011

Venezuelan operations			
Net Revenues	\$ 84,572,485	\$ 54,676,170	\$ 34,828,878

	December 31, 2013	December 31, 2012
Assets	126,873,804	62,938,728
Liabilities	(62,437,338)	(22,652,965)
Net Assets	\$ 64,436,466	\$ 40,285,763

As of December 31, 2013, the net assets of our Venezuelan subsidiaries amount to approximately 18.8% of our consolidated net assets, and cash and investments of our Venezuelan subsidiaries held in local currency in Venezuela amount to approximately 9.8% of our consolidated cash and investments.

Our ability to obtain U.S. dollars in Venezuela is negatively affected by the exchange restrictions in Venezuela that are described above. From January 24, 2014 the SICAD framework will be used to measure our Venezuelan transactions and for that reason our result of operations and earnings will be negatively impacted. In addition, our business and ability to obtain U.S. dollars in Venezuela would be negatively affected by additional material devaluations or the imposition of significant additional and more stringent controls on foreign currency exchange by the Venezuelan government in the future.

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Despite the current difficult macroeconomic environment in Venezuela, we continue managing, through our Venezuelan subsidiaries, our investment in and exposure to Venezuela. We believe that the current restrictions to acquire U.S. dollars will not have a material adverse effect on our overall business plan in the long run, considering that our Venezuelan operations are not dependent on third parties' imported goods or services. Moreover, because our Venezuelan business has demonstrated consistent growth, our current plans contemplate continued reinvestment in our Venezuelan businesses with the proceeds of our business in that country.

In November 2013 the Venezuelan Congress approved the new Law of Costs, Earnings, and Fair Profits that includes the ability to restrict profit margins and the Venezuelan government set a 30% profit margin in the private sector. We will assess the potential effects of this new law as the detailed provisions for its implementation are issued.

Argentine currency status

The Argentine government has implemented certain measures that control and restrict the ability of companies and individuals to exchange Argentine pesos for foreign currencies. Those measures include, among other things, the requirement to obtain the prior approval from the Argentine Tax Authority of the foreign currency transaction (for example and without limitation, for the payment of non-Argentine goods and services, payment of principal and interest on non-Argentine debt and also payment of dividends to parties outside of the country), which approval process could delay, and eventually restrict, the ability to exchange Argentine pesos for other currencies, such as U.S. dollars. Those approvals are administered by the Argentine Central Bank through the Local Exchange Market (Mercado Unico Libre de Cambios , or MULC), which is the only market where exchange transactions may be lawfully made.

Further restrictions also currently apply to the acquisition of any foreign currency for holding as cash within Argentina. Although the controls and restrictions on the acquisition of foreign currencies in Argentina place certain limitations on our current ability to convert cash generated by our Argentine subsidiaries into foreign currencies, based on the current state of Argentine currency rules and regulations, we do not expect that the current controls and restrictions, will have a material adverse effect on our business plans in Argentina or on our overall business, financial condition or results of operations.

During January 2014 the Argentinean Peso exchange rate against the U.S. dollar increased in approximately 23%, from 6.52 Argentinean Pesos per U.S. dollar as of December 31, 2013 to about 8 Argentinean Pesos per U.S. dollar. Had the abovementioned devaluation occurred on December 31, 2013, the reported net assets in Argentina would have decreased approximately between \$14.0 million to \$15.0 million with the related impact in Other Comprehensive Income. Additionally, the Company would have recorded a foreign exchange gain between \$3.5 million and \$4.5 million in its Argentinean subsidiaries.

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 comparing the carrying amount of a long-lived asset to its undiscounted future net cash flows expected to be generated by such asset. If such asset is 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 asset exceeds its fair value.

If the carrying amount of the reporting unit exceeds its fair value, goodwill or indefinite useful life intangible assets are considered impaired and a second step is performed to measure the amount of impairment loss, if any. No impairments were recognized during the reporting periods and management's assessment of each reporting unit's fair

value materially exceeds its carrying value.

