
**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, 2014

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:

<u>Title of Class</u>	<u>Name of Exchange upon Which Registered</u>
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	<input checked="" type="checkbox"/>	Accelerated Filer	<input type="checkbox"/>
Non-Accelerated Filer	<input type="checkbox"/> (Do not check if smaller reporting company)	Smaller reporting company	<input type="checkbox"/>

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, 2014, 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, 2014) was approximately \$3,071,844,416. 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, 2014 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 19, 2015, there were 44,154,932 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 2015 Annual Meeting of Stockholders, to be filed with the Securities and Exchange Commission by no later than April 30, 2015, 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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FORM 10-K
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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Any statements made or implied 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 intended 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, future economic, political and social conditions in the countries in which we operate, 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 and central bank regulations;
- 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;
- political, social and economic conditions in Latin America in general, and Venezuela and Argentina in particular, including Venezuela’s status as a highly inflationary economy for generally accepted accounting principles in the United States (“U.S. GAAP”), and possible future currency devaluation and other changes to its exchange rate systems such as the Complementary System for the Administration of Foreign Currencies (“SICAD 2”), and the Argentine government’s default of certain government bonds and possible further devaluations of the Argentine Peso.

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.

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.

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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 in Argentina, Brazil, Mexico, Colombia, Venezuela and Chile, 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 in all countries where we operate.

As a further enhancement to the MercadoLibre Marketplace, our MercadoLibre Advertising program enables 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 and 2014, we launched the MercadoEnvios shipping solution in Brazil, Argentina and Mexico. 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.

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 Launch date	Office opening	MercadoPago Launch date	MercadoEnvios Launch date
Argentina	August 1999	July 1999	November 2003	February 2013
Brazil	October 1999	September 1999	January 2004	January 2013
Mexico	November 1999	October 1999	January 2004	October 2014
Uruguay	December 1999	September 2004	N/A	N/A
Colombia	February 2000	January 2000	December 2007	N/A
Venezuela	March 2000	March 2000	April 2005	N/A
Chile	March 2000	April 2000 (*)	September 2007	NA
Ecuador	December 2000	N/A	N/A	N/A
Peru	December 2004	N/A	N/A	N/A
Costa Rica	November 2006	N/A	N/A	N/A
Dominican Republic	December 2006	N/A	N/A	N/A
Panama	December 2006	N/A	N/A	N/A
Portugal	January 2010	N/A	N/A	N/A

(*) We closed our offices in Chile in 2009. In 2014, we acquired Portal Inmobiliario with offices in Chile.

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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. We did not acquire DeRemate's Argentine and Chilean subsidiaries in 2005. Instead, these subsidiaries 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.tuinnmueble.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 interests 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 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. Additionally, in December 2014, we exercised the call option and acquired the remaining 40% of the membership interests in Autopark LLC. The consideration paid for this remaining 40% interest was \$4.0 million.

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 this acquisition was to enhance our software development capabilities.

In April 2014, we acquired 100% of the issued and outstanding shares of capital stock of the companies VMK S.A., Inmobiliaria Web Chile S. de R.L. de C.V. and Inmuebles Online S.A., companies that operate online classified advertisements platforms dedicated to the sale of real estate in Chile through the Portal Inmobiliario brand (www.portalinmobiliario.com) and in Mexico through the Guia de Inmuebles brand (www.guiadeinmuebles.com). The aggregate purchase price was \$ 38.0 million.

In December 2014, we acquired 100% of the equity interests in Business Vision S.A., an Argentine software development company located in the city of Buenos Aires, for an aggregate purchase price of \$4.8 million. The objective of this 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. In order to grow our core marketplace business, we must continue to attract larger sellers to our platform, including brands, manufacturers, and large retailers. Such sellers are recognizing the value of MercadoLibre as a sales channel, and having them on our site increases selection of quality products and enhances the MercadoLibre brand in the eyes of our users. Through our Official Stores initiative, we offer users a tailored experience with products straight from such sellers. Our sales team remains dedicated to attracting and supporting these new vendor segments.
- **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. We are especially focused on driving adoption of our payments and shipping solutions on our platform. Both of these solutions drive a better customer experience for both buyers and sellers on our platform, eliminating friction around transactions. We must continue to drive adoption of these services in the countries where they are currently available, while rolling out these solutions in new markets. Payments outside of our platform also represent an enormous opportunity, especially in payments processing and financing. As credit card adoption and bank account penetration continue to increase across Latin America, the market for online and mobile payments will grow significantly. We believe it is imperative that MercadoPago captures that opportunity, especially as eCommerce and the number of online sellers continue to grow.
- **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. Within our constant focus on innovation, a key component of user experience is the vertical solutions we offer across key categories. These tailored vertical solutions improve user experience and therefore conversion, enabling customers to browse categories by applying filters, rather than merely search for specific items. We have developed and continue to innovate on such vertical solutions for our classifieds sites for Motors, Real Estate, and Services. Furthermore, we provide such an experience for fashion and apparel on our marketplace, driving growth in that category. In order to improve the user experience, we must continue to innovate by improving our existing verticalized categories and creating vertical solutions for new categories. Another key component of innovation is our open platform initiative, which has enabled third-party developers to access MercadoLibre's APIs in order to build solutions that help both sellers and buyers on our platform. We have set up a small venture fund to invest in such startups that integrate with our platform, making several investments to date in Argentina and Brazil. Our open platform also enables large sellers to directly integrate their systems with our site, enabling us to attract and integrate brands, manufacturers, and large retailers. We must continue to open our platform across all solutions in order to promote further development of third-party solutions and easier integration for large retailers.
- ***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. We continue to invest in customer experience to make it a competitive advantage. With roughly 900 customer service representatives across several countries, we strive to provide a superior experience to buyers and sellers, continuing to drive improvements in our Net Promotor Score.

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 2014, visitors to our website were able to browse an average of over 23.2 million Marketplace listings daily, organized by country, in over 2,600 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, 2014, we had over 120.9 million confirmed registered MercadoLibre users, up from 99.5 million and 81.5 million at December 31, 2013 and 2012, respectively. During fiscal year 2014, in our Marketplace, we had 5.5 million unique sellers, 22.0 million unique buyers and 101.3 million successful items sold as compared to i) 5.1 million unique sellers, 20.2 million unique buyers and 83.0 million successful items sold at December 31, 2013; and to ii) 4.4 million unique sellers, 16.9 million unique buyers and 67.4 million successful items sold at December 31, 2012. Finally, our Marketplace gross merchandise volume was \$7.1 billion in 2014, as opposed to the \$7.3 billion in 2013 and \$5.7 billion in 2012.

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 2014, MercadoLibre visitors were able to browse an average of 1.2 million classifieds listings daily, including approximately 634,000 in Real Estate, 453,000 in motors, and 92,000 in services per day. During 2014, we had a total of 2.3 million unique sellers and 11.6 million paid listings through classifieds, as compared to i) 2.5 million unique sellers and 11.0 million paid listings in 2013 and ii) 2.2 million unique sellers and 7.3 million paid listings in 2012.

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 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 method 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, 2014, our on and off-platform users paid approximately \$3,523.2 million using MercadoPago, which represented 49.7% of our gross merchandise volume for that year. 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 users paid approximately \$1,786.7 million using MercadoPago, which represented 31.3% 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, 2014, approximately 47.9% of the MercadoLibre Marketplace's listings accepted MercadoPago for payments and 53.3% of our total gross merchandise volume (excluding motor vehicles, vessels, aircraft and real estate) in these countries was completed through MercadoPago. Starting in Brazil in January 2010, in Argentina in March 2010, in Mexico in April 2011, in Venezuela in July 2012 and in Colombia in November 2013, 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 webstores.

MercadoEnvios shipping solution

MercadoEnvios is a shipping solution for marketplace users, currently available in Brazil, Argentina and Mexico. 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 offline events. Our investment in marketing activities was \$50.6 million during 2014, \$38.1 million during 2013 and \$22.9 million during 2012.

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Specifically, we rely mostly on online advertising to promote our brand and attract potential buyers and sellers to our website and we complement this performance marketing strategy with specific offline activities. To summarize, we focus on the following key marketing initiatives:

- 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.
- 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 more than 35 million keywords related to our activities. Structuring our website so that it appears among the top natural results for certain keyword searches.
- Continuing to focus on customizing our buying and selling experiences to make it easier for users to find and buy items by offering formats dedicated to specific categories. In 2014, we built specialized categories for fashion and we launched a campaign that successfully attracted approximately 400 high-end brands to sell at our platform.
- Pursuing an aggressive Mobile Marketing strategy. In 2014, we worked with App Download and App User engagement campaigns and we invested in new developments that allowed tracking and analyzing user behavior inside our mobile app.
- Continuing to invest in offline and online marketing events around BlackFriday and Cybermonday, which were strong selling events in all our markets in 2014.
- Continuing to use radio and magazine ads to promote our vehicles' classifieds business, which category serves as a leader in all our markets.
- We migrated our Email Marketing platform to Oracle Responsys. This change allowed us to automate, escalate, and better orchestrate our email marketing program providing multichannel integration.

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 comprised of advanced users whom we teach how to 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.

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, 2014, we had 639 employees on our information technology and product development staff, an increase from 403 employees at December 31, 2013, due to new hires and as a consequence of the acquisition of Portal inmobiliario and Guía de Inmuebles in April 2014, and an Argentine software development company in December 2014, which increased our information technology and product development staff in 236 employees. We incurred product development expenses (including salaries) in the amount of \$53.6 million in 2014, \$40.9 million in 2013 and \$28.6 million in 2012. We also incurred information technology capital expenditures, including software licenses, amounting to \$22.7 million in 2014, \$22.0 million in 2013 and \$11.2 million in 2012.

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.

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.

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In March 2013, we acquired 100% of equity interests in an Argentine software development company located in the Province of Cordoba, Argentina, and in December 2014, we acquired 100% of the equity interests in a software development company in the city of Buenos Aires. The objective of these acquisitions 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 and regulatory 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 and regulatory 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, Wallmart 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.

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.

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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," and "MercadoPago" 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, a wholly-owned subsidiary of our company, has 100% ownership of AP Clasificados which owns trademarks of Autoplaza.com.mx and Homershop.com.mx in Mexico. Additionally, we wholly-own interest of VMK S.A. (merged with Meli Inversiones SpA since August 2014), Inmobiliaria Web Chile S. de R.L. de C.V. and Inmuebles Online S.A., companies that operate online classified advertisements platforms dedicated to the sale of real estate in Chile through the Portal Inmobiliario brand and in Mexico through the Guia de Inmuebles brand.

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".

Employees

The following table shows the number of our employees by country at December 31, 2014:

<u>Country</u>	<u>Number of Employees</u>
Argentina	1,056
Brazil	679
Colombia	72
Chile	108
Mexico	118
Uruguay	443
Venezuela	123
Total	2,599

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

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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 Success Factors and SAP’s human resources payroll module across our business. We believe this allows us to centralize our employee database and manage important human resource functions, such as payroll processing (to improve our controls and reduce certain administrative costs), staffing, development and performance management.

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 would 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. During December 2014, we submitted to the Brazilian Central Bank our application to become an authorized payment institution in Brazil. As of the date of this report, we have not received such authorization.

These regulations cover a wide variety of issues, including, among other things: rules related to the requirement to obtain Brazilian Central Bank authorization to operate, offering or providing those services, penalties for non-compliance, the promotion of financial inclusion, the reduction of systemic, operational and credit risks, reporting obligations and governance.

In October 2014, Colombia enacted the Law No. 1,735 which covers a wide variety of issues, including, among other things: rules related to the requirement to obtain authorization from the Colombian *Superintendencia Financiera* to operate, offer or provide certain payment services, penalties for non-compliance, the promotion of financial inclusion, reporting obligations and governance. As of the date of this report, the Law still needs to be regulated.

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.

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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 included 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 2014.

On August 17, 2011, the Argentine government issued a new software development law and on September 9, 2013, the regulatory decree for this new law was issued, which established new requirements to become a beneficiary of the new software development law. The 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. To be a beneficiary of the new software development law, our Argentine subsidiary will have to achieve certain required ratios annually 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. In May 2014, we submitted all of the required documentation in order to apply for the new software development law. At the date of this report, the resolution that would approve our application is still pending.

If we are successful in being admitted as beneficiaries under the new law, the income tax relief we obtained up to September 2014 will be reduced, 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.

On January 23, 2014 the Decree of Fair Prices was published in Venezuela. The decree 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.

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 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 developing 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. The use of and interest in the Internet (particularly as a way to conduct commerce) has grown rapidly since our inception and we cannot assure you that this acceptance, interest and use will continue to exist or to develop and grow at a continued rapid pace or at all. 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 this may place a strain on our management, financial and operational resources. Similarly, a lack of market acceptance of these services or our inability to generate satisfactory revenues from any expanded services to offset their cost could have a material adverse effect on our business, results of operations and financial condition.

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 could 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. 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. In May 2014 the State Court of Appeals issued its ruling stating that MercadoLibre shall not be held responsible for the quality, nature or defective products or services purchased through the Brazilian website. While the decision is not clear, it could be understood that the State Court of Appeals ruled that MercadoLibre could be held joint and severally liable for fraud committed by sellers buyers when using the website. In June 2014, we filed a motion to clarify the decision. In October 2014 the State Court of Appeals overruled our motion to clarify its decision and the Company appealed the decision to the Brazilian Federal Superior Court of Justice. If the

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Brazilian Federal Superior Court of Justice confirms the ruling it could require us to restructure our business model in ways that would harm our business and or cause us to incur substantial costs. Moreover, this legal uncertainty allows for different judges or courts to decide very similar claims in different ways and establish contradictory jurisprudence.

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 consumer protection and businesses in general. It is not clear how existing laws governing issues such as general commercial activities, property ownership, copyrights and other intellectual property issues, taxation (including tax laws that require us 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 applicable authorities in that state with the information on 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 investigations or litigation. Also, our unilateral business practices could give rise to regulatory action or antitrust investigations or litigation. Some regulators may perceive our business to have such significant 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' sales 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 inquiries from regulatory agencies and described our services and operating procedures and have provided 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, injunctions, 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 purchasing items through our platform in Brazil. We have expanded the coverage of our Buyer's Protection Program and this coverage expansion may impact the number and amount of reimbursements we are required to make. 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 and in May 2014 the State Court of Appeals ruled that MercadoLibre shall not be held responsible for the quality, nature or defective products or services purchased through the Brazilian website however the decision on our liability for fraud committed by sellers buyers when using the website is not clear. In June 2014, we filed a motion to clarify the decision however it was overruled by the State Court of Appeals. We appealed the decision to the Brazilian Federal Superior Court of Justice. If the Brazilian Federal Superior Court of Justice, confirms the ruling it could require us to restructure our business model in ways that would harm our business and or cause us to incur substantial costs. Moreover, this legal uncertainty allows for different judges or courts to decide very similar claims in different ways and establish contradictory jurisprudence.

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.

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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 email received by a seller that appeared to be sent by MercadoPago. In that case, the seller delivered the item to the spoof buyer but never got paid and court ordered our Brazilian subsidiary to pay damages to the seller.

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.

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 Comércio Ltda., Sporloisirs S.A., Qix Skateboards Indústria e Comércio 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 Indústria 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 and related volatility 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.

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 or the increased complexity of our website 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 with 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.

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 in Latin America that is different than the environment in which eBay, Amazon and other e-commerce companies that primarily operate 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 in Latin America. Therefore, you should not interpret the success of any of these companies as indicative of our financial prospects.

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In addition, 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.

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 and Venezuela to operate MercadoPago in those countries with MercadoPago's 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, a requirement to obtain Brazilian Central Bank authorization to operate, requirements relating to the offer or provision of such services, penalties for non-compliance, the promotion of financial inclusion, the reduction of systemic, operational and credit risks, reporting obligations and governance.

In October 2014, Colombia enacted the Law No. 1,735 which covers a wide variety of issues, including, among other things: rules related to the requirement to obtain authorization from the Colombian *Superintendencia Financiera* to operate, offer or provide certain payment services, penalties for non-compliance, the promotion of financial inclusion, reporting obligations and governance. Although the law is already effective and in force, it still needs to be regulated.

Our MercadoPago business may be subject to Law No. 1,735. The law requires certain institutions to request authorization to operate. If we consider that the Colombian operation of MercadoPago is regulated by the Law and its regulations, we will have to request authorization, implement certain changes to our operations and systems which will require us to incur greater expenses and devote more resources to areas that require further development of updates. If we are unable to obtain the requisite authorization, it could cause us to (i) shut down our MercadoPago business in Colombia for an indefinite period of time, which would be costly and time consuming, (ii) pay penalties for non-compliance or face other penalties such as the dismantling of MercadoPago, (iii) limit the services we offer through MercadoPago in Colombia or change our business practices, any of which could materially adversely affect our business and results of operations.

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 obligations to provide certain information about transactions that have 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.

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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.

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 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 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 materially 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 operations 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. Recently, the price of oil on global oil markets has declined dramatically and this decline, if prolonged, may have a materially adverse impact on economic conditions within certain countries in Latin America that rely heavily on the export of oil and gas, such as Brazil, Venezuela and Mexico, as well as their trading

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partners in the region. 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 our 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;
- 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 2014, 2013 and 2012, installment payments represented 53.9%, 52.2% and 48.3%, 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 certain 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 79.0%, 79.5% and 76.6% of MercadoPago's payment volume using credit cards during 2014, 2013 and 2012, 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. During December 2014, we submitted to the Brazilian Central Bank our application to become an authorized payment institution in Brazil. As of the date of this report, we have not received such authorization.

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

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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 is subject to Law No. 12,865. The law requires payment institutions to request authorization until August 2014 and payment means until November 2014, therefore our MercadoPago operation has requested such authorization. The law also establishes certain requirements for our services and operations. To comply with this law, we implemented certain changes to our operations and systems which has required us to incur greater expenses and devote more resources to areas that require further development of updates. During December 2014, we submitted to the Brazilian Central Bank our application to become an authorized payment institution in Brazil. As of the date of this report, we have not received such authorization.

If we are unable to obtain the requisite authorization, it could cause us to (i) shut down our MercadoPago business in Brazil 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 in Brazil 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, Argentina and Mexico, 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 the shipping fees we charge to users and this 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, Argentina and Mexico 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, Brazil and Mexico 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.

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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 “MercadoPago” (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 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 be expensive and time consuming to litigate or settle and could have a material adverse effect upon our business, results of operations and financial condition.

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

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

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

As part of our program to reduce fraud losses in relation to MercadoPago, we make use of MercadoPago anti-fraud models and we may temporarily restrict the ability of customers to withdraw their funds if we identify those funds or the customer’s account activity as suspicious. To date, MercadoPago has not been subject to any significant negative publicity about such restrictions. However, certain users who were banned from withdrawing funds or received fake mail appearing to be sent by MercadoPago have initiated legal actions against us in the past. As a result

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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 our 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 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, among others, 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 Beash, 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.

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.

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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

Social, 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, through our Venezuelan subsidiaries. As of December 31, 2014 we had 123 employees working in that country. For the year ended December 31, 2014, 10.4% of our consolidated net revenues and 8.9% of our consolidated net assets are derived from our Venezuelan subsidiaries, while 3.2% 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. We cannot predict the impact of any future political and economic events on our business, nor can we predict the economic and regulatory impact of the Venezuelan government's current or future 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.

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.

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.

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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 that amounted to approximately \$6.4 million in the first quarter of 2013.

On March 19, 2013, the BCV announced the creation of SICAD 1, which acts jointly with the Commission for the Administration of Foreign Exchange Control (CADIVI). In order to operate within SICAD 1, a company should be registered at the Registro Automatizado (Automatized Register, or RUSAD). The acquisition of foreign currencies under this system is organized under an auction process to obtain foreign currencies for payments to foreign suppliers, where the minimum exchange rate to be offered was 6.3 BsF per U.S. dollar.

During December 2013, the Venezuelan regulation that created SICAD 1 was amended to expand its use, and to require publication of the average exchange rate implied by transactions settled in SICAD 1 auctions. Additionally, on January 23, 2014, the exchange regulation was amended to include 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. Due to the change in rules that provided for the creation of the SICAD 1 system, the official exchange rate remains only available to obtain foreign currency to pay for a limited list of goods considered to be of high priority by the Venezuelan government, which does not include those relating to our business. As a consequence, SICAD 1 became, from that moment, the primary system to which we would have to request U.S. dollars to settle our transactions. As a result, from January 24 to May 15, 2014, the exchange rate we used to re-measure our net monetary asset position and BsF transactions of our Venezuelan operations was the SICAD 1 exchange rate.

In late February 2014, the Venezuelan government issued a decree to open a new exchange control mechanism (“SICAD 2”) that allows the purchase of foreign exchange currencies, through authorized foreign exchange operators offered by individuals and companies such as Petróleos de Venezuela, S.A. (PDVSA, the oil state-owned corporation of Venezuela), the BCV and other public entities authorized by the Ministry of Finance. The Venezuelan government published operating rules for the new exchange mechanism in Exchange Agreement N° 27 and, on March 24, 2014 SICAD 2 began operating. Since implementation of the SICAD 1 system, we had been unsuccessful in gaining access to U.S. dollars through SICAD 1. As a result of this ongoing lack of access to the SICAD 1 auction system and the establishment of SICAD 2, on May 16, 2014, we started requesting U.S. dollars through the SICAD 2 mechanism. The SICAD 2 system has been an open mechanism that permitted any company to request U.S. dollars for any purpose. Consequently, we have been eligible for and have been granted U.S. dollars through the SICAD 2 mechanism (see further developments affecting the SICAD 2 mechanism below).

As a consequence of our determination to obtain U.S. dollars through SICAD 2 and our continued lack of access to SICAD 1, we concluded that the SICAD 2 exchange rate should be used to re-measure our bolivar-denominated monetary assets and liabilities in BsF and to re-measure the results of our Venezuelan operations, effective as of May 16, 2014. In connection with this re-measurement, we recorded a foreign exchange loss of \$16.5 million during the second quarter of 2014.

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. Our Venezuelan subsidiaries have not requested authorization since 2012 to acquire U.S. dollars to make dividend distributions and we have not distributed dividends from our Venezuelan subsidiaries since 2011.

In light of the economic conditions in Venezuela, and our determination to access SICAD 2 and re-measure the BsF denominated monetary assets and liabilities of our Venezuelan subsidiaries, and the lower U.S. dollar-equivalent cash flows now expected from our Venezuelan business, we reviewed our long-lived assets, goodwill and intangible assets with indefinite useful life for impairment, including considering our expected use of these assets in light of this foregoing. We own two office spaces in Venezuela that we had expected to use to support our main operating activities in that country. However, due to the current conditions, we now intend to rent these office spaces to third parties to generate rental income and will consider opportunities for disposal of these assets if real estate market conditions are favorable. Because we concluded that the carrying value of these two real estate properties will not be fully recoverable, we recorded an impairment of long-lived assets of \$49.5 million during May, 2014 and, may in the future be required to record a further impairment of long-lived assets.

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In February 2015, the Venezuelan government announced the unification of the SICAD 1 and SICAD 2 foreign exchange systems, into SICAD, with an initial public foreign exchange price of 12 BsF per U.S. dollar. Additionally, on February 10, 2015 it created the “Sistema Marginal de Divisas” (“SIMADI”), a new foreign exchange market, which foreign exchange rate should be published daily by the BCV. The first foreign exchange rate was published on February 12, 2015 at 170.039 BsF per U.S. dollar. We are assessing the new regulations and any additional rules that may be established to determine whether they will have any effect on the accounting of the financial position and results of our operations in Venezuela in 2015.

Our ability to obtain U.S. dollars in Venezuela is negatively affected by the exchange restrictions in Venezuela that are described above. If our access to U.S. dollars becomes widely available at a more unfavorable rate than the rate used in 2014, such as the case may be the new exchange system created recently in February 2015, and we decided to use that alternative mechanism considering that exchange rate as the one applicable for re-measurement, our results of operations, earnings and value of our net assets in Venezuela would be negatively impacted, and we cannot assure that the impact would not be material. See Item 7A. Quantitative and Qualitative Disclosures About Market Risk – Foreign Currency Sensitivity Analysis – Venezuelan Segment. In addition, our business and ability to obtain U.S. dollars in Venezuela would be negatively affected by any additional material devaluations or the imposition of significant additional and more stringent controls on foreign currency exchange by the Venezuelan government in the future.

Despite the current difficult macroeconomic environment in Venezuela, we continue actively managing, through our Venezuelan subsidiaries, our investment in Venezuela. Regardless the current operating, political and economic conditions in Venezuela, we currently plan to continue supporting our business in Venezuela in the long run.

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 our business or 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).

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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.

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 or are currently experiencing severe economic crises, including Argentina, which may still have future effects.

During 2001 and 2002, Argentina went through a period of severe political, economic and social crisis. Among other consequences, the crisis resulted in the Argentine government defaulting on its foreign debt obligations, introducing emergency measures and numerous changes in economic policies that affected utilities and many other sectors of the economy, and suffering a significant real devaluation of the Peso, which in turn caused numerous Argentine private sector debtors with foreign currency exposure to default on their outstanding debt.

In the first half of 2005, Argentina restructured part of the sovereign debt on which it was in default; however, a number of creditors refused to approve the restructuring and litigation brought by these holdout creditors ensued. This litigation initiated by these holdout creditors has persisted to this day. On June 16, 2014, the U.S. Supreme Court rejected an Argentine appeal and decided to leave in place a lower court ruling in favor of the holdout creditors, which held that the Argentine government is prohibited from making payments on its restructured debt unless it also pays the holdout creditors, who have previously refused to accept its debt restructuring offers, the amount owed to them.

In July 2014, Argentina and the holdout creditors failed to reach an agreement on the restructuring of this debt. As a result, the Argentine government was prohibited from making certain bond payments. The full consequences of this on Argentina's political and economic landscape, and on the Company, are still unclear. We cannot provide any assurance that inflation, fluctuations in the value of the peso, the implementation of additional foreign currency restrictions and/or other future economic, social and political developments in Argentina resulting from this current Argentine sovereign debt crisis or the difficult economic conditions that current exist in Argentina, over which we have no control, will not adversely affect our business, financial condition or results of operations, including our ability to pay our debts at maturity or dividends.

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 93.4%, 94.4% and 93.6% of our net revenues for 2014, 2013 and 2012, 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

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foreign currency denominated debt, led to high inflation, 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 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, 2014, 49.2% of our net revenues were denominated in Brazilian Reals, 27.1% in Argentine Pesos, 10.4% in Venezuelan Bolivares Fuertes, and 6.8% in Mexican Pesos. The foreign currency exchange rates for the full year 2014 relative to 2013 resulted in lower net revenues of approximately \$297.4 million and a decrease in aggregate cost of net revenues and operating expenses of approximately \$234.5 million. The foreign currency exchange rates for the full year 2013 relative to 2012 resulted in higher net revenues of approximately \$60.9 million and an increase in aggregate cost of net revenues and operating expenses of approximately \$39.6 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 in the past entered into transactions to hedge portions of our foreign currency translation exposure, these transactions 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.

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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.

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 was benefit from a tax holiday which grants such subsidiary relief from 60% of total income tax determined in each year up to September 17, 2014. Mainly for that reason, our Argentine subsidiary's effective income tax rate for the twelve-month period ended December 31, 2014 and 2013 was 26.9% and 17.7%, respectively, which is significantly lower than the local statutory rate of 35%.

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 were subject under the previous tax holiday regime, 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.

During May 2014, we presented all the required documentation in order to apply for the new software development law. At the date of this report, the Industry Secretary resolution which approves the company's application is still pending. 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 2015. In the event our Argentine operations are taxed at the statutory rate in 2015 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,

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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, 2014, eBay owned approximately 8.1 million shares of our common stock (which represents 18.4% of our outstanding common stock as of December 31, 2014). Certain members of our management team and certain entities established by them for estate planning purposes 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.

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.

In addition to the issuance of the convertible notes, 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.

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

The market price of our common stock could decline as a result of sales of a large number of shares of our common stock in the market 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 2014, 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.

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

As a consequence of being a public Company, we are 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.

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.

Risks related to our convertible senior notes

There is no assurance that we will be able to repay our convertible senior notes.

On June 30, 2014, we issued convertible notes due 2019, or the Convertible Notes, in an aggregate principal amount of \$330 million. At maturity, we will have to pay the holders of the Convertible Notes the full aggregate principal amount of the Convertible Notes then outstanding.

There can be no assurance that we will be able to repay this indebtedness when due, or that we will be able to refinance this indebtedness on acceptable terms or at all. In addition, this indebtedness could, among other things:

- make it difficult for us to pay other obligations;
- make it difficult to obtain favorable terms for any necessary future financing for working capital, capital expenditures, debt service requirements or other purposes;
- require us to dedicate a substantial portion of our cash flow from operations to service the indebtedness, reducing the amount of cash flow available for other purposes; and
- limit our flexibility in planning for and reacting to changes in our business.

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We may not have the ability to raise the funds necessary to settle conversions of the Notes or to repurchase the Notes upon a fundamental change, and our future debt may contain limitations on our ability to pay cash upon conversion or repurchase of the Notes.

Holders of the Notes will have the right to require us to repurchase their Notes upon the occurrence of a fundamental change at a fundamental change repurchase price equal to 100% of the principal amount of the Notes to be repurchased, plus accrued and unpaid interest, if any. In addition, upon conversion of the Notes, unless we elect to deliver solely shares of our common stock to settle such conversion (other than paying cash in lieu of delivering any fractional share), we will be required to make cash payments in respect of the notes being converted. However, we may not have enough available cash or be able to obtain financing at the time we are required to make repurchases of Notes surrendered therefor or Notes being converted. In addition, our ability to repurchase the Notes or to pay cash upon conversions of the Notes may be limited by law, by regulatory authority or by agreements governing our future indebtedness. Our failure to repurchase Notes at a time when the repurchase is required by the indenture or to pay any cash payable on future conversions of the Notes as required by the indenture would constitute a default under the indenture. A default under the indenture or the fundamental change itself could also lead to a default under agreements governing our future indebtedness. If the repayment of the related indebtedness were to be accelerated after any applicable notice or grace periods, we may not have sufficient funds to repay the indebtedness and repurchase the Notes or make cash payments upon conversions thereof.

The conditional conversion feature of the Notes, if triggered, may adversely affect our financial condition and operating results.

In the event the conditional conversion feature of the Notes is triggered, holders of Notes will be entitled to convert the Notes at any time during specified periods at their option. If one or more holders elect to convert their Notes, unless we elect to satisfy our conversion obligation by delivering solely shares of our common stock (other than paying cash in lieu of delivering any fractional share), we would be required to settle a portion or all of our conversion obligation through the payment of cash, which could adversely affect our liquidity. In addition, even if holders do not elect to convert their Notes, we could be required under applicable accounting rules to reclassify all or a portion of the outstanding principal of the Notes as a current rather than long-term liability, which would result in a material reduction of our net working capital.

We have broad discretion in the use of the net proceeds from the issuance of our Notes and may not use them effectively.

We have broad discretion in the application of the net proceeds that we received from the issuance of our Notes, including working capital, possible acquisitions, and other general corporate purposes, and we may spend or invest these proceeds in a way with which our investors disagree. The failure by our management to apply these funds effectively could adversely affect our business and financial condition. Pending their use, we may invest the net proceeds from our Notes in a manner that does not produce income or that loses value. These investments may not yield a favorable return to our investors, and may negatively impact the price of our securities.

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; City of Buenos Aires and the provinces of Buenos Aires, Córdoba and San Luis, Argentina; Santana do Parnaíba, Brazil; Caracas and Valencia, Venezuela; Mexico City, Mexico; Aguada Park, Uruguay and Santiago de Chile, Chile. 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.

<u>City and Country</u>	<u>Facility</u>	<u>Address</u>	<u>Approximate Square Meters</u>	<u>Lease Expiration Date</u>
Bogotá, Colombia	Colombia and TuCarro Colombia operations	Transversal 23 N° 97-73, Piso 4°, Oficina 405, Bogotá D.C., Colombia	622(1)	January 2017
Medellín, Colombia	TuCarro Colombia operation	Carrera 43A No. 1 sur — 100 Oficina 1104 Medellín, Colombia	36(2)	February 2016
City of Buenos Aires, Argentina	Argentina operation	Arias 3751 pisos 5°, 6°, 7°, 8°, 9°, Ciudad de Buenos Aires, Argentina	5,340	N/A
Buenos Aires, Argentina	Corporate headquarters	Av. del Libertador 101 pisos 16°, 17°, 18°, Vicente López, Buenos Aires, Argentina	3,865	N/A

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City of Buenos Aires, Argentina	Customer service center	Av. Costanera Rafael Obligado y Gerónimo Salguero, Ciudad de Buenos Aires, Argentina	1,700(1)	June 2016
City of Buenos Aires, Argentina	Customer service center	Av. Leandro N. Alem 518, pisos 10°, 11° y 12°, Ciudad de Buenos Aires, Argentina	2,360	November 2019
City of Buenos Aires, Argentina	Technology development center	Hipólito Yrigoyen 1528/30 pisos 7°, 8°, 9°, 10° y 12°, Ciudad de Buenos Aires, Argentina		October 2015 (7 th floor). October 2016 (8 th floor). March 2015 (9 th floor). August 2015 (10 th floor). September 2015 (12 th floor).
Buenos Aires, Argentina	Technology development center	Calle 57 N° 632, piso 7° A, La Plata, Buenos Aires, Argentina		October 2015
Córdoba, Argentina	Technology development center	Av. La Voz del Interior 7000, Córdoba, Argentina	1,095.47(3)	June, 2016
San Luis, Argentina	Technology Development center	Av. Universitaria s/n, Ciudad de la Punta, San Luis, Argentina	842(2)	January 2015
Santiago de Chile, Chile	Chile operation	Rosario Norte 532, Piso 2°, Las Condes Santiago de Chile, Chile		December 2016
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 Castellana, Municipio Chacao del Estado Bolivariano de Miranda, Venezuela	992	N/A
Valencia, Venezuela	TuCarro Venezuela operation	Av. Cementerio, CC Cristal, Torre Cristal (Torre empresarial), piso 4, oficina 4-7, Valencia, Edo. Carabobo, Venezuela	73,30	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, Venezuela	943,64	N/A
Caracas, Venezuela	Property on operating lease	Av. Blandín, Centro San Ignacio, oficinas TO-P3-03, TO-P3-04, 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, ubicadas en los pisos tres (03) siete (07) y ocho (08) de la Torre Copémico, Urbanización La Castellana, Municipio Chacao del Estado Bolivariano de Miranda, Venezuela	1,676.56	N/A

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Lithia Springs, Georgia, U.S.A.	SAVVIS Data Center	375 Riverside Parkway Suit 150, Lithia Springs, Georgia, 30122.	62	December 2014
Mexico City, Mexico	Mexico operation	Insurgentes Sur No. 1602, 9th Floor, Int. 901 Col, Crédito Constructor, Delegación Benito Juárez, CP 03940, Mexico DF., Mexico	4,227.86 ⁽³⁾	June 2019
Sterling, Virginia, U.S.A.	SAVVIS Data Center	45901 Nokes Blvd., Sterling, Virginia, 20166	253	December 2014
Santana do Parnaíba, Brazil	Brazilian Subsidiary main office — Customer service center	Avenida Marte, 489 — Andar Térreo, 1º, 2º andar — Partes A e B Cep 06541-005 — Santana de Parnaíba, São Paulo, Brazil	4,090 ⁽¹⁾	July 2018
Sterling, Virginia, U.S.A.	SAVVIS Data Center	21110 Ridgeway Circle, Sterling, Virginia, 20166	193	December 2015
Aguada Park, Uruguay	Uruguay operation. Customer service center	Edificio 1, Zona Franca, Pisos 3, 19 y 20, Oficinas 301, 1901 y 2001, Aguada Park, Montevideo, Uruguay	2,296	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.