Goodwill and certain indefinite life trademarks are reviewed for impairment at each year-end or more frequently when events or changes in circumstances indicate that their carrying value may not be recoverable. Impairment of goodwill and certain trademarks are tested at the reporting unit level (considering each segment of the Company as a reporting unit) by comparing the reporting units carrying amount, including goodwill and certain trademarks, to the fair value of the reporting unit. The Company adopted the new guidance to test goodwill and intangible assets with indefinite useful life and, as a consequence, we may perform a qualitative assessment before calculating the fair value of the reporting unit. If the Company determines, on the basis of qualitative factors, that it is more likely than not that the fair value of the reporting unit or such intangible assets are less than their carrying amount, the fair-value based test is applied. For the year ended December 31, 2013, based on the quantitative assessment, the Company determined that the fair value of all the reporting units and the intangible assets with indefinite useful lives are greater than their carrying amount.

For the year ended December 31, 2013, the fair values of the reporting units and the intangible assets with indefinite useful lives were estimated using a combination of the income or discounted cash flows approach. Cash flow projections used were based on financial budgets approved by management. The growth rates applied do not exceed the long-term average growth rate for the business in which the reporting unit operates. The Company uses discount rates to each reporting unit in the range of 10% to 20%. The average discount rate used for 2013 was 13.6%. That rate reflected the Company's real weighted average cost of capital. Key drivers in the analysis include Confirmed Registered Users (CRUs), Gross Merchandise Volume (GMV) which represents a measure of the total U.S. dollar amount of all transactions

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completed through the MercadoLibre Marketplace, excluding motor vehicles, vessels, aircraft, real estate, and services and take rate defined as marketplace revenues as a percentage of gross merchandise volume. In addition, the benchmark in the analysis includes a business to e-commerce rate, which represents the growth of e-commerce as a percentage of GDP, Internet penetration rates as well as trends in the Company's market share.

If the carrying amount of any given reporting unit or any intangible asset with indefinite useful life exceeds its fair value, goodwill or indefinite useful life intangible assets are considered impaired and a second step is performed to measure the amount of impairment loss, if any. No impairments were recognized during the reporting periods included in the financial statements set forth in Item 8 and management's assessment of each reporting unit fair value materially exceeds its carrying value.

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

Allowances for doubtful accounts and for chargebacks

We are exposed to losses due to uncollectible accounts and credits to sellers. Allowances for these items represent our estimate of future losses based on our historical experience. The allowances for doubtful accounts and for chargebacks are recorded as charges to sales and marketing expenses. Historically, our actual losses have been consistent with our charges. However, future adverse changes to our historical experience for doubtful accounts and chargebacks could have a material impact on our future consolidated statements of income and cash flows.

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

Legal contingencies

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

From time to time, we are involved in disputes that arise in the ordinary course of business. We are currently involved in certain legal proceedings as discussed in Business Legal Proceedings, and in Note 15 to our audited consolidated financial statements. We believe that we have meritorious defenses to the claims against us, and we will defend ourselves accordingly. 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 material 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 December 31, 2013, we had a valuation allowance on certain foreign net operating losses based on our assessment that it is more likely than not that the deferred tax asset will not be realized. To the extent we establish a valuation allowance or change the allowance in a period, we reflect the change with a corresponding increase or decrease in our Income/asset tax expense line in our consolidated statement of income.

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The following table summarizes the composition of our deferred tax assets for the years ended December 31, 2013 and 2012:

Deferred tax assets	Year Ended December 31, 2013 in % (in millions, except percentages)		Year Ended December 31, 2012 in % (in millions, except percentages)	
DeRemate.com acquisitions	\$ 4.1	18.4%	\$ 3.5	17.1%
Brazilian operations	4.1	18.3%	4.8	23.7%
Foreign tax credits & others domestic deferred tax assets	1.0	3.0%	2.7	13.5%
Operations in others countries	1.4	7.8%	1.5	7.4%
Mexican operations	0.8	3.7%	1.2	5.8%
Venezuelan operations	4.5	20.5%	1.9	9.2%
Argentine operations	6.3	28.3%	4.7	23.2%
Total	\$ 22.1	100%	\$ 20.1	100%

(*) Percentages have been calculated using the whole figures instead of rounding figures.