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, 2014, our total reserves for proceeding-related contingencies were approximately \$3.0 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, 2014, there were 34 lawsuits pending against our Argentine subsidiaries in the Argentine ordinary courts and 715 pending claims in the Argentine Consumer Protection Agencies, where a lawyer is not required to file or pursue a claim.

As of December 31, 2014, there was one claim pending against our Mexican subsidiaries in the Mexican ordinary courts and 60 claims pending against our Mexican subsidiaries in the Mexican Consumer Protection Agencies, where a lawyer is not required to file or pursue a claim.

As of December 31, 2014, there were 651 lawsuits pending against our Brazilian subsidiaries in the Brazilian ordinary courts. In addition, as of December 31, 2014, there were 2,535 lawsuits pending against our Brazilian subsidiaries 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 our Brazilian subsidiaries MercadoLivre.com Atividades de Internet Ltda. and eBazar.com.br Ltda. in the County of São Paulo, State of São Paulo, Brazil. Vintage requested a preliminary injunction alleging that these subsidiaries were infringing Diesel trademarks and their right of exclusive distribution as a result of sellers listing allegedly counterfeit and original imported Diesel branded clothing through the Brazilian page of our website, pursuant to the Brazilian Industrial Property Law. Vintage sought an order enjoining the sale of Diesel-branded clothing on our platform. A preliminary injunction was granted on April 11, 2006 to prohibit the offer of Diesel-branded products, and a fine for non-compliance was imposed in the amount of approximately \$5,300 per defendant per day of non-compliance. We appealed that fine and obtained its suspension in 2006. Because the appeal of the preliminary injunction was overturned, in March of 2007, in June 26 and 27, 2007, Vintage presented petitions alleging our non-compliance with the preliminary injunction granted to Vintage and requested a fine of approximately \$3.5 million against our 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,

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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 we 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. On July 3, 2014, Vintage's appeal was denied by the Brazilian Federal Superior Court of Justice. On August 12, 2014, Vintage presented an interlocutory appeal to the Brazilian Federal Superior Court of Justice, seeking the Court to review its previous decision. On September 30, 2014 the Brazilian Federal Superior Court of Justice overruled Vintage's appeal and Vintage did not appeal the decision, therefore the favorable ruling is confirmed. The case was closed at the date of this report.

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, 2014 the lower court's ruling was still pending.

On August 23, 2007, Serasa S.A., (or "Serasa"), sued MercadoLivre, our Brazilian subsidiary, in the Sixth Civil Court of Santo Amaro, City of São Paulo, State of São Paulo, Brazil. Serasa, a company which provides credit-related analysis, information services and data bank and payment habits related to individuals and corporations, alleged that 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 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. On March 31, 2014 Serasa entered into an agreement with MercadoLivre, becoming a member of MercadoLivre's Intellectual Property Protection Program, and filling a petition, before the State Court of São Paulo, Brazil, waiving its right to appeal, therefore the case was closed at the date of this report.

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. On January 30, 2014, the Rio de Janeiro State Court of Appeals ruled against Botelho's appeal. On June 27, 2014, Botelho's case was considered closed since the plaintiff did not appeal the decision of Rio de Janeiro's State Court of Appeals.

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, 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 counterfeited 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

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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. On May 27, 2014, the Lower Court Judge issued a ruling considering that DeRemate was not liable for the alleged infringement by sellers' listings, but it considered that DeRemate was liable for the breach of contract entered into by the parties which established a "notice and take down" procedure. On June 6, 2014, DeRemate filed an appeal. 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 reasonably possible, but not probable, and as a result, we have not reserved any provisions for this claim.

On August 25, 2010, Citizen Watch do Brasil S/A, or Citizen, sued Brazilian subsidiaries in the 31st 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 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 Brazilian subsidiaries presented their 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. On February 21, 2014, Brazilian subsidiaries presented its response to Citizen's Extraordinary Appeal. On March 10, 2014, Citizen's extraordinary appeal was not accepted by the Brazilian Superior Court of Justice and, on March 26, 2014, Citizen filed an appeal against such decision, aiming at its Extraordinary Appeal to be accepted and ruled by Brazilian Federal Supreme Court. On May 5, 2014 the Company presented its response to Citizen's appeal to The Brazilian Federal Supreme Court. On December 19, 2014 Brazilian Federal Supreme Court overruled Citizen's Extraordinary Appeal, ending the discussion regarding the injunction sought by Citizen which was definitely not granted. On February 19, 2015 the judge presiding the 31st Central Civil Court of the City of São Paulo, State of São Paulo, Brazil ruled the case in its merits totally in favor of the Brazilian subsidiary, stating that MercadoLivre shall not be held responsible for any of Citizen's pleas and allegations. At the date of this report, Citizen's deadline to appeal mentioned decision was still open. In the opinion of the Brazilian subsidiaries' management and its legal counsel the risk of loss is therefore remote.

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. On May 23, 2014 the State Court of Appeals issued its ruling stating that MercadoLivre shall not be held responsible for the quality, nature or defective products or services purchased through the Brazilian website. While the decision is not clear, it could be understood that the State Court of Appeals ruled that MercadoLivre could be held joint and severally liable for fraud committed by sellers buyers when using the website. On June 13, 2014, MercadoLivre filed a motion to clarify the decision. On October 6, 2014, the State Court of Appeals overruled MercadoLivre's motion to clarify its decision. We appealed the decision to the Brazilian Federal Superior Court of Justice. As of the date of this report the we appeal to the Brazilian Federal Superior Court of Justice was still being processed before the State Court of Appeals. In the opinion of our management and our 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 judge ruled in favor of the Company and dismissed the claim against us. The Public Prosecutor appealed the decision 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, 2014, the Brazilian Superior Court of Justice ruling was still pending. In the opinion our management and our 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, we presented administrative defenses against the authorities' claim and the tax authorities ruled against the Brazilian subsidiary. In 2009, we presented an appeal to the Conselho Municipal de Tributos or São Paulo Municipal Council of Taxes which reduced the fine. On February 11, 2011, we 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, we made a deposit in

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court of approximately R\$ 9.5 million, which including accrued interests amounted to R\$ 10.4 million or \$3.9 million, according to the exchange rate at December 31, 2014, 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, 2014, the 8th Public Treasury Court of the County of São Paulo ruling was still pending. In the opinion of our management and our legal counsel, the risk of loss is remote.

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. On July 27, 2012, we 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, we 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 our appeal. On September 5, 2013, we 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, we 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, we made a deposit in court related to the lawsuit filed, of approximately R\$41 million or \$15.4 million, according to the exchange rate at December 31, 2014. On January 28, 2014 São Paulo Municipal Council was summoned and on April 8, 2014 the São Paulo Municipal Council presented its defense. On April 24, 2014 we presented our response to the mentioned defense. As of December 31, 2014, the lower court's ruling was still pending.

In January 2005 the Brazilian subsidiary moved its 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 these periods. Our management and our legal counsel believe that the risk of loss is remote, and as a result, has not reserved any provisions for these claims. The collection date of the legal deposits cannot be determined since it will depend on the actual duration of the related legal proceedings.

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 \$2.0 million, according to the exchange rate at December 31, 2014. 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 MercadoLibre's appeal. On November 21, 2014, the Company appealed to the Superior Administrative Court of Tax Appeals. As of the date of this report the Superior Administrative Court of Tax Appeals ruling was still pending. Our management and our legal counsel believe that the tax position adopted is more likely than not, based on the technical merits of the tax position, that it will be sustained, and as a result, we have not recorded any liability 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 \$0.4 million, according to the exchange rate as of December 31, 2014. 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. On December 19, 2014 the tax authority denied the administrative appeal (motion of reconsideration). On February 12, 2015 MercadoLibre appealed that decision by filing a new administrative appeal (hierarchical appeal). Our management and our legal counsel believe that the risk of loss is possible but not probable, and as a result, we have 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 MercadoLibre 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. On March 11, 2014, we presented our defense. On March 24, 2014, we filed an appeal against the preliminary injunction before the State Court of Rio Grande do Sul, Brazil, and on March 26, 2014 it was granted a motion to stay, revoking temporarily the effects of the injunction until the final ruling of the Interlocutory Appeal. On October 16, 2014, the State Court of Rio Grande do Sul, Brazil, ruled the Interlocutory Appeal in favor of the Brazilian subsidiary, revoking definitely the injunction. As of the date of this report the case merits' ruling by the 15th Civil Court of Porto Alegre was still pending. In the opinion of our management the risk of losing the case is reasonably possible, but not probable.

On June 13, 2014, the consumer association called "Consumidores Financieros Asociación Civil Para Su Defensa" ("Consumidores Financieros") filed a class action against the Company's Argentine subsidiary, MercadoLibre S.R.L. ("MercadoLibre"), in the First Instance National Court on Commercial Matters Number Four of Buenos Aires, Argentina (the "Court"). Consumidores Financieros acts on behalf of customers who have used MercadoPago in Argentina and claims that MercadoLibre has infringed certain consumer provisions of the Consumer Protection Law, mostly related to certain information to be provided to consumers in relation to the transactions performed through MercadoPago by users holding credit cards that are not associated to MercadoLibre's promotions, and charged them excessive interest rates when users paid by installments. Consumidores Financieros seeks that (i) MercadoLibre provides clear and complete information about the costs of its service MercadoPago in Argentina, (ii) MercadoLibre reimburse users who have used MercadoPago in the last 10 years, an amount equivalent to the difference between the interest rate actually charged by MercadoLibre for the users that pay through MercadoPago by installments and the interest rate set down by the section 36 of the CPA in cases of violation of the duty of information as per section 36 (average annual rate set down by the Argentine Central Bank, which is 26.31% as of the date of this report), (iii) the Court establish the interest rate to be charged in future transactions where users pay by installments, estimate by Consumidores Financieros in twice the interest rate charged by the Banco de la Nación Argentina in commercial transactions (as of the date of this report the doubled interest rate is estimated at 50%), and (iv) condemn MercadoLibre to pay punitive damages on the amount of AR\$500 per each transaction performed in alleged violation to section 36 of the CPA. The Company filed its defense on October 3, 2014. As of the date of this report according to the opinion of our management and legal counsel, the risk of MercadoLibre losing the case is remote.

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 1 A. 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.

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, 2014, the closing price of our common stock was \$127.67 per share. As of February 19, 2015, we had approximately 20 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
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
2014		
1st quarter	\$112.88	\$ 87.88
2nd quarter	\$ 99.00	\$ 79.52
3rd quarter	\$118.90	\$ 86.25
4th quarter	\$144.23	\$102.44

Recent Sales of Unregistered Securities

There were no sales of unregistered securities by us during the three-month period ending December 31, 2014.

Dividend Policy

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 15, 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.

In each of February, April, July and October of 2014, our Board of Directors declared quarterly cash dividends of \$7.3 million (or \$0.166 per share on our outstanding shares of common stock). The dividends were paid on April 15, July 15, October 15, 2014 and January 15, 2015 to stockholders of record as of the close of business on March 29, June 30, September 30, and December 31, 2014.

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On February 24, 2015, our board of directors declared a quarterly cash dividend of \$4.6 million (or \$0.103 per share on our outstanding shares of common stock). The dividend is payable on April 15, 2015 to stockholders of record as of the close of business on March 31, 2015.

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, 2014 is set forth in "Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholders Matters."

Performance Graph

The graph below shows the total stockholder return of an investment of \$100 on December 31, 2007 through December 31, 2014 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)	Year Ended December, 31				
	2014 (*)	2013 (*)	2012 (*)	2011 (*)	2010 (*)
Statement of income data:					
Net revenues	\$ 556.5	\$ 472.6	\$373.6	\$298.9	\$216.7
Cost of net revenues	(159.0)	(130.1)	(98.1)	(72.1)	(46.5)
Gross profit	397.6	342.5	275.5	226.9	170.2

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Operating expenses:					
Product and technology development	(53.6)	(40.9)	(28.6)	(23.3)	(15.9)
Sales and marketing	(111.6)	(90.5)	(72.0)	(65.0)	(48.9)
General and administrative	(62.4)	(57.6)	(45.2)	(38.8)	(30.8)
Impairment of Long-Lived Assets	(49.5)	—	—	—	—
Total operating expenses	(277.1)	(189.0)	(145.9)	(127.1)	(95.6)
Income from operations	120.5	153.5	129.6	99.8	74.6
Other income (expenses):					
Interest income and other financial gains	15.3	10.7	11.9	9.9	4.9
Interest expense and other financial charges	(11.7)	(2.4)	(1.1)	(3.6)	(7.6)
Foreign currency (loss) / gain	(2.4)	1.3	0.0	2.4	(0.1)
Other income / (expenses), net	—	(0.0)	(0.2)	0.1	—
Net income before income / asset tax	121.8	163.1	140.2	108.5	71.9
Income / asset tax (expense)	(49.1)	(45.6)	(38.9)	(31.7)	(15.8)
Net income	72.7	117.5	101.3	76.8	56.0
Less: Net Income attributable to Noncontrolling	0.1	0.0	0.1	0.0	—
Net income available to common shareholders	<u>\$ 72.6</u>	<u>\$ 117.5</u>	<u>\$ 101.2</u>	<u>\$ 76.8</u>	<u>\$ 56.0</u>

(*) The table above may not total due to rounding.

(in millions)	At December 31,				
	2014	2013	2012	2011	2010
Balance sheet data:					
Total assets	\$966.8	\$592.4	\$478.7	\$355.9	\$269.7
Long term debt	282.2	2.5	0.1	0.1	0.2
Total liabilities	611.1	244.9	184.9	132.8	98.0
Net assets	355.8	347.5	293.8	223.1	171.7
Redeemable Noncontrolling Interest	—	4.0	4.0	4.0	—
Common stock	0.1	0.1	0.1	0.1	0.1
Equity	355.8	343.5	289.8	219.2	171.7
Cash dividend declared per common share	\$0.664	\$0.572	\$0.436	\$ 0.32	\$ —

	Year Ended December 31,				
	2014	2013	2012	2011	2010
Earnings per share data:					
Basic net income available to common stockholders					
per common share	\$ 1.63	\$ 2.66	\$ 2.30	\$ 1.73	\$ 1.27
Diluted net income per common share	\$ 1.63	\$ 2.66	\$ 2.30	\$ 1.73	\$ 1.27
Weighted average shares ⁽¹⁾ :					
Basic	44,153,884	44,152,600	44,147,861	44,138,397	44,124,018
Diluted	44,153,884	44,152,600	44,149,838	44,151,437	44,146,858

(1) Shares outstanding at December 31, 2014 were 44,154,572.

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(in millions)	Year ended December 31,				
	2014	2013	2012	2011	2010
Other data:					
Number of confirmed registered users at end of period (1)	120.9	99.5	81.5	65.8	52.9
Number of confirmed new registered users during period (2)	21.5	18.0	15.6	12.9	10.3
Gross merchandise volume (3)	\$7,081.9	\$7,305.3	\$5,703.9	\$4,820.1	\$3,405.9
Number of successful items sold (4)	101.3	83.0	67.4	52.8	39.2
Total payment volume (5)	\$3,523.2	\$2,497.7	\$1,786.7	\$1,311.9	\$ 697.5
Total payment transactions (6)	46.3	31.5	23.5	14.3	6.7
Capital expenditures (7)	\$ 76.1	\$ 117.6	\$ 18.1	\$ 24.7	\$ 13.6
Depreciation and amortization	\$ 16.9	\$ 11.9	\$ 8.9	\$ 7.3	\$ 4.9

- (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.
- (7) Includes payments for businesses acquired (net of cash acquired), payments of remaining amount from business acquisitions and purchases of intangible assets and property and equipment.

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.

Free cash flow is provided to enhance investors' overall understanding of our current financial performance and our prospects for the future. Specifically, we believe the free cash flow 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 in 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, businesses net of cash acquired and payments of remaining amount from business acquisitions. 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, (*)		
	2014	2013	2012
Net Cash provided by Operating Activities	\$196.8	\$ 142.5	\$139.9
Payment for acquired business, net of cash acquired	(36.8)	(3.4)	—
Payment of remaining amount from business acquisition	(4.0)	—	—
Purchase of intangible assets	(0.9)	(0.5)	(1.4)
Purchase of property and equipment	(34.4)	(113.8)	(16.7)
Free cash flow	120.7	24.8	121.8

(*) The table above may not total due to rounding.

Moreover, we believe that adjusted net income before income / asset tax, adjusted income / asset tax, adjusted net income, adjusted blended tax rate and adjusted earnings per share provide useful information to both management and investors by excluding the foreign exchange loss attributable to the devaluation in Venezuela and the impairment of long-lived assets, because otherwise, the inclusion of these items may not be indicative of the ordinary course of our business. In addition, we report adjusted net income before income / asset tax, adjusted income / asset tax, adjusted net income, adjusted blended tax rate and adjusted earnings per share to investors because we believe that the inclusion of these measures provides consistency in the Company's financial reporting and because these financial measures provide useful information to management and investors about what our adjusted net income before income / asset tax, adjusted income / asset tax, adjusted net income, adjusted blended tax rate and adjusted earnings per share, would have been, had the foreign exchange loss in Venezuela and the impairment of long-lived assets not occurred. A limitation of the utility of adjusted net income before income / asset tax, adjusted income / asset tax, adjusted net income, adjusted blended tax rate and adjusted earnings per share, as measures of financial performance, is

that these measures do not represent the total foreign exchange effect in our Income Statement for each of the years presented.

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	Year-ended (**)	
	December 31, 2014	December 31, 2013
Net income before income / asset tax expense	\$ 121.8	\$ 163.1
Devaluation loss in Venezuela	17.7	6.4
Impairment of long-lived assets	49.5	—
Adjusted Net income before income / asset tax expense	<u>\$ 189.0</u>	<u>\$ 169.5</u>
Income and asset tax expense	\$ (49.1)	\$ (45.6)
Income tax effect on devaluation loss in Venezuela	(12.4)	(0.4)(1)
Adjusted Income and asset tax	<u>\$ (61.6)</u>	<u>\$ (46.0)</u>
Net Income	\$ 72.7	\$ 117.5
Devaluation loss in Venezuela	17.7	6.4
Impairment of long-lived assets	49.5	—
Income tax effect on devaluation loss in Venezuela	(12.4)	(0.4)
Adjusted Net Income	<u>\$ 127.4</u>	<u>\$ 123.5</u>
Weighted average of outstanding common shares	44,153,884	44,152,600
Adjusted Earnings per share	\$ 2.89	\$ 2.80
Adjusted Blended Tax Rate (2)	32.6%	27.1%

(**) Stated in millions of U.S. dollars. The table above may not total due to rounding.

(1) Income tax charge related to the Venezuela devaluation under local tax norms.

(2) Adjusted Income and asset tax over Adjusted Net income before income / asset tax expense.

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, 2012, 2013, and 2014;
- 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. Additionally 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.

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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 605 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 solutions and the MercadoEnvios 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 online 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 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 webstores.

To close out our suite of e-commerce services, during 2013 and 2014, we launched the MercadoEnvios shipping solution in Brazil, Argentina and Mexico. 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.

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In September 2011, we acquired 60% of outstanding membership interests 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. Additionally, in December 2014, we exercised the call option and acquired the remaining 40% of the membership interests in Autopark LLC. The consideration paid was \$4.0 million.

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.

In April 2014, we acquired 100% of the issued and outstanding shares of capital stock of the companies VMK S.A. (Merged with Meli Inversiones Spa on August, 2014), Inmobiliaria Web Chile S. de R.L. de C.V. and Inmuebles Online S.A., companies that operate online classified advertisements platforms dedicated to the sale of real estate in Chile through Portal Inmobiliario brand and in Mexico through Guia de Inmuebles brand. The aggregate purchase price was \$ 38.0 million.

In December 2014, we acquired 100% of the equity interests in Business Vision S.A., an Argentine software development company located in the city of Buenos Aires, for an aggregate purchase price of \$4.8 million. The objective of this acquisition was to enhance our software development capabilities.

Recent developments

Venezuela Foreign Currency Status

In February 2015, the Venezuelan government announced the unification of the SICAD 1 and SICAD 2 foreign exchange systems, into SICAD, with an initial public foreign exchange price of 12 BsF per U.S. dollar. Additionally, on February 10, 2015 it created the “Sistema Marginal de Divisas” (“SIMADI”), a new foreign exchange market, which foreign exchange should be published daily by the BCV. The first foreign exchange rate was published on February 12, 2015 at 170.039 BsF per U.S. dollar. At the date of issuance of this report, we requested U.S. dollars in the SIMADI foreign exchange market and we have not been granted U.S. dollars yet. We are assessing the new regulations and any additional rules that may be established to determine whether they will have any effect on the accounting of the financial position and results of our operations in Venezuela in 2015.

Acquisitions of Software Development Companies in Argentina

On December 15, 2014, the Company completed, through its subsidiaries Meli Participaciones S.L. and Marketplace Investment LLC (collectively referred to as the “Buyer”), the acquisition of 100% of equity interests of Business Vision S.A., a software development company located and organized under the laws of the Buenos Aires City, Argentina. The objective of the acquisition was to enhance the Company’s software development capabilities.

The aggregate purchase price for the acquisition of Business Vision S.A. was \$4.8 million, and was composed of: i) \$3.8 million in cash, net of \$0.1 million of negative working capital adjustments; ii) an escrow amounting to \$0.3 million for a 24-month period, aiming to cover unexpected adjustments to the initial aggregate purchase price; and iii) an escrow amounting to \$0.7 million, 50% of which will be held in escrow for a twelve months, with the balance held in escrow for 24- months from the closing date.

See further information in Note 6 of the Notes to the Consolidated Financial Statements as of December 31, 2014.

Office Building Acquisition Agreement in Caracas, Venezuela

On October 9, 2014, our Venezuelan subsidiary acquired an office property located in Centro San Ignacio, Caracas, for a total amount of Bs.F. \$170.6 million, or approximately \$3.4 million. The price of the transaction was paid as follows: i) 50% of the price, or Bs.F. \$ 85.3 was paid at the date of signing the memorandum of understanding; ii) 30% of the price, or Bs.F. \$ 51.2 million, was paid on October 20, 2014; and iii) the remaining 20% was paid at the moment of transfer of the property ownership.

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.

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The following table sets forth the percentage of our consolidated net revenues by segment for the years ended December 31, 2014, 2013 and 2012:

(% of total consolidated net revenues) (*)	Years ended December 31,		
	2014	2013	2012
Brazil	49.2%	43.7%	48.1%
Argentina	27.1	25.8	23.7
Venezuela	10.4	17.9	14.6
Mexico	6.8	6.9	7.2
Other Countries	6.6	5.6	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.

The following table summarizes the changes in our net revenues by segment for the years ended December 31, 2014, 2013 and 2012:

	Year ended December 31,		Change from 2013 to 2014 (*)		Year ended December 31,		Change from 2012 to 2013 (*)	
	2014	2013	in Dollars	in %	2013	2012	in Dollars	in %
	(in millions, except percentages)				(in millions, except percentages)			
Net Revenues:								
Brazil	\$273.6	\$206.4	\$ 67.2	32.6%	\$206.4	\$179.6	\$ 26.8	14.9%
Argentina	150.7	122.1	28.5	23.4	122.1	88.5	33.6	38.0
Venezuela	58.0	84.6	(26.5)	(31.4)	84.6	54.7	29.9	54.7
Mexico	37.7	32.8	4.8	14.7	32.8	27.0	5.9	21.7
Other Countries	36.5	26.7	9.9	37.0	26.7	23.8	2.9	12.1
Total Net Revenues	<u>\$556.5</u>	<u>\$472.6</u>	<u>\$ 83.9</u>	<u>17.8%</u>	<u>\$472.6</u>	<u>\$373.6</u>	<u>\$ 99.0</u>	<u>26.5%</u>

(*) 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, 2014, 2013 and 2012:

Consolidated net revenues by revenue stream	Years ended December 31, (*)		
	2014	2013	2012
Marketplace	\$376.2	\$331.3	\$262.0
Non-Marketplace (**)	180.4	141.3	111.6
Total	<u>\$556.5</u>	<u>\$472.6</u>	<u>\$373.6</u>

(*) The table above may not total due to rounding.

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

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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;
- ad sales up-front fees;
- real estate listings up-front fees;
- shipping 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.

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, 2014, 2013 and 2012, 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 7.1%, 6.0% and 6.0% of net revenues for the years ended December 31, 2014, 2013 and 2012, 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.

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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.

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.

Impairment of long-lived assets

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.

As discussed below in section “Foreign Currency Translation — Venezuelan currency status”, as a consequence of an ongoing lack of access to the SICAD 1 auction system and the establishment of SICAD 2 on May 16, 2014 we decided to start requesting U.S. dollars through the SICAD 2 mechanism and used the SICAD 2 exchange rate to re-measure the bolivar-denominated monetary assets and liabilities of Venezuelan subsidiaries, and the result of our Venezuelan operations in Bs.F., effective as of May 16, 2014.

In light of the current economic conditions in Venezuela, our determination to access SICAD 2 and re-measure the Bs.F. denominated monetary assets and liabilities of our Venezuelan subsidiaries, and the lower U.S. dollar-equivalent cash flows now expected from our Venezuelan operations, we have reviewed our long-lived assets, goodwill and intangible assets with indefinite useful life for impairment, including considering our current expected use of these assets in light of the foregoing. We currently own two office spaces in Venezuela that we had expected to use to support our main operating activities in that country. However, due to the current economic conditions, we now intend to rent these office spaces to third parties to generate rental income and will consider opportunities for disposal of these assets if real estate market conditions are favorable. Because we have concluded that the carrying value of these two real estate properties will not be fully recoverable, we have recorded an impairment of long-lived assets of \$49.5 million during May, 2014.

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, 2014, 2013 and 2012:

(in millions)	2014 (*)	2013 (*)	2012 (*)
Current:			
Foreign	\$ 66.8	\$ 49.5	\$ 39.4
	66.8	49.5	39.4
Deferred:			
Federal	0.5	0.8	1.0
Foreign	(18.1)	(4.9)	(1.6)
	(17.6)	(4.1)	(0.6)
	49.1	45.4	38.8
Income Tax:			
Foreign asset tax	—	0.2	0.1
	—	0.2	0.1

Income / asset tax expense

\$ 49.1

\$ 45.6

\$ 38.9

(*) The table above may not total due to rounding.

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Seasonality

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,
2014				
Net Revenues	\$115,382,319	\$131,849,139	\$147,934,895	\$161,369,649
Gross profit	83,842,654	95,477,600	104,533,218	113,704,529
Net Income/(loss)	30,327,953	(25,588,478)	33,751,967	34,161,329
Net Income (loss) per share-basic	0.69	(0.58)	0.76	0.76
Net Income (loss) per share-diluted	0.69	(0.58)	0.76	0.76
Weighted average shares				
Basic	44,153,818	44,153,892	44,153,892	44,154,412
Diluted	44,153,818	44,182,668	44,153,892	44,154,412
2013				
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
2012				
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

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.

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An accounting policy is considered to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, and if different estimates that reasonably could have been used, or changes in the accounting estimates that are reasonably likely to occur periodically, could materially impact 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.

Foreign Currency Translation

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 (“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 this system, known as the SITME (“Foreign Currency Security Transactions System”), 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 using the SITME rate and started re-measuring foreign currency transactions using the SITME rate published by BCV, which were settled at 5.3 Bs.F. per U.S. dollar.

On February 9, 2013, the BCV eliminated the SITME and devalued the official exchange rate of 5.3 Bs.F. per U.S. dollar that we had used to re-measure our Venezuelan subsidiaries’ non-U.S. dollar denominated monetary assets and liabilities to 6.3 Bs.F. per U.S. dollar. The effect of using the then-newly devalued official rate of 6.3 Bs.F. per U.S. dollar generated a foreign currency loss that amounted to approximately \$6.4 million in the first quarter of 2013.

On March 19, 2013, the BCV announced the creation of SICAD 1, which acts jointly with the Commission for the Administration of Foreign Exchange Control (“CADIVI”). In order to operate within SICAD 1, a company should be registered at the Registro Automatizado (Automatized Register, or RUSAD). The acquisition of foreign currencies under this system is organized under an auction process to obtain foreign currencies for payments to foreign suppliers, where the minimum exchange rate to be offered was 6.3 Bs.F. per U.S. dollar.

During December 2013, the Venezuelan regulation that created SICAD 1 was amended to expand its use, and to require publication of the average exchange rate implied by transactions settled in SICAD 1 auctions. Additionally, on January 23, 2014, the exchange regulation was amended to include 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. Due to the change in rules that provided for the creation of the SICAD 1 system, the official exchange rate remains only available to obtain foreign currency to pay for a limited list of goods considered to be of high priority by the Venezuelan government, which does not include those relating to our business. As a consequence, SICAD 1 became, from that moment through May 15, 2014, the primary system to which we would have to request U.S. dollars to settle our transactions. As a result, from January 24 to May 15, 2014, the exchange rate we used to re-measure our net monetary asset position and Bs.F. transactions of our Venezuelan operations was the SICAD 1 exchange rate. The average exchange rate under SICAD 1 during the first quarter of 2014 was 10.1 Bs.F. per U.S. dollar.

In late February 2014, the Venezuelan government issued a decree to open a new exchange control mechanism (“SICAD 2”) that allows the purchase of foreign exchange currencies, through authorized foreign exchange operators offered by individuals and companies such as Petróleos de Venezuela, S.A. (PDVSA, the oil state-owned corporation of Venezuela), the BCV and other public entities authorized by the Ministry of Finance. The Venezuelan government published operating rules for the new exchange mechanism in Exchange Agreement N° 27 and, on March 24, 2014 SICAD 2 began operating. Since implementation of the SICAD 1 system, we had been unsuccessful in gaining access to U.S. dollars through SICAD 1. As a result of this ongoing lack of access to the SICAD 1 auction system and the establishment of SICAD 2, on May 16, 2014, we started requesting U.S. dollars through the SICAD 2 mechanism. The SICAD 2 system has been an open mechanism that permitted any company to request U.S. dollars for any purpose. Consequently, we have been eligible for and have been granted U.S. dollars through the SICAD 2 mechanism (see further developments affecting the SICAD 2 mechanism below).

As a consequence of our determination to obtain U.S. dollars through SICAD 2 and our continued lack of access to SICAD 1, we concluded that the SICAD 2 exchange rate should be used to re-measure the bolivar-denominated monetary assets and liabilities of our Venezuelan subsidiaries, and the results of our Venezuelan operations in Bs.F., effective as of May 16, 2014. In connection with this re-measurement, we recorded a foreign exchange loss of \$16.5 million during the second quarter of 2014. As of December 31, 2014, the SICAD 2 exchange rate was 49.99 Bs.F. per U.S. dollar. The average exchange rate for the year ended December 31, 2014, after giving effect to our move to the SICAD 2 mechanism on May 16, 2014, was 33.94 Bs.F. per U.S. dollar.

In light of the current economic conditions in Venezuela, our determination to access SICAD 2 and re-measure the Bs.F. denominated monetary assets and liabilities of our Venezuelan subsidiaries, and the lower U.S. dollar-equivalent cash flows then expected from our Venezuelan operations, we reviewed our long-lived assets, goodwill and intangible assets with indefinite useful life for impairment, including considering our current expected use of these assets in light of the foregoing. We currently own two office spaces in Venezuela that we had expected to use to support our main operating activities in that country. However, due to the current economic conditions, we now intend to rent these office spaces to third parties to generate rental income and will consider opportunities for disposal of these assets if real estate market conditions are favorable. Because we concluded that the carrying value of these two real estate properties will not be fully recoverable, we recorded an impairment of long-lived assets of \$49.5 million during May 2014.

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In February 2015, the Venezuelan government announced the unification of the SICAD 1 and SICAD 2 foreign exchange systems, into SICAD, with an initial public foreign exchange price of 12 BsF per U.S. dollar. Additionally, on February 10, 2015 it created the “*Sistema Marginal de Divisas*” (SIMADI), a new foreign exchange market, which foreign exchange rate should be published daily by the BCV. The first foreign exchange rate was published on February 12, 2015 at 170.039 BsF per U.S. dollar. See section “Recent developments” above for further information in relation to the new foreign exchange market.

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. Our Venezuelan subsidiaries have not requested authorization since 2012 to acquire U.S. dollars to make dividend distributions and we have not distributed dividends from our Venezuelan subsidiaries since 2011.

The following table sets forth net revenues for the years ended December 31, 2014, 2013 and 2012 and assets, liabilities and Net Assets of our Venezuelan subsidiaries, before intercompany eliminations, as of December 31, 2014 and 2013:

	2014	December 31, 2013	2012
Venezuelan operations			
Net Revenues	\$58,025,886	\$84,572,485	\$54,676,170
		December 31, 2014	December 31, 2013
Assets		75,152,574	126,873,804
Liabilities		(43,358,945)	(62,437,338)
Net Assets		<u>\$ 31,793,629</u>	<u>\$ 64,436,466</u>

As of December 31, 2014, the net assets of our Venezuelan subsidiaries amount to approximately 8.9% of our consolidated net assets, and cash and investments of our Venezuelan subsidiaries held in local currency in Venezuela amount to approximately 3.2% 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. If our access to U.S. dollars becomes widely available at a more unfavorable rate than the rate used in 2014, such as the case may be the new exchange system created recently in February 2015, and we decided to use that alternative mechanism considering that exchange rate as the one applicable for re-measurement, our results of operations, earnings and value of our net assets in Venezuela would be negatively impacted, and we cannot assure that the impact would not be material. See Item 7A. Quantitative and Qualitative Disclosures About Market Risk – Foreign Currency Sensitivity Analysis – Venezuelan Segment. In addition, our business and ability to obtain U.S. dollars in Venezuela would be negatively affected by any additional material devaluations or the imposition of significant additional and more stringent controls on foreign currency exchange by the Venezuelan government in the future.

Despite the current difficult macroeconomic environment in Venezuela, we continue actively managing, through our Venezuelan subsidiaries, our investment in Venezuela. Despite the current operating, political and economic conditions and certain other factors in Venezuela, we currently plan to continue supporting our business in Venezuela in the long run.