The table above may not total due to rounding.

At December 31, 2013, our deferred tax assets are comprised mainly of allowance for doubtful accounts, payroll and social security payable, provisions and tax loss carryforward, representing 37.1%, 17.9%, 16.1% and 11.1%, respectively of the total deferred tax assets. At December 31, 2012, our deferred tax assets are comprised mainly of liabilities, allowance for doubtful accounts, tax loss carryforwards and foreign tax credits representing 37.3%, 29.3%, 18.1% and 12.0%, respectively of the total deferred tax assets.

The following table summarizes the composition of our deferred tax assets from loss carryforwards for the years ended December 31, 2013 and 2012:

Loss carryforwards	Year Ended December 31, 2013 in % (*) (in millions, except percentages)		Year Ended December 31, 2012 in % (*) (in millions, except percentages)	
DeRemate.com acquisitions	\$ 0.1	4.5%	\$ 0.2	5.9%

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Brazilian operations	1.6	63.6%	2.1	59.4%
Mexican operations	0.4	17.7%	0.8	23.8%
Domestic loss carry forwards	0.1	5.0%	0.0	1.2%
Operations in others countries	0.2	9.2%	0.4	9.7%
Total	\$ 2.4	100%	\$ 3.5	100%

(*) Percentages have been calculated using the whole figures instead of rounding figures.
The table above may not total due to rounding.

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 the total deferred tax assets will not be realized, we establish a valuation allowance.

At December 31, 2013 and 2012, our valuation allowance amounted to \$3.1 million and \$3.2 million, respectively.

The following table summarizes the composition of our valuation allowance for the years ended December 31, 2013 and 2012:

Valuation Allowance	Year Ended December 31, 2013 in % (*) (in millions, except percentages)		Year Ended December 31, 2012 in % (*) (in millions, except percentages)	
	DeRemate.com acquisitions	\$ 0.2	5.0%	\$ 0.3
Operations in others countries	2.9	95.0%	2.9	90.3%
Total	\$ 3.1	100%	\$ 3.2	100%

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(*) Percentages have been calculated using the whole figures instead of rounding figures.
The table above may not total due to rounding.

Our valuation allowance is based on our assessment that it is more likely than not that the deferred tax asset will not be realized. The fluctuations in the valuation allowance will depend on the capacity of each country operation to generate taxable income or our execution of future tax planning strategies that allow us to use the aforementioned deferred tax assets. To the extent we establish a valuation allowance or change the allowance in a period, we reflect the change with a corresponding increase or decrease in our tax provision in our consolidated statement of income.

During the year ended December 31, 2013, we have reduced in \$0.1 million the valuation allowance of certain subsidiaries, acquired in 2008. The \$2.9 million of valuation allowance related to Operations in other countries in 2013 are mainly comprised by \$2.7 million related to Argentine doubtful accounts as a consequence of more restrictive requirements to compute these doubtful accounts as an income tax deduction.

During the year ended December 31, 2012, we have reduced \$0.2 million related to valuation allowance of certain subsidiaries, acquired in 2008. In addition, during that same year, we increased our valuation allowance in our Argentine operation by \$0.6 million as a consequence of our assessment of the recoverability of certain deferred tax assets in such jurisdiction.

During the year ended December 31, 2011, we have reduced \$2.0 million related to certain valuation allowance in one of our Brazilian subsidiaries, acquired in 2001, as a consequence of a business reorganization in that country, The reversal of the tax valuation allowance was based on the assessment that it is more likely than not that the deferred tax asset will be realized.