In November 2013, the Venezuelan Congress approved the new Law of “Costs, Earnings, and Fair Profits” that authorizes Venezuelan government to restrict profit margins and the Venezuelan government has established a profit margin cap of 30% for the private sector. As of the date of this report, the implementing rules for this new law had not been issued. 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 any 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.

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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.

Additionally, during January 2014 the Argentine Peso exchange rate against the U.S. dollar increased by approximately 23%, from 6.52 Argentine Pesos per U.S. dollar as of December 31, 2013 to approximately 8.0 Argentine Pesos per U.S. dollar. Due to the abovementioned devaluation, during the first quarter of 2014, the reported net assets of our Argentine subsidiary decreased by \$14.6 million with the related impact in Other Comprehensive Income and we recognized a foreign currency gain of \$4.6 million. As of December 31, 2014, the Argentine Peso exchange rate was \$8.56 per U.S. dollar.

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.

As discussed above in "Foreign Currency Translation — Venezuelan currency status", as a consequence of an ongoing lack of access to the SICAD 1 auction system and the establishment of SICAD 2 on May 16, 2014 we decided to start requesting U.S. dollars through the SICAD 2 mechanism and used the SICAD 2 exchange rate to re-measure the bolivar-denominated monetary assets and liabilities of Venezuelan subsidiaries, and the result of our Venezuelan operations in Bs.F., effective as of May 16, 2014.

In light of the current economic conditions in Venezuela, our determination to access SICAD 2 and re-measure the Bs.F. denominated monetary assets and liabilities of our Venezuelan subsidiaries, and the lower U.S. dollar-equivalent cash flows now expected from our Venezuelan operations, we have reviewed our long-lived assets, goodwill and intangible assets with indefinite useful life for impairment, including considering our current expected use of these assets in light of the foregoing. We currently own two office spaces in Venezuela that we had expected to use to support our main operating activities in that country. However, due to the current economic conditions, we now intend to rent these office spaces to third parties to generate rental income and will consider opportunities for disposal of these assets if real estate market conditions are favorable. Because we have concluded that the carrying value of these two real estate properties will not be fully recoverable, we recorded an impairment of long-lived assets of \$49.5 million during May 2014.

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, 2014, 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, 2014, 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 10.3% to 21.0%. The average discount rate used for 2014 was 13.4%. 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 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.

Convertible Senior Notes

On June 30, 2014, we issued \$330 million of 2.25% convertible senior notes due 2019 (the "Notes"). The Notes are unsecured, unsubordinated obligations of the Company, which pay interest in cash semi-annually, on January 1 and July 1, at a rate of 2.25% per annum. The Notes will mature on July 1, 2019 unless earlier repurchased or converted in accordance with their terms prior to such date. The Notes may be converted, under specific conditions, based on an initial conversion rate of 7.9353 shares of common stock per \$1,000 principal amount of Notes (equivalent to an initial conversion price of approximately \$126.02 per share of common stock), subject to adjustment as described in the indenture governing the Notes.

In accordance with ASC 470-20 *Debt with Conversion and Other Options*, the convertible debt instrument within the scope of the cash conversion subsection, was separated into debt and equity components at issuance and a fair value was assigned. The value assigned to the debt component was the estimated fair value, as of the issuance date, of a similar debt without the conversion feature. As of June 30, 2014, we determined the fair value of the liability component of the Notes by reviewing market data that was available for senior, unsecured nonconvertible corporate bonds issued by comparable companies. The difference between the cash proceeds and this estimated fair value, represents the value assigned to the equity component and was recorded as a debt discount. The debt discount is amortized using the effective interest method from the origination date through its stated contractual maturity date.

The initial debt component of the Notes was valued at \$283.0 million, based on the contractual cash flows discounted at an appropriate market rate for a non-convertible debt at the date of issuance, which was determined to be 5.55%. The carrying value of the permanent equity component reported in additional paid-in-capital was initially valued at \$47.0 million. This amount represents the total unamortized debt discount we recorded at the time of issuance of the Notes. The aggregate debt discount, including the transaction costs related to the debt component, is amortized as interest expense over the contractual term of the Notes using the effective interest method using an interest rate of 6.10%.

In connection with the issuance of the Notes, we paid approximately \$19.7 million to enter into capped call transactions with respect to shares of our common stock (the "Capped Call Transactions"), with certain financial institutions. The Capped Call Transactions are expected generally to reduce the potential dilution upon conversion of the Convertible Notes in the event that the market price of our common stock is greater than the strike price of the Capped Call Transactions, initially set at \$126.02 per share of common stock, which corresponds to the initial conversion price of the Notes and is subject to anti-dilution adjustments substantially similar to those applicable to the conversion rate of the Notes, and have a cap price of approximately \$155.81 per share of common stock.

The \$19.7 million cost of the capped call transactions, which net of deferred income tax effect amounts to \$12.8 million, is included as a net reduction to additional paid-in capital in the stockholders' equity section of our consolidated balance sheets, in accordance with the guidance in ASC 815-40 Derivatives and Hedging — Contracts in Entity's Own Equity.

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 "Item 3—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

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tax benefit from our tax net operating losses are reported as deferred tax assets and liabilities in our consolidated balance sheet. We also assess the likelihood that our net deferred tax assets will be realized from future taxable income. To the extent we believe that it is more likely than not that some portion or all of our deferred tax assets will not be realized, we establish a valuation allowance. At December 31, 2014, 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.

The following table summarizes the composition of our deferred tax assets for the years ended December 31, 2014 and 2013:

Deferred tax assets	Year Ended December 31, (*)		Year Ended December 31, (*)	
	2014	in %	2013	in %
	(in millions, except percentages)		(in millions, except percentages)	
DeRemate.com acquisition	\$ 3.8	10.2%	\$ 4.1	18.4%
Brazilian operations	5.0	13.2	4.1	18.3
Foreign tax credits & others domestic deferred tax assets	4.8	12.7	1.0	3.0
Operations in others countries	1.3	3.5	1.4	7.8
Mexican operations	1.6	4.3	0.8	3.7
Chilean operations	1.6	4.4	—	—
Venezuelan operations	11.6	30.8	4.5	20.5
Argentine operations	7.9	20.9	6.3	28.3
Total	\$ 37.6	100.0%	\$ 22.1	100.0%

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

At December 31, 2014, our deferred tax assets are comprised mainly of allowance for doubtful accounts, foreign exchange effects, payroll and social security payable and provisions, representing 22.0%, 20.0%, 14.4% and 13.2%, respectively of the total deferred tax assets. 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.

The following table summarizes the composition of our deferred tax assets from loss carryforwards for the years ended December 31, 2014 and 2013:

Loss carryforwards	Year Ended December 31, (*)		Year Ended December 31, (*)	
	2014	in %	2013	in %
	(in millions, except percentages)		(in millions, except percentages)	
DeRemate.com acquisition	\$ 0.1	2.5%	\$ 0.1	4.5%
Brazilian operations	1.0	38.0	1.6	63.6
Mexican operations	0.8	31.8	0.4	17.7
Chilean operations	0.6	22.8	—	—
Domestic loss carryforwards	0.0	0.5	0.1	5.0
Operations in others countries	0.1	4.4	0.2	9.2
Total	\$ 2.6	100.0%	\$ 2.4	100.0%

(*) 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, 2014 and 2013, our valuation allowance amounted to \$4.5 million and \$3.1 million, respectively.

The following table summarizes the composition of our valuation allowance for the years ended December 31, 2014 and 2013:

Valuation Allowance	Year Ended December 31, (*)		Year Ended December 31, (*)	
	2014	in %	2013	in %
	(in millions, except percentages)		(in millions, except percentages)	
DeRemate.com acquisition	\$ 0.1	2.0%	\$ 0.2	6.4%
Mexican operations	1.2	25.7	—	—
Argentine operations	3.1	69.5	2.7	86.4
Operations in others countries	0.1	2.7	0.2	7.2
Total	\$ 4.5	100.0%	\$ 3.1	100.0%

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

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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, 2014, we have reduced in \$1.4 million the valuation allowance of certain subsidiaries, acquired in 2008. The \$3.1 million of valuation allowance in Argentina is a consequence of more restrictive requirements to compute these doubtful accounts as an income tax deduction.

During the year ended December 31, 2013, we have reduced in \$0.1 million the valuation allowance of certain subsidiaries, acquired in 2008. The \$2.7 million of valuation allowance in Argentina is a consequence of more restrictive requirements to compute these doubtful accounts as an income tax deduction.

As of December 31, 2014 there are \$96.7 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, 2014 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 2014, 2013 and 2012:

(in millions, except percentages)	Year ended December 31,		
	2014 (*)	2013 (*)	2012 (*)
Income and asset tax expense	\$ (49.1)	\$ (45.6)	\$ (38.9)
As a percentage of income before income and asset tax	<u>40.3%</u>	<u>27.9%</u>	<u>27.7%</u>

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

Our effective income tax rates for the years ended December 31, 2014, 2013 and 2012, are 54.8%, 30.3% and 28.1%, respectively.

Our blended and effective tax rates for the year ended December 31, 2014 increased significantly as compared to the same period in 2013 mainly due to a significant reduction in net income before tax as resulting from the losses recorded in our Venezuelan subsidiaries during the second quarter of 2014 related to the impairment of long-lived assets and the devaluation of the BsF net asset position in January and May 2014. Such losses are non-deductible for tax purposes. Additionally, our Argentine subsidiaries were beneficiary of a software development law that granted a relief of 60% of income tax, which expired during September 2014 and we expect that we will not benefit from any income tax holiday during last quarter of 2014.

Our blended tax rate increased during the year ended December 31, 2013, as compared to the same period in 2012, by 0.2%, due to growth in taxable income generated by our Venezuelan subsidiary where the income tax rate is 34%, and due to a decrease in our Argentine taxable income year over year, where the income tax rate is lower than other locations.

Our effective tax rate increased during the year ended December 31, 2013, as compared to the same period in 2012, by 2.2%, driven primarily by a higher income tax provision in Argentina and Venezuela.

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

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Stock-based compensation

On 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).

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

The shares granted for the 2008 LTRP were valued at the grant-date fair market value of \$36.80 per share. As of December 31, 2014, the Company fully paid the 2008 LTRP.

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 are paid in eight 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 and March 31, 2014, our Board of Directors, upon the recommendation of the Compensation Committee approved the 2013 and 2014 employee retention programs, or 2013 and 2014 LTRP. The awards under 2013 and 2014 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 and 2014 LTRP is paid in six equal annual quotas of 16.67% each, commencing on March 31, 2014 and 2015 respectively. 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 and 2013. The average closing stock price for the 2013 and 2014 LTRP amounted to \$79.57 and \$118.48.

All 2009, 2010, 2011, 2012, 2013 and 2014 LTRPs (as amended) have performance and/or eligibility conditions to be achieved at each year end and also require the employee to be still employed by the Company at the payment date.

The variable share compensation cost of the 2009, 2010, 2011, 2012, 2013 and 2014 LTRPs (as amended) are recognized in accordance with the graded-vesting attribution method and are accrued up to each payment date. The 2009, 2010, 2011, 2012, 2013 and 2014 LTRPs nominal basis share are recognized in straight line bases using the equal annual accrual method.

The following tables summarize the accrued compensation expense for 2008, 2009, 2010, 2011, 2012, 2013 and 2014 LTRPs (as amended) accrued compensation expense for the years ended December 31, 2014, 2013 and 2012:

	Year ended December 31,		
	2014	2013	2012
LTRP 2008	—	—	20,595
LTRP 2009	664,619	1,562,957	587,106
LTRP 2010	930,244	1,611,521	1,006,740
LTRP 2011	1,107,795	1,698,285	1,236,275
LTRP 2012	1,385,407	2,013,011	1,603,142
LTRP 2013	3,935,215	4,759,303	—
LTRP 2014	3,828,335	—	—
	<u>\$11,851,615</u>	<u>\$11,645,077</u>	<u>\$4,453,858</u>

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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 2010 Director Plan, starting in 2011, each outside director was 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 2010 Director 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 common stock during the last 30-trading day period preceding the date of the next Annual Meeting of Stockholders divided by the average closing sale price of the Company’s common stock during the last 30-trading day period preceding the date of the prior year’s Annual Meeting. The 2010 Director Plan also included a Non-Adjustable Chairman Service Award for services provided to the Company for such periods. Under the terms of the 2010 Director Plan, the Chairman of the Company’s Audit Committee, of the Compensation Committee, of the Nominating and Corporate Governance Committee and the lead independent director of the Company are entitled to receive annual cash compensation in addition to the existing director compensation for the period from June 10, 2010 through June 9, 2011 amounting to \$16,218, \$12,974, \$5,406 and \$10,812, respectively. For the period from June 10, 2011 through June 9, 2012, such annual cash compensation amounted to \$18,852, \$15,081, \$6,284 and \$12,568, respectively. For the period from June 10, 2012 through June 9, 2013, such annual compensation amounted to \$21,913, \$17,531, \$7,304 and \$14,609, respectively.

On September 27, 2013, our Board of Directors, upon the recommendation of our Compensation Committee, adopted a new director compensation program or “New Director Compensation Program”, that sets compensation for the Company’s outside directors for the period of June 2013 to June 2016. The New Director Compensation Program, which became effective as of June 2013, provides that each outside director of the Company receives an annual fee for Board services, comprised of a non-adjustable Board service award and an adjustable Board service award. The non-adjustable Board service award consists of a fixed cash payment of \$50,000. The adjustable Board service award consists of a fixed cash amount of \$70,000 multiplied by the quotient of (a) the average closing sale price of our common stock on the NASDAQ Global Market during the 30-trading day period preceding the Annual Meeting of Stockholders to be held during the respective compensation period divided by (b) the average closing sale price of our common stock on The NASDAQ Global Market during the 30-trading day period preceding the prior Annual Meeting of Stockholders. The New Director Compensation Program also includes a non-adjustable chair service award for committee services from June 2013 to June 2016. Under the terms of the New Director Compensation Program, the chair of each of the Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee and the lead independent director are entitled to receive annual cash compensation in addition to existing director compensation in the amount of \$21,913, \$17,531, \$7,304 and \$14,609, respectively.

The total accrued compensation cost related to our outside directors for the years ended December 31, 2014, 2013 and 2012 was the following:

	Year Ended December 31,		
	2014	2013	2012
Chairman Fee	61,357	55,858	57,680
Adjustable Award	544,756	575,242	282,703
Non-adjustable Award	358,630	322,538	242,179
	<u>\$964,743</u>	<u>\$953,638</u>	<u>\$582,562</u>

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Stock option awards granted under the “Amended and Restated 1999 Stock Option and Restricted Stock Plan”, (the “1999 Plan”) are at the discretion of our Board of Directors and may be in the form of either incentive or nonqualified stock options. As of December 31, 2014, there are no outstanding options granted under the 1999 Plan. As of December 31, 2014, there were 259,457 shares of common stock available for additional awards under the 1999 Plan.

There were no stock-based compensation expenses related to stock options for the years ended December 31, 2014, 2013 and 2012.

No stock options were granted during the period from January 1, 2007 to December 31, 2014.

Recent accounting pronouncements

In April 2014, the FASB issued the Accounting Standards Update (“ASU”) N° 2014-8, “Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity”, which changes the criteria for determining which disposals can be presented as discontinued operations and modifies related disclosure requirements. Under the ASU, only disposals that represent a strategic shift that has (or will have) a major effect on the entity’s results and operations would qualify as discontinued operations. In addition, the ASU (1) expands the disclosure requirements for disposals that meet the definition of discontinued operation, (2) requires entities to disclose information about disposals of individually significant components, and (3) defines “discontinued operations” similarly to how it is defined under IFRS 5, “Non-current Assets Held for Sale and Discontinued Operations”. The standard is required to be adopted in annual periods beginning on or after December 15, 2014, and interim periods within those annual periods. Early adoption is permitted, but only for disposals (or classifications as held for sale) that have not been reported in financial statements previously issued or available for issuance. We do not anticipate that this adoption will have a significant impact on its financial position, results of operations or cash flows.

On May 28, 2014, the FASB issued the Accounting Standard Update (“ASU”) N° 2014-09, “Revenue contracts with clients”, which changes in the timing of revenue recognition, includes variable consideration in the transaction price prior to resolution of contingencies, allocates the transaction price based on standalone selling price, among other changes. This standard is required to be adopted for annual reporting periods beginning after December 15, 2016 for public entities, no early adoption is permitted. The Company is assessing the effects that the adoption of this accounting pronouncement will have on the Company’s financial position, results of operations or cash flows.

In August 2014, the FASB issued new guidance related to the disclosures around going concern. The new standard provides guidance around management’s responsibility to evaluate whether there is substantial doubt about an entity’s ability to continue as a going concern and to provide related footnote disclosures. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. Early adoption is permitted. The adoption of this standard is not expected to have a material impact in our financial statements.

On January 9, 2015, the FASB issued the ASU 2015-01. This new standard eliminates from general accepted accounting principles the concept of extraordinary items included in Subtopic 225-20. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted provided that the guidance is applied from the beginning of the year of adoption. The adoption of this standard is not expected to have a material impact in our financial statements.

Results of operations

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

Statement of income data

(In millions)	Year Ended December 31,		
	2014 (*)	2013 (*)	2012 (*)
Net revenues	\$ 556.5	\$ 472.6	\$ 373.6
Cost of net revenues	(159.0)	(130.1)	(98.1)
Gross profit	397.6	342.5	275.5
Operating expenses:			
Product and technology development	(53.6)	(40.9)	(28.6)
Sales and marketing	(111.6)	(90.5)	(72.0)
General and administrative	(62.4)	(57.6)	(45.2)
Impairment of Long-Lived Assets	(49.5)	—	—
Total operating expenses	(277.1)	(189.0)	(145.9)
Income from operations	120.5	153.5	129.6

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Other income (expenses):			
Interest income and other financial gains	15.3	10.7	11.9
Interest expense and other financial charges	(11.7)	(2.4)	(1.1)
Foreign currency (loss) / gain	(2.4)	1.3	0.0
Other losses, net	—	(0.0)	(0.2)
Net income before income / asset tax expense	121.8	163.1	140.2
Income / asset tax expense	(49.1)	(45.6)	(38.9)
Net income	\$ 72.7	\$117.5	\$101.3
Less: Net Income attributable to Noncontrolling	0.1	0.0	0.1
Net income attributable to Mercadolibre, Inc. shareholders	\$ 72.6	\$117.5	\$101.2

(*) The table above may not total due to rounding.

(% of net revenues)	Year Ended December 31,		
	2014 (*)	2013 (*)	2012 (*)
Net revenues	100%	100%	100%
Cost of net revenues	(28.6)	(27.5)	(26.3)
Gross profit	71.4	72.5	73.7
Operating expenses:			
Product and technology development	(9.6)	(8.7)	(7.7)
Sales and marketing	(20.1)	(19.1)	(19.3)
General and administrative	(11.2)	(12.2)	(12.1)
Impairment of Long-Lived Assets	(8.9)	—	—
Total operating expenses	(49.8)	(40.0)	(39.0)
Income from operations	21.6	32.5	34.7
Other income (expenses):			
Interest income and other financial gains	2.8	2.3	3.2
Interest expense and other financial charges	(2.1)	(0.5)	(0.3)
Foreign currency (loss) / gain	(0.4)	0.3	0.0
Other expenses, net	—	—	—
Net income before income / asset tax expenses	21.9	34.5	37.5
Income / asset tax expense	(8.8)	(9.6)	(10.4)
Net income	13.1	24.9	27.1
Less: Net Income attributable to Noncontrolling	0.0	0.0	0.0
Net income available to common shareholders	13.0%	24.9%	27.1%

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

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Principal trends in results of operations

Growth in net revenues from year to year

Since our inception, we have consistently generated revenue growth from our Marketplace and Non-Marketplace streams, driven by the strong growth of our key operational metrics. From 2013 to 2014, our successful items sold increased by 22.0% and MercadoPago total payment volume increased by 41.1%. Additionally, our number of confirmed registered users was a 21.6% higher as of December 31, 2014 as compared to the number of confirmed registered users as of December 31, 2013. From 2012 to 2013, our gross merchandise volume increased by 28.1%, our successful items sold increased by 23.2% and MercadoPago total payment volume increased by 39.8%. Additionally, our number of confirmed registered users was a 22.1% higher as of December 31, 2013 as compared to the number of confirmed registered users as of December 31, 2012. Our growth in net revenues was 17.8% from 2013 to 2014 and 26.5% from 2012 to 2013. We believe that the growth in net revenues should continue in the future. However, despite this positive historical trend, current weak global macro-economic environment, coupled with devaluations of certain local currencies in Latin America versus the U.S. dollar, the effects of Argentine and Venezuelan translations of local currencies into U.S. dollar, Venezuelan Government limits to prices and high interest rates in those countries, could cause an experience declining year-to-year net revenues, particularly as measured in U.S. dollars.

Gross profit margins

Our business has generated sustained high gross profit margins over time, as defined by total net revenues minus total cost of net revenues, as a percentage of net revenues. Historically, gains in gross profit margins have been mainly attributable to increased economies of scale in customer service, Internet Service Provider ("ISP") connectivity and site operations and improved economic terms obtained from payment processors.

Our gross profit margins were 71.4% for 2014, 72.5% for 2013 and 73.7% for 2012. In 2014, 2013 and 2012, fluctuations in gross profit margins primarily resulted from the higher penetration of our payment solution into our marketplace, which implies a higher cost of net revenue. In the future, gross profit margins could decline if the cost of net revenues as a percentage of net revenues increases as the penetration of our payment solution grows faster than our marketplace, or if we cannot sustain the economies of scale that we have achieved.

Operating income margins

We have generated and expect to continue generating economies of scale in operating expenses. For the year ended December 31, 2014 as compared to the year ended December 31, 2013 our operating income margin decreased from 32.5% to 21.6% as a consequence of the impairment of long-lived assets recorded during the second quarter of 2014, increases in costs of net revenues, as described in Gross profit margins section above, increases in product and technology development expenses driven by compensation costs and increases in online marketing expenses. For the year ended December 31, 2013 as compared to the year ended December 31, 2012 our operating income margin decreased from 34.7% to 32.5% as a consequence of increases in costs of net revenues, as described in Gross profit margins section above, and increases in product and technology development expenses driven by compensation costs. We anticipate that as we continue to invest in product development, sales and marketing and human resources in order to promote our services and capture the long-term business opportunity offered by the Internet in Latin America, it is increasingly difficult to sustain growth in operating income margins, and at some point we could continue experiencing decreases in operating income margins.

Decrease in net income

For 2014 our net income decreased 38.2% to \$72.7, mainly as a consequence of the impairment of long-lives asset mentioned above. For 2013, our net income grew 16.0% to \$117.5 million as a consequence of the above mentioned trends. In 2012 our net income was \$101.3 million.

Net revenues

	For the years ended December 31,		Change from 2013 to 2014 (*)		For the years ended December 31,		Change from 2012 to 2013 (*)	
	2014	2013	in Dollars	in %	2013	2012	in Dollars	in %
	(in millions, except percentages)				(in millions, except percentages)			
Total Net Revenues	\$556.5	\$472.6	\$ 83.9	17.8%	\$472.6	\$373.6	\$ 99.0	26.5%
As a percentage of net revenues (*)	100.0%	100.0%			100.0%	100.0%		

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

Consolidated Net Revenues by revenue stream	Years ended December 31,		Change from 2013 to 2014 (**)		Years ended December 31,		Change from 2012 to 2013 (**)	
	2014	2013	in Dollars	in %	2013	2012	in Dollars	in %
	(in millions, except percentages)				(in millions, except percentages)			
<i>Brazil</i>								
Marketplace	\$175.9	\$139.9	\$ 36.1	25.8%	\$139.9	\$121.7	\$ 18.2	14.9%
Non-Marketplace	97.7	66.5	31.2	46.9%	66.5	57.9	8.6	14.8%
	273.6	206.4	67.2	32.6%	206.4	179.6	26.8	14.8%
<i>Argentina</i>								
Marketplace	\$101.7	\$ 79.9	\$ 21.9	27.4%	\$ 79.9	\$ 62.0	\$ 17.9	28.9%
Non-Marketplace	49.0	42.2	6.7	15.8%	42.2	26.5	15.7	59.1%
	150.7	122.1	28.5	23.4%	122.1	88.5	33.6	38.0%

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Venezuela								
Marketplace	\$ 52.3	\$ 68.7	\$(16.5)	-24.0%	\$ 68.7	\$ 40.8	\$27.9	68.3%
Non-Marketplace	5.8	15.9	(10.1)	-63.5%	15.9	13.9	2.0	14.4%
	<u>58.0</u>	<u>84.6</u>	<u>(26.5)</u>	<u>-31.4%</u>	<u>84.6</u>	<u>54.7</u>	<u>29.9</u>	<u>54.8%</u>
Mexico								
Marketplace	\$ 25.5	\$ 24.2	\$ 1.3	5.5%	\$ 24.2	\$ 20.2	\$ 4.0	19.8%
Non-Marketplace	12.1	8.6	3.5	40.3%	8.6	6.8	1.8	26.5%
	<u>37.7</u>	<u>32.8</u>	<u>4.8</u>	<u>14.7%</u>	<u>32.8</u>	<u>27.0</u>	<u>5.8</u>	<u>21.5%</u>
Other countries								
Marketplace	\$ 20.7	\$ 18.6	\$ 2.1	11.0%	\$ 18.6	\$ 17.3	\$ 1.3	7.5%
Non-Marketplace	15.8	8.1	7.8	97.5%	8.1	6.5	1.6	24.6%
	<u>36.5</u>	<u>26.7</u>	<u>9.9</u>	<u>37.0%</u>	<u>26.7</u>	<u>23.8</u>	<u>2.9</u>	<u>12.2%</u>
Marketplace	376.2	331.3	44.8	13.5%	331.3	262.0	69.2	26.4%
Non-Marketplace (**)	180.4	141.3	39.1	27.7%	141.3	111.6	29.8	26.7%
Total	<u>\$556.5</u>	<u>\$472.6</u>	<u>\$ 83.9</u>	<u>17.8%</u>	<u>\$472.6</u>	<u>\$373.6</u>	<u>\$99.0</u>	<u>26.5%</u>

(*) 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.

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

On a segment basis, our net revenues for the years ended December 31, 2014 and 2013, increased across all geographic segments, except for the Venezuelan segment.

Brazil

Marketplace revenue in Brazil grew 25.8% in the year ended December 31, 2014 as compared to the same period in 2013. The growth was primarily a consequence of an increase in local currency volume of 13.8% and 24.4% increase in our take rate, which we defined as net revenues as a percentage of gross merchandise volume. Those increases were partially offset by a local currency devaluation of 12.6%. The Non-Marketplace business grew 46.9%, a \$31.2 million increase, during the same period, mainly driven by an increase in shipping revenues and an increase in the volume of financing transactions offered to our users.

For the year ended December 31, 2013, marketplace revenue of our Brazilian segment grew by 14.9% when compared to the same period in 2012. The increase in our Brazilian marketplace revenue was mainly a consequence of a 18.2% in local currency volume and 9.6% increase in our take rate. The Non-Marketplace business grew by 14.8%, a \$8.6 million increase, during the same period, mainly driven by an increase in shipping revenues and an increase in the volume of financing transactions offered to our users.

Argentina

Marketplace revenues of our Argentine segment increased 27.4% for the year ended December 31, 2014 as compared to the same period in 2013, mainly due to a 67.4% increase in local currency volume, which was substantially offset by a 35.1% devaluation of the Argentine peso. The Non-Marketplace business grew 15.8%, a \$6.7 million increase, during the same period mainly driven by an increase in the volume of financing transactions offered to our users and in off-platform fees, partially offset by a decrease in the volume of motors and real estate listings.

For the year ended December 31, 2013, marketplace revenues of our Argentine segment grew 28.9% as compared to the same period in 2012, mainly as a consequence of a 47.5% increase in local currency volume, which was partially offset by a 29.7% devaluation of the Argentine peso. The Non-Marketplace business grew 59.1%, a \$15.7 million increase, during the same period mainly driven by an increase in the volume of off-platform transactions during the year ended December 31, 2013.

Venezuela

Marketplace revenues of our Venezuelan segment during the year ended December 31, 2014 decreased by approximately 24.0% when compared to the same period in 2013, mainly due to a 693.4% local currency devaluation (see section "Foreign Currency Translation — Venezuelan currency status"), partially offset by a 217.0% increase in local currency volume and a 90.2% increase in our take rate as a consequence of changes in certain caps that we applied to our fees for marketplace transactions. The Non-Marketplace business decreased 63.5%, or \$10.1 million during the same period, mainly due to the devaluation mentioned above.

For the year ended December 31, 2013, marketplace revenues of our Venezuelan segment increased in approximately 68.3%, mainly driven by a 125.4% increase in local currency volume partially offset by a 46.5% local currency devaluation. The Non-Marketplace business increased 14.4% or \$2.0 million driven by an increase in the volume of motors listing fees.

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Mexico

Marketplace revenue in Mexico grew 5.5% during the year ended December 31, 2014 as compared to the same period of 2013. The increase in our Mexican marketplace revenues primarily reflects an 18.5% increase in our take rate as a consequence of changes in certain caps that we applied to our fees for marketplace transactions, partially offset by a 11.6% devaluation of the local currency. The Non-Marketplace business grew 40.3%, a \$3.5 million increase, during the same period, driven by an increase in the volume of real estate listings, which was largely a consequence of our second quarter 2014 acquisition of Guia de Inmuebles.com, a website that operates an online classified advertisements platform dedicated to the sale of real estate in Mexico.

For the year ended December 31, 2013, marketplace revenues of our Mexican segment increased by approximately 19.8% when compared to the same period in 2012, mainly driven by a 13.7% increase in our take rate due to changes in certain caps that we applied to our fees for marketplace transactions. The Non-Marketplace business grew 26.5%, a \$1.8 million increase, during the same period, driven by an increase in the volume of motors listing fees.

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

	Quarter Ended			
	March 31,	June 30,	September 30,	December 31,
	(in millions, except percentages)			
	(*)			
2014				
Net revenues	\$ 115.4	\$ 131.8	\$ 147.9	\$ 161.4
Percent change from prior quarter	-14%	14%	12%	9%
2013				
Net revenues	\$ 102.7	\$ 112.2	\$ 123.1	\$ 134.7
Percent change from prior quarter	-1%	9%	10%	9%
2012				
Net revenues	\$ 83.7	\$ 88.8	\$ 97.3	\$ 103.8
Percent change from prior quarter	-3%	6%	9%	7%

(*) Calculated using whole-dollar amounts rather than rounded amounts that appear in the table.

The following table set forth the growth in net revenues in local currencies for the years ended December 31, 2014 and 2013:

(% of revenue growth in Local Currency)	Changes from	
	2013 to 2014	2012 to 2013
Brazil	44.8%	26.7%
Argentina	83.0%	66.5%
Venezuela	202.5%	81.5%
Mexico	19.5%	18.3%
Other Countries	51.6%	14.8%
Total Consolidated	80.7%	42.8%

(*) The local currency revenue growth was calculated by using the average monthly exchange rates for each month during 2013 and applying them to the corresponding months in 2014, so as to calculate what our financial results would have been had exchange rates remained stable from one year to the next.

In Venezuela, the significant increase in our net revenues is mainly due to higher average selling prices posted by sellers during the year ended December 31, 2014, which we do not control. The increase in average selling prices is a consequence of: (i) an approximately 69% of inflation rate in that country; (ii) a shortage of products in Venezuela and (iii) changes in the mix of categories of the items sold in our marketplace.

In the case of Argentina, we have not observed material differences between the rate of inflation and the rate of currency devaluation of the Argentinean Peso against the U.S. dollar during year ended December 31, 2014 as compared to 2013. For more explanation of the revenue growth, see above mentioned disclosures in this section.

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Cost of net revenues

	Years ended December 31,		Change from 2013 to 2014 (*)		Years ended December 31,		Change from 2012 to 2013 (*)	
	2014	2013	in Dollars	in %	2013	2012	in Dollars	in %
	(in millions, except percentages)				(in millions, except percentages)			
Total cost of net revenues	\$159.0	\$130.1	\$ 28.9	22.2%	\$130.1	\$98.1	\$ 32.0	32.6%
As a percentage of net revenues (*)	28.6%	27.5%			27.5%	26.3%		

(*) 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.

For the year ended December 31, 2014 as compared to the year ended December 31, 2013, the increase of \$28.9 million in cost of net revenues was primarily attributable to: i) an increase in collection fees amounting to \$19.1 million, or 32.8%, which was mainly attributable to our Argentine and Brazilian operations as a result of the higher penetration of Mercado Pago in those countries. For the year ended December 31, 2014, Total Payments Value (TPV) represents 49.7% of our total Gross Merchandise Volume (GMV) (excluding motor vehicles, vessels, aircraft and real estate) as compared to 34.2% for year ended December 31, 2013; ii) an increase in sales tax amounting to \$11.0 million, mainly in Argentina and Brazil, iii) a \$1.0 million increase in hosting costs, and iv) a \$0.7 million increase in customer support costs. These increases were partially offset by a \$2.9 million decrease in certain banking tax related costs in Argentina.

For the year ended December 31, 2013 as compared to the year ended December 31, 2012, the increase of \$32.0 million in cost of net revenues was primarily attributable to: i) an increase in collection fees amounting to \$14.5 million, or 33.1%, which was mainly attributable to our Argentine and Brazilian operations as a result of the higher penetration of Mercado Pago; ii) an increase in sales tax amounting to \$5.9 million, mainly in Argentina and Brazil, iii) a \$5.4 million increase in customer support expenses, that was primarily driven by an increase in compensation and recruitment costs incurred in order to improve our service and our initiatives to combat illegal items and fee evasion, and increased investments in customer service operations to improve our users' experience, iv) an increase in our site operation costs by \$3.8 million, mainly driven by an increase in fraud prevention costs and v) an increase in others costs amounting to \$2.3 million, primarily driven by an increase in taxes on banking transactions in Argentina.

Product and technology development

	Years ended December 31,		Change from 2013 to 2014 (*)		Years ended December 31,		Change from 2012 to 2013 (*)	
	2014	2013	in Dollars	in %	2013	2012	in Dollars	in %
	(in millions, except percentages)				(in millions, except percentages)			
Product and technology development	\$53.6	\$40.9	\$ 12.7	31.1%	\$40.9	\$28.6	\$ 12.3	42.8%
As a percentage of net revenues (*)	9.6%	8.7%			8.7%	7.7%		

(*) 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.