As of December 31, 2013 there are \$ 155.3 million of the non-U.S. subsidiaries undistributed earnings that have not been considered in calculating deferred income taxes. In determining the amount of non-U.S. subsidiaries undistributed earnings for that calculation, the Company does not consider a portion of the non-U.S. subsidiaries earnings as of December 31, 2013 to be subject to U.S. federal income tax purposes because such earnings are intended to be indefinitely reinvested in our international operations and potential acquisitions related to those operations. Upon distribution of those earnings in the form of dividends or otherwise, the Company would be subject to U.S. income taxes if such distribution exceeds available foreign tax credits. It is not practicable to determine the income tax liability that might be incurred if these earnings were to be distributed. The Company does not expect a material impact in any repatriation of undistributed earnings of foreign subsidiaries on our operations since the taxable domestic gains generated by any dividend distributions will be mostly offset with foreign tax credits that arise from income tax paid in our foreign operations, which the Company is allowed to compute for domestic income tax purposes. The following table sets forth the blended tax rates for 2013, 2012 and 2011:

(in millions, except percentages)	Year ended December 31,		
	2013	2012	2011
Income and asset tax expense	\$ (45.6)	\$ (38.9)	\$ (31.7)
As a percentage of income before income and asset tax	27.9%	27.7%	29.2%

Our effective income tax rates for the years ended December 31, 2013, 2012 and 2011, are 30.3%, 28.1% and 27.5%, respectively. Historically, these provisions have adequately provided for our actual income tax liabilities. Our future

effective tax rates could be adversely affected by earnings being lower than anticipated in countries where we have lower statutory rates and higher than anticipated in countries where we have higher statutory rates, by changes in the valuations of our deferred tax assets or liabilities, or by changes or interpretations in tax laws, regulations or accounting principles.

Stock-based compensation

On August 8, 2008, our Board of Directors approved a four year employee retention program (the 2008 LTRP) payable 50% in cash and 50% in shares, subject to certain performance conditions which were satisfied. Subject to an employee's continued employment as of the applicable payment date, the vesting schedule for awards under the 2008 LTRP is as follows:

Year One Paid on or before March 31, 2009: 17% (8.5% in cash and 8.5% in common stock);

Year Two Paid on or before March 31, 2010: 22% (11% in cash and 11% in common stock);

Year Three Paid on or before March 31, 2011: 27% (13.5% in cash and 13.5% in common stock); and

Year Four Paid on or before March 31, 2012: 34% (17% in cash and 17% in common stock).

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The compensation cost is recognized in accordance with the graded-vesting attribution method and is accrued up to each payment date.

The total compensation cost of the 2008 LTRP amounts to approximately \$1.6 million, including cash and shares. The 21,591 shares to be issued in the four years of the 2008 LTRP were valued at the grant-date fair market value of \$36.80 per share.

On July 15, 2009, June 25, 2010, August 1, 2011 and June 5, 2012, the Board of Directors, upon the recommendation of the Compensation Committee approved the 2009, the 2010, the 2011 and the 2012 employee retention programs (the 2009, 2010, 2011 and 2012 LTRP), respectively. The awards under the 2009, 2010, 2011 and 2012 LTRP are fully payable in cash in addition to the annual salary and bonus of each employee.

The 2009, 2010, 2011 and 2012 LTRP will be paid in 8 equal annual installments (12.5% each) commencing on March 31, 2010, March 31, 2011, March 31, 2012 and March 31, 2013, respectively. Each quota is calculated as follows:

6.25% of the amount will be calculated in nominal terms (the nominal basis share),

6.25% is 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, 2009, 2010 and 2011 for the 2009, 2010, 2011 and 2012 LTRP, respectively. The average closing stock price for the 2009, 2010, 2011 and 2012 LTRP was \$13.81, \$45.75, \$65.41 and \$77.77, respectively (the variable share).