For the year ended December 31, 2014 as compared to the year ended December 31, 2013, the increase in product and technology development expenses amounted to \$12.7 million or 31.1% was primarily attributable to an increase of \$4.6 million in salaries due to: i) compensation costs related to the LTRP as a consequence of an increase in the fair market value of our shares; ii) increases in compensation costs related to our 2014 LTRP; and iii) the addition of engineers, as we continue to invest in top quality talent to develop enhancements and new features across our platforms. In addition, for the year ended December 31, 2014 as compared to the same period in 2013, product development expenses grew \$4.7 million as a consequence of an increase in maintenance expenses related to the use of cloud computing (AWS), information technology consulting fees, real-time monitoring of our applications and the use of content distribution network (CDN) and other product development expenses. Finally, depreciation and amortization grew during the year ended December 31, 2014 by \$3.5 million or 40.0% as compared to the same period in 2013. We believe product development is one of our key competitive advantages and intend to continue to invest in adding engineers to meet the increasingly sophisticated product expectations of our customer base.

For the year ended December 31, 2013 as compared to the year ended December 31, 2012, the increase in product and technology development expenses amounted to \$12.3 million or 42.8% was primarily attributable to an increase of \$4.0 million in salaries due to: i) compensation costs related to the LTRP as a consequence of an increase in the fair market value of our shares; ii) increases in compensation costs related to our 2013 LTRP; iii) the addition of engineers, as we continue to invest in top quality talent to develop enhancements and new features across our platforms; and iv) the addition of a number of developers that joined our company in connection with our acquisition of a software development company in the first quarter of 2013. In addition, for the year ended December 31, 2013 as compared to the same period in 2012, product development expenses grew \$4.9 million as a consequence of an increase in maintenance expenses related to the use of cloud computing (AWS), information technology consulting fees, real-time monitoring of our applications and the use of content distribution network (CDN) and other product development expenses. Finally, depreciation and amortization grew during the year ended December 31, 2013 by \$3.3 million or 62.2% as compared to the same period in 2012. We believe product development is one of our key competitive advantages and intend to continue to invest in adding engineers to meet the increasingly sophisticated product expectations of our customer base.

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Sales and marketing

	Years ended December 31,		Change from 2013 to 2014 (*)		Years ended December 31,		Change from 2012 to 2013 (*)	
	2014	2013	in Dollars	in %	2013	2012	in Dollars	in %
	(in millions, except percentages)				(in millions, except percentages)			
Sales and marketing	\$111.6	\$90.5	\$ 21.1	23.4%	\$90.5	\$72.0	\$ 18.5	25.7%
As a percentage of net revenues (*)	20.1%	19.1%			19.1%	19.3%		

(*) 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.

For the year ended December 31, 2014, the \$21.1 million increase in sales and marketing expenses when compared to the year ended December 31, 2013 was primarily attributable to: i) an increase of \$16.5 million in on line portal deals expenses; ii) an increase in bad debt of \$2.9 million, which represented 3.9% of our net revenues for the year ended December 31, 2014 as compared to 4.0% for the year ended December 31, 2013; and iii) a \$2.2 million increase in salaries and wages. These increases in sales and marketing expenses were partially offset by a decrease in chargeback expense during the year ended December 31, 2014.

For the year ended December 31, 2013, the \$18.5 million increase in sales and marketing expenses when compared to the year ended December 31, 2012 was primarily attributable to: i) increase in \$7.6 million associated with off-line marketing expenses in connection with new television and radio campaigns conducted by us in Latin America; ii) increase in expenses related to on line marketing of \$5.3 million, or 30.4%, as compared to the same period of 2012; and iii) an increase in \$3.8 million in salaries and increase of \$ 2.3 million in other marketing expenses. These increases in sales and marketing expenses were partially offset by a decrease in chargeback expense during the year ended December 31, 2013 totaling \$2.0 million. In addition, for the year ended December 31, 2013, as compared to the same period in 2012, bad debt increased by \$1.4 million. Bad debt represented 4.0% and 4.7% of our net revenues for the years ended December 31, 2013 and 2012, respectively.

General and administrative

	Years ended December 31,		Change from 2013 to 2014 (*)		Years ended December 31,		Change from 2012 to 2013 (*)	
	2014	2013	in Dollars	in %	2013	2012	in Dollars	in %
	(in millions, except percentages)				(in millions, except percentages)			
General and administrative	\$62.4	\$57.6	\$ 4.8	8.3%	\$57.6	\$45.2	\$ 12.4	27.4%
As a percentage of net revenues (*)	11.2%	12.2%			12.2%	12.1%		

(*) 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.

For the year ended December 31, 2014, the \$4.8 million increase in general and administrative expenses when compared to the same period in 2013 was primarily attributable to: i) an increase of \$2.7 million in salaries and wages; ii) an increase of \$0.5 million in outside services, mainly related to tax and others fees; iii) an increase of \$0.5 million in office expenses; and iv) a \$2.0 million increase in depreciation and amortization expenses. These increases were partially offset by a decrease of \$1.2 in other general and administrative expenses.

For the year ended December 31, 2013, the \$12.4 million increase in general and administrative expenses when compared to the same period in 2012 was primarily attributable to: i) an increase of \$9.0 million or 34.5%, in compensation costs mainly related to an increase in LTRP compensation costs as a consequence of an increase in the fair market value of our shares, an increase in compensation cost related to the our recently approved 2013 LTRP and increase in salaries to retain talent; ii) an increase of \$2.8 million, or 24.5%, in outside services, mainly related to tax and others fees and legal services; and iii) an increase of \$0.8 million in other general and administrative expenses mainly related to tax charges.

Impairment of Long-Lived Assets

	Years ended December 31,		Change from 2013 to 2014 (*)		Years ended December 31,		Change from 2012 to 2013 (*)	
	2014	2013	in Dollars	in %	2013	2012	in Dollars	in %
	(in millions, except percentages)				(in millions, except percentages)			
Impairment of Long-Lived Assets	\$49.5	\$ —	\$ 49.5	100.0%	\$ —	\$ —	\$ —	0.0%
As a percentage of net revenues (*)	8.9%	0.0%			0.0%	0.0%		

(*) 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.

For the year ended December 31, 2014 when compared with 2013, the \$49.5 million increase was attributable to impairment of two office spaces located in Caracas, Venezuela recorded during the second quarter of 2014 in our Venezuelan subsidiaries.

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Other income, net

	Years ended December 31,		Change from 2013 to 2014 (*)		Years ended December 31,		Change from 2012 to 2013 (*)	
	2014	2013	in Dollars	in %	2013	2012	in Dollars	in %
	(in millions, except percentages)				(in millions, except percentages)			
Other income, net	\$1.3	\$9.6	\$ (8.2)	-86.2%	\$9.6	\$10.6	\$ (1.0)	-9.4%
As a percentage of net revenues	0.2%	2.0%			2.0%	2.8%		

(*) 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.

For the year ended December 31, 2014, the \$8.2 million decrease in other income, net when compared to the same period in 2014, was primarily attributable to a consolidated foreign exchange loss of \$2.4 million in 2014 as compared to a \$1.3 million gain in the same period in 2013. The foreign exchange loss in Venezuela increased \$10.3 million (related to the use of the SICAD 1 exchange rate from January 24 to May 15, 2014 and the use of SICAD 2 exchange rate from May 16, 2014 to December 31, 2014). This increase was partially offset by a \$4.0 million increase in foreign exchange gain as a consequence of a devaluation of the local currency in our main locations. Additionally, interest income increased \$4.7 million and interest expense increased by \$9.3 million due to the Convertible Notes issue on June 30, 2014.

For the year ended December 31, 2013, the \$1.0 million decrease in other income, net when compared to the same period in 2012 was primarily attributable to i) \$1.2 million decrease in interest income, as a consequence of lower interest rates on our investments and ii) increase of 1.2 million in financial expenses, due to the financial loans received during 2013 to invest in office equipment in Argentina and a new building in Venezuela, partially offset by a \$1.2 million increase in forex exchange gain as a consequence of a devaluation of the local currency in our main locations which generated a forex gain of \$8.5 million, offset by a \$6.4 million loss on forex exchange in our Venezuelan subsidiary during first quarter 2013.

Income and asset tax

	Years ended December 31,		Change from 2013 to 2014 (*)		Years ended December 31,		Change from 2012 to 2013 (*)	
	2014	2013	in Dollars	in %	2013	2012	in Dollars	in %
	(in millions, except percentages)				(in millions, except percentages)			
Income and asset tax	\$49.1	\$45.6	\$ 3.6	7.8%	\$45.6	\$38.9	\$ 6.7	17.3%
As a percentage of net revenues (*)	8.8%	9.6%			9.6%	10.4%		

(*) 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.

During the year ended December 31, 2014, as compared to the same period in 2013, income and asset tax increased by \$3.6 million, mainly as a consequence of an increase in taxable income and in permanent differences year over year.

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

The following table summarizes the changes in our blended and effective tax rate for the years ended December 31, 2014 and 2013:

	Years ended December 31,		
	2014	2013	2012
Blended tax rate	40.3%	27.9%	27.7%
Effective tax rate	54.8%	30.3%	28.1%

Our blended and effective tax rates for the year ended December 31, 2014 increased significantly as compared to the same period in 2013 mainly due to a significant reduction in net income before tax as resulting from the losses recorded in our Venezuelan subsidiaries during the second quarter of 2014 related to the impairment of long-lived assets and the devaluation of the BsF net asset position in January and May 2014. Such losses are non-deductible for tax purposes. Additionally, our Argentine subsidiaries were beneficiary of a software development law that granted a relief of 60% of income tax, which expired during September 2014 and as we did not received any confirmation to be beneficiary of the new software development law, we did not recorded any income tax holiday during last quarter of 2014.

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Our blended tax rate increased during the year ended December 31, 2013, as compared to the same period in 2012, by 0.2%, due to growth in taxable income generated by our Venezuelan subsidiary where the income tax rate is 34%, and due to a decrease in our Argentine taxable income year over year, where the income tax rate is lower than other locations.

Our effective tax rate increased during the year ended December 31, 2013, as compared to the same period in 2012, by 2.2%, driven primarily by a higher income tax provision in Argentina and Venezuela.

The following table sets forth our effective income tax rate related to our main locations for the years ended December 31, 2014 and 2013:

	Year ended December 31,		
	2014	2013	2012
Effective tax rate by country			
Argentina	26.9%	17.7%	14.9%
Brazil	33.8%	32.1%	34.8%
Mexico	22.0%	23.8%	30.4%
Venezuela	-50.6%	43.9%	35.5%

Our Argentine subsidiaries were beneficiary of a software development law that grants a relief of 60% of total income tax determined in each year. Mainly for that reason, our Argentine operation's effective income tax rate for the years ended December 31, 2014 and 2013 are currently lower than the local statutory rate of 35%. If we had not been granted the Argentine tax holiday, our Argentine effective income tax rate would have been higher; however, in that case, we would have pursued an alternative tax planning strategy. 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. During May 2014, we presented all the required documentation in order to apply for the new software development law. At the date of this report, the Industry Secretary resolution which approves the company's application is still pending.

If we are successful in being admitted as beneficiaries under the new law, the income tax relief we obtained up to September 2014 will be reduced, 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 increase in our Argentine operation's effective income tax rate for the year ended December 31, 2014 as compared to the same period in 2013 is due to the income tax holiday that expired in September 2014. As we did not received any confirmation to be beneficiary of the new software development law, we did not recorded any income tax holiday during last quarter of 2014. The increase in our Argentine operation's effective income tax rate for the year ended December 31, 2013 as compared to the same period in 2012 is a consequence of higher temporary tax differences.

The increase in our Brazilian effective income tax rate for the year ended December 31, 2014 as compared to the same period in 2013 was mainly related to an increase in accounting provisions, which are non-deductible for tax purposes during 2014. For the year ended December 31, 2013, our Brazilian effective income tax rate was lower than the local statutory rate of 34% mainly as a consequence of changes in permanent tax differences.

For the year ended December 31, 2014, our Mexican effective income tax rate was lower than the local statutory rate of 30% due to the consumption of tax losses arising in prior years, which generates lower provisions for income tax. For the year ended December 31, 2013, our Mexican effective income tax rate was lower than the local statutory rate of 30% mainly as a result of changes in temporary and permanent tax differences.

For the year ended December 31, 2014, our Venezuelan negative effective income tax rate was driven by losses recorded during the second quarter of 2014 in our Venezuelan subsidiaries related to the impairment of long-lived assets and foreign exchange loss, which generated a net loss before income tax. Such losses are non-deductible for tax purposes and consequently, we recorded an income tax charge even though we generated a net loss before income tax. For the year ended December 31, 2013, our Venezuelan effective income tax rate was significantly higher than the local statutory rate of 34%, mainly due to the impact of the devaluation of the Bolivar Fuerte in February 2013, which is considered a permanent difference for U.S. GAAP reporting purposes.

We do not expect in the domestic effective income tax rate related to dividend distributions from foreign subsidiaries to have a significant impact on our company since our strategy is to reinvest our cash surplus in our international operations, and to distribute dividends when they can be offset with available tax credits.

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Segment information

Year ended December 31, 2014(*)						
	Brazil	Argentina	Mexico	Venezuela	Other Countries	Total
Net revenues	\$ 273,638,197	\$150,667,541	\$ 37,668,802	\$ 58,025,886	\$ 36,535,576	\$ 556,536,002
Direct costs	(158,412,078)	(81,273,193)	(24,067,532)	(16,584,667)	(20,163,263)	(300,500,733)
Impairment of Long-lived Assets	—	—	—	(49,495,686)	—	(49,495,686)
Direct contribution	115,226,119	69,394,348	13,601,270	(8,054,467)	16,372,313	206,539,583
Margin	42.1%	46.1%	36.1%	-13.9%	44.8%	37.1%

Year ended December 31, 2013(*)						
	Brazil	Argentina	Mexico	Venezuela	Other Countries	Total
Net revenues	\$ 206,394,480	\$122,123,347	\$ 32,843,482	\$ 84,572,485	\$ 26,660,915	\$ 472,594,709
Direct costs	(119,422,924)	(66,492,770)	(18,558,010)	(29,578,762)	(12,339,112)	(246,391,578)
Direct contribution	86,971,556	55,630,577	14,285,472	54,993,723	14,321,803	226,203,131
Margin	42.1%	45.6%	43.5%	65.0%	53.7%	47.9%

Change from the year ended December 31, 2013 to December 31, 2014(*)						
	Brazil	Argentina	Mexico	Venezuela	Other Countries	Total
Net revenues						
in Dollars	\$ 67,243,717	\$ 28,544,194	\$ 4,825,320	\$(26,546,599)	\$ 9,874,661	\$ 83,941,293
in %	32.6%	23.4%	14.7%	-31.4%	37.0%	17.8%
Direct costs						
in Dollars	\$(38,989,154)	\$(14,780,423)	\$(5,509,522)	\$ 12,994,095	\$(7,824,151)	\$(54,109,155)
in %	32.6%	22.2%	29.7%	-43.9%	63.4%	22.0%
Impairment of Long-Lived Assets						
in Dollars	\$ —	\$ —	\$ —	\$(49,495,686)	\$ —	\$(49,495,686)
in %	0.0%	0.0%	0.0%	100.0%	0.0%	100.0%
Direct contribution						
in Dollars	\$ 28,254,563	\$ 13,763,771	\$ (684,202)	\$(63,048,190)	\$ 2,050,510	\$(19,663,548)
in %	32.5%	24.7%	-4.8%	-114.6%	14.3%	-8.7%

(*) 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.

Year ended December 31, 2013(*)						
	Brazil	Argentina	Mexico	Venezuela	Other Countries	Total
Net revenues	\$ 206,394,480	\$122,123,347	\$ 32,843,482	\$ 84,572,485	\$ 26,660,915	\$ 472,594,709
Direct costs	(119,422,924)	(66,492,770)	(18,558,010)	(29,578,762)	(12,339,112)	(246,391,578)
Direct contribution	86,971,556	55,630,577	14,285,472	54,993,723	14,321,803	226,203,131
Margin	42.1%	45.6%	43.5%	65.0%	53.7%	47.9%

Year ended December 31, 2012(*)						
	Brazil	Argentina	Mexico	Venezuela	Other Countries	Total
Net revenues	\$ 179,639,592	\$ 88,513,640	\$ 26,987,130	\$ 54,676,170	\$ 23,784,962	\$ 373,601,494
Direct costs	(104,501,652)	(41,841,587)	(14,912,375)	(17,768,989)	(11,458,627)	(190,483,230)
Direct contribution	75,137,940	46,672,053	12,074,755	36,907,181	12,326,335	183,118,264
Margin	41.8%	52.7%	44.7%	67.5%	51.8%	49.0%

Change from the year ended December 31, 2012 to December 31, 2013(*)						
	Brazil	Argentina	Mexico	Venezuela	Other Countries	Total
Net revenues						
in Dollars	\$ 26,754,888	\$ 33,609,707	\$ 5,856,352	\$ 29,896,315	\$2,875,953	\$ 98,993,214
in %	14.9%	38.0%	21.7%	54.7%	12.1%	26.5%
Direct costs						
in Dollars	\$(14,921,272)	\$(24,651,183)	\$(3,645,635)	\$(11,809,773)	\$ (880,485)	\$(55,908,348)
in %	14.3%	58.9%	24.4%	66.5%	7.7%	29.4%
Direct contribution						
in Dollars	\$ 11,833,616	\$ 8,958,524	\$ 2,210,717	\$ 18,086,542	\$1,995,468	\$ 43,084,867
in %	15.7%	19.2%	18.3%	49.0%	16.2%	23.5%

(*) 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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Net revenues

Net revenues for the year ended December 31, 2014, 2013 and 2012 are described above in “Item 7 – Management’s Discussion and Analysis of Financial Condition and Results of Operations – Net revenues”.