In May 2013 the board of directors, upon the recommendation of the Compensation Committee, approved certain amendments to the 2009, 2010, 2011 and 2012 Long-Term Retention Plans, or the Amended LTRPs, to give the Company (through the approval of the Compensation Committee) the option to pay the compensation due under the Amended LTRPs in cash, common stock or a combination thereof. The Company has granted the right to any Amended LTRP participant to request settlement in cash. The Amended LTRPs have been considered to be a substantive liability and classified accordingly in the balance sheet.

On September 27, 2013, our board of directors, upon the recommendation of the Compensation Committee approved the 2013 employee retention programs, or 2013 LTRP. The awards under 2013 LTRP are payable in cash, common stock or a combination thereof, in addition to the annual salary and bonus of each employee. The Company has granted the right to any LTRP participant to request settlement in cash.

The 2013 LTRP will be paid in 6 equal annual quotas of 16.67% each, commencing on March 31, 2014. Each quota is calculated as follows:

8.333% of the amount is calculated in nominal terms,

8.333% is 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 2012. The average closing stock price for the 2013 LTRP amounted to \$79.57. All 2009, 2010, 2011, 2012 and 2013 LTRP have performance and/or eligibility conditions to be achieved at each year end and also require the employee to be still employed in the Company at the payment date.

The variable share compensation cost of the 2009, 2010, 2011, 2012 and 2013 LTRP are recognized in accordance with the graded-vesting attribution method and are accrued up to each payment date. The 2009, 2010, 2011, 2012 and 2013 LTRP nominal basis share are recognized in straight line bases using the equal annual accrual method.

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The following tables summarize the 2008 LTRP and the 2009, 2010, 2011, 2012 and 2013 accrued compensation expense for the years ended December 31, 2013, 2012 and 2011:

	Year ended December 31,		
	2013	2012	2011
LTRP 2008		20,595	98,451
LTRP 2009	1,562,957	587,106	1,457,838
LTRP 2010	1,611,521	1,006,740	1,330,238
LTRP 2011	1,698,285	1,236,275	1,519,760
LTRP 2012	2,013,011	1,603,142	
LTRP 2013	4,759,303		
	\$ 11,645,077	\$ 4,453,858	\$ 4,406,287

On June 25, 2010, our board of directors, upon the recommendation of the compensation committee of our board, adopted the 2010 Director Compensation Program, or the 2010 Director Plan, for outside directors. Under the terms of the Plan, starting in 2011, each outside director is entitled to receive the following compensation for services provided as a director of the Company:

an annual fixed cash retainer for service on the board;

an annual fixed cash retainer for service as chairman of the audit committee, compensation committee, nominating and corporate governance committee and lead independent director, as applicable; and

an annual variable cash retainer based upon the change in our stock price from year to year (the Variable Retainer).

The amount of the Variable Retainer payable in any year is determined by multiplying the target Variable Retainer award amount (the Target Variable Retainer) for such year by the quotient of (a) divided by (b), where (a), the numerator, equals the Prior Year Stock Price (as defined below) and (b), the denominator, equals the Current Year Stock Price (as defined below). For purposes of the 2010 Director Plan, the Applicable Year Stock Price shall equal the average closing price of our common stock on the NASDAQ Global Market during the 30 trading day period preceding the date of the annual stockholders meeting held in the year the payment is made and the Prior Year Stock Price shall equal the average closing price of our common stock on the NASDAQ Global Market during the 30 trading day period preceding the date of our annual stockholders meeting held in the year prior to the year in which the payment is made.

Under the terms of the Plan, each outside director received an annual fee for services provided to the Company for the periods from June 10, 2010 through June 9, 2011, from June 10, 2011 through June 9, 2012 and from June 10, 2012 through June 9, 2013, payable as follows: (a) a Non-Adjustable Board Service Award which means a fixed cash payment of \$32,436, \$37,703 and \$43,826, respectively and (b) an Adjustable Award which means a fixed cash amount of \$43,248, \$50,271 and \$58,435, respectively, multiplied by the average closing sale price of the Company's share during the last 30-trading day period as of the date of the next annual meeting of stockholders divided by the

average closing sale price of the Company's common stock