Direct costs and Impairment of Long-Lived Assets

Brazil

For the year ended December 31, 2014 as compared to the same period in 2013, direct costs increased by 32.6%, mainly driven by: i) a 32.1% increase in cost of net revenues, mainly attributable to an increase in collection fees as a consequence of higher penetration of Mercado Pago business and sales tax costs, partially offset by a decrease in our site operation expenses; ii) a 44.5% increase in sales and marketing expenses, mainly due to higher on line portal deals expenses, salaries and wages, and other marketing expenses; iii) a 83.2% increase in product and technology development expenses; and iv) a 3.1% increase in general and administrative expenses, mainly attributable to increases in salaries and wages, partially offset by a decrease in outside services fees.

For the year ended December 31, 2013 as compared to the same period in 2012, direct costs increased by 14.3%, mainly driven by: i) a 15.0% increase in cost of net revenues, mainly attributable to an increase in salaries and wages, costs of fraud prevention and in sales tax; ii) a 7.3% increase in sales and marketing expenses, mainly due to our new television and radio campaign in Latin America, compensated by a decrease in chargebacks expenses during the year, iii) a 83.1% increase in product and technology development expenses; and iv) a 18.3% increase in general and administrative expenses, mainly attributable to increases in salaries and wages related to our LTRP and legal fees.

Argentina

For the year ended December 31, 2014 as compared to the same period in 2013, direct costs increased by 22.2%, mainly driven by: i) a 25.7% increase in cost of net revenues mainly attributable to an increase in collection fees, customer support and sales taxes costs, partially offset by a decrease in certain banking tax related costs; ii) a 28.4% increase in sales and marketing expenses, mainly due to higher on line portal deals expenses; iii) a 18.2% decrease in product development; and iv) a 33.1% decrease in general and administrative expenses.

For the year ended December 31, 2013 as compared to the same period in 2012, direct costs increased by 58.9%, mainly driven by: i) a 58.1% increase in cost of net revenues that was mainly due to an increase in collection fees that was a consequence of an increase in our different payment-related services and an increase in taxes over bank transactions; and ii) a 57.4% increase in sales and marketing expenses, mainly attributable to our new television and radio campaign in Latin America and an increase in chargebacks.

Mexico

For the year ended December 31, 2014 as compared to the same period in 2013, direct costs increased by 29.7%, mainly driven by: i) a 24.0% increase in cost of net revenues that was mainly attributable to an increase in collection fees, customer support fees and other costs; ii) a 27.7% increase in sales and marketing expenses that was mainly attributable to higher on line portal deals expense and bad debt; iii) a 87.5% increase in product development primary attributable to an increase in salaries and wages; and iv) a 40.1% increase in general and administrative expenses primary attributable to an increase in salaries and wages.

For the year ended December 31, 2013 as compared to the same period in 2012, direct costs increased by 24.4%, mainly driven by: i) a 37.6% increase in cost of net revenues that was mainly attributable to an increase in customer service and collection fees; and ii) an increase in sales and marketing expenses that was mainly attributable to our new television and radio campaign in Latin America.

Venezuela

During second quarter of 2014, we recorded an impairment of long-lived assets of \$49.5 million in our Venezuelan subsidiaries. As a consequence of this loss, the direct contribution of this segment decreased significantly during year ended December 31, 2014 as compared to the same period in 2013.

For the year ended December 31, 2014 as compared to the same period in 2013, the increase in impairment of long-lived assets was partially offset by: i) a 43.9% decrease in costs of net revenues that was mainly attributable to a decrease in customer support fees; ii) a 49.6% decrease in sales and marketing expenses that was mainly attributable to the decreases in bad debt and salary and wages; and iii) a 32.2% decrease in product development.

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For the year ended December 31, 2013 as compared to the same period in 2012, direct costs increased by 66.5%, mainly driven by: i) a 63.3% increase in cost of net revenues that was mainly attributable to an increase in customer support fees and collection fees; and ii) a 91.5% increase in sales and marketing expenses that was mainly attributable to the increases in bad debt and salary and wages, and our new television and radio campaign in Latin America.

Liquidity and Capital Resources

Our main cash requirement historically has been working capital to fund MercadoPago financing operations in Brazil. We also require cash for capital expenditures relating to technology infrastructure, software applications, office space, business acquisitions and to fund the payment of quarterly cash dividends on shares of our common stock and to fund the interests payments on our recently issued Convertible Notes.

Since our inception, we have funded our operations primarily through contributions received from our stockholders during the first two years of operations, from funds raised during our initial public offering, and from cash generated from our operations. As discussed above under "Critical accounting policies and estimates" we issued on June 30, 2014, \$330 million principal balance of Convertible Notes for net proceeds to us of approximately \$321.7 million. We have funded MercadoPago by discounting credit card receivables, with loans backed with credit card receivables and through cash advances derived from our business.

At December 31, 2014, our main source of liquidity, amounting to \$372.0 million of cash and cash equivalents and short-term investments and \$205.3 million of long-term investments has been provided by cash generated from operations and from the issuance of the Convertible Notes. We consider our long-term investments as part of our liquidity because long-term investments are comprised of available-for-sale securities classified as long-term as a consequence of their contractual maturities.

The significant components of our working capital are cash and cash equivalents, short-term investments, accounts receivable, accounts payable and accrued expenses, funds receivable from and payable to MercadoPago users, and short-term debt. As long as we continue transferring credit card receivables to financial institutions in return for cash, we will continue generating cash.

As of December 31, 2014, cash and investments of foreign subsidiaries amounted to \$251.6 million or 43.6% of our consolidated cash and investments and approximately 29.6% of our consolidated cash and investments are held outside the U.S., mostly in Brazil, Argentina and Venezuela. Our strategy is to reinvest the undistributed earnings of our foreign operations in those operations and to distribute dividends when they can be offset with available tax credits. We do 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 we are allowed to compute for domestic income tax purposes.

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

The following table presents our cash flows from operating activities, investing activities and financing activities for the years ended December 31, 2014, 2013 and 2012:

(In millions)	Years ended December 31, (*)		
	2014	2013	2012
Net cash provided by (used in):			
Operating activities	\$ 196.8	\$142.5	\$139.9
Investing activities	(322.4)	(78.8)	(84.6)
Financing activities	264.3	(9.2)	(18.0)
Effect of exchange rates on cash and cash equivalents	(55.8)	(15.7)	(3.2)
Net increase in cash and cash equivalents	<u>\$ 82.9</u>	<u>\$ 38.8</u>	<u>\$ 34.1</u>

(*) The table above may not total due to rounding.

Net cash provided by operating activities

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

	Years ended December 31,		Change from 2013 to 2014 (*)	
	2014	2013	in Dollars	in %
(in millions, except percentages)				
Net Cash provided by:				
Operating activities	\$196.8	\$142.5	\$ 54.3	38.1%

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

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The \$54.3 million increase in net cash provided by operating activities during the year ended December 31, 2014, as compared to the same period in 2013, was primarily driven by a \$42.7 million increase in accounts payable and accrued expenses, \$13.5 million increase in funds payable to customers, and a \$17.1 increase in other assets. These increases in operating cash flow were partially offset by a \$18.2 million decrease in credit card receivables and \$1.3 million in other liabilities.

	Years ended December 31,		Change from 2012 to 2013 (*)	
	2013	2012	in Dollars	in %
	(in millions, except percentages)			
Net Cash provided by:				
Operating activities	\$142.5	\$139.9	\$ 2.6	1.9%

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

The \$2.6 million increase in net cash provided by operating activities during the year ended December 31, 2013 as compared to the same period in 2012 was primarily driven by a \$16.3 million increase in net income, \$8.0 million increase in accounts payable and accrued expenses, \$7.7 million increase in accounts payable to customers, a \$6.4 million increase in interests received from investments, a \$1.8 million increase in other liabilities; and a \$6.9 million increase in non-cash losses such as foreign exchange loss relating to the devaluation in Venezuela in February 2013, LTRP accrued compensation, accrued interest and depreciation and amortization. Those increases in net cash provided by operating activities were partially offset by a \$25.9 million increase in accounts receivable and credit card receivables, a \$1.2 million increase in prepaid expenses; and \$17.3 million increase in other assets mainly due to legal deposits performed during the year.

Net cash used in investing activities

	Years ended December 31,		Change from 2013 to 2014 (*)	
	2014	2013	in Dollars	in %
	(in millions, except percentages)			
Net Cash used in:				
Investing activities	\$(322.4)	\$(78.8)	\$ (243.6)	309.2%

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

Net cash used in investing activities in the year ended December 31, 2014 resulted mainly from purchases of investments of \$2,577.1 million partially offset by proceeds from the sale and maturity of investments of \$2,330.8 million, as part of our financial strategy. We used \$0.9 million in the purchase of intangible assets, \$34.4 million in the purchase of property, plant and equipment mainly related to technological equipment and software licenses, \$36.8 million to fund the acquisition of Portal Inmobiliario, Guia de Inmuebles.com. and Business Vision S.A., and \$4.0 to fund the acquisition of the remaining 40% of the membership interests in Autopark LLC.

	Years ended December 31,		Change from 2012 to 2013 (*)	
	2013	2012	in Dollars	in %
	(in millions, except percentages)			
Net Cash used in:				
Investing activities	\$(78.8)	\$(84.6)	\$ (5.8)	-6.9%

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

Net cash used in investing activities during the year ended December 31, 2013 resulted mainly from proceeds from the sale and maturity of investments of \$1,174.8 million, which was partially offset by purchases of investments for \$1,135.9 million as part of our financial strategy. We used \$114.2 million during the year ended December 31, 2013 to fund the acquisition of two office buildings in Caracas, Venezuela, one office building in Buenos Aires, Argentina; and to make capital expenditures mainly related to technological equipment and software licenses. Finally, we used \$3.4 million to fund the acquisition of a software development company located in the Province of Cordoba, Argentina.

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Net cash used in financing activities

	Years ended December 31,		Change from 2013 to 2014 (*)	
	2014	2013	in Dollars	in %
(in millions, except percentages)				
Net Cash provided by / (used in):				
Financing activities	\$264.3	\$(9.2)	\$ 237.5	-2958.5%

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

For the year ended December 31, 2014, we received \$ 321.9 million from the issuance of the Convertible Notes. Additionally, we used \$19.7 million for the purchase of the Convertible Note capped call. We used \$28.3 million to fund cash dividends paid on January 15, April 15, July 15, and October 15, 2014, \$7.7 million for payments of loans payable and other financial liabilities and \$ 1.9 million for the repurchase of common stock.

	Years ended December 31,		Change from 2012 to 2013 (*)	
	2013	2012	in Dollars	in %
(in millions, except percentages)				
Net Cash used in:				
Financing activities	\$(9.2)	\$(18.0)	\$ 8.8	-48.9%

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

For the year ended December 31, 2013, our primary use of cash was to fund the \$23.8 million of aggregate cash dividends paid on January 15, April 15, July 15 and October 15, 2013, and \$1.0 million for the repurchase of common stock. Our use of cash was partially offset by \$15.5 million of cash received from an unsecured line of credit to buy a new office building in Caracas, Venezuela, and financial liabilities received during fourth quarter 2013 by our Argentine subsidiary, both net of the payments of those loans during the year.

In the event that we decide to pursue strategic acquisitions in the future, we may fund them with available cash, third party debt financing, or by raising equity capital, as market conditions allow.

Debt

On June 30, 2014, we issued \$330 million of 2.25% convertible senior notes due 2019 (the “Notes”). The Notes are unsecured, unsubordinated obligations of our Company, which pay interest in cash semi-annually, on January 1 and July 1, at a rate of 2.25% per annum. The Notes will mature on July 1, 2019 unless earlier repurchased or converted in accordance with their terms prior to such date. The Notes may be converted, under the conditions specified below, based on an initial conversion rate of 7.9353 shares of common stock per \$1,000 principal amount of Notes (equivalent to an initial conversion price of approximately \$126.02 per share of common stock), subject to adjustment as described in the indenture governing the Notes.

Holders may convert their notes at their option at any time prior to January 1, 2019 only under the following circumstances: (1) during any calendar quarter commencing after the calendar quarter ending on September 30, 2014 (and only during such calendar quarter), if the last reported sale price of the common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day; (2) during the five business day period after any five consecutive trading day period (the “measurement period”) in which the trading price per \$1,000 principal amount of notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of our common stock and the conversion rate on each such trading day; or (3) upon the occurrence of specified corporate events. On or after January 1, 2019 until the close of business on the second scheduled trading day immediately preceding the maturity date, holders may convert their notes at any time, regardless of the foregoing circumstances. Upon conversion, we will pay or deliver, as the case may be, cash, shares of our common stock or a combination of cash and shares of our common stock, at our election.

As of December 31, 2014, none of the conditions allowing holders of the Notes to convert their notes had been met.

Capped call transactions

The net proceeds from the Notes were approximately \$321.7 million after considering the transaction costs in an amount of \$8.3 million. In connection with the issuance of the Notes, we paid approximately \$19.7 million to enter into capped call transactions with respect to its common stock (the “Capped Call Transactions”), with certain financial institutions. The Capped Call Transactions are expected generally to reduce the potential dilution upon conversion of the Convertible Notes in the event that the market price of our common stock is greater than the strike price of the Capped Call Transactions, initially set at \$126.02 per common share, which corresponds to the initial conversion price of the Notes and is subject to anti-dilution adjustments substantially similar to those applicable to the conversion rate of the Notes, and have a cap price of approximately \$155.81 per common share. Therefore, as a result of executing the Capped Call Transactions, we will reduce our exposure to

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potential dilution once the market price of its common shares exceeds the strike price of \$126.02 and up to a cap price of approximately \$155.81 per common share. The Capped Call Transactions allow us to receive shares of our common stock and/or cash related to the excess conversion value that we would pay to the holders of the Notes upon conversion, up to the above mentioned cap price.

The \$19.7 million cost of the capped call transactions, which net of deferred income tax effect amounts to \$12.8 million, is included as a net reduction to additional paid-in capital in the stockholders' equity section of our consolidated balance sheets, in accordance with the guidance in ASC 815-40 Derivatives and Hedging—Contracts in Entity's Own Equity.

Cash Dividends

On January 15, 2014, we paid an aggregate cash dividend for the fourth quarter of 2013 of \$6.3 million (or \$0.143 per share) on our outstanding shares of common stock held of record as of the close of business on December 31, 2013. On February 22, April 30, and July 30, 2014, our board of directors approved the 2013 first quarter, 2013 second quarter and 2013 third quarter cash dividends, respectively, of \$7.3 million (or \$0.166 per share) for each quarter on our outstanding shares of common stock. The dividends were paid on April 15, July 15, and October 15, 2014, respectively, to stockholders of record as of the close of business on March 29, June 28, and September 30, 2014, respectively.

On October 31, 2014, the board of directors declared the 2014 fourth quarter cash dividend of \$7.3 million (or \$0.166 per share), payable to the holders of the Company's common stock. The dividend was paid on January 15, 2015 to stockholders of record as of the close of business on December 31, 2014.

On February 24, 2015, our board of directors declared a quarterly cash dividend of \$4.6 million (or \$0.103 per share on our outstanding shares of common stock). The dividend is payable on April 15, 2015 to stockholders of record as of the close of business on March 31, 2015.

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.

Capital expenditures

Our capital expenditures for the year ended December 31, 2014 and 2013 amounted to \$76.1 million and \$117.6 million, respectively.

During the year ended December 31, 2014 we invested \$3.1 million and \$3.4 million in our Argentine and Venezuelan offices respectively, and \$22.7 million in Information Technology mainly in Argentina, Brazil and USA.

In April 2014, we acquired 100% of the issued and outstanding shares of capital stock of the companies VMK S.A., Inmobiliaria Web Chile S. de R.L. de C.V. and Inmuebles Online S.A., companies that operate online classified advertisements platforms dedicated to the sale of real estate in Chile through the Portal Inmobiliario brand and in Mexico through the Guía de Inmuebles brand. The aggregate purchase price was \$ 38.0 million.

On October 9, 2014, we entered into a memorandum of understanding to acquire an office property located in Centro San Ignacio, La Castellana, Chacao, Caracas, Venezuela, for a total amount of BsF \$170.6 million, or approximately \$3.4 million. The price of the transaction is paid as follows: i) 50% of the price, or BF\$ 85.3 was paid at the date of signing the memorandum of understanding; ii) 30% of the price, or BsF \$ 51.2 million, was paid on October 20, 2014; and iii) the remaining 20% was paid at the moment of transfer of the property ownership.

In December 2014, we acquired 100% of the equity interests in Business Vision S.A., an Argentine software development company located in the city of Buenos Aires, for an aggregate purchase price of \$4.8 million. Additionally, in December 2014, we exercised the call option and acquired the remaining 40% of the membership interests in Autopark LLC. The consideration paid for this remaining 40% interest was \$4.0 million.

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. As of December 31, 2013 we have fully paid the total price 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\$126.1 million. The price has been paid in Bolívares 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.

During the year ended December 31, 2013 we acquired a 100% ownership interest in a software development company located in the Province of Córdoba, Argentina for an aggregate purchase price of \$3.4 million.

We are permanently increasing the level of investment on hardware and software licenses necessary to improve and update the technology of our platform and cost of computer software developed internally. We anticipate continued investments in capital expenditures related to information technology in the future as we strive to maintain our position in the Latin American e-commerce market.

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

Off-balance sheet arrangements

At December 31, 2014, we had no off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on our consolidated financial condition, results of operations, liquidity, capital expenditures or capital resources.

Contractual obligations

We have certain fixed contractual obligations and commitments that include future estimated payments. Changes in our business needs, cancellation provisions and other factors may result in actual payments differing materially from the estimates below. We cannot provide certainty regarding the timing and amount of payments. Contractual obligations at December 31, 2014 are as follows:

(in millions)	Payment due by period				
	Total (*)	Less than 1 year (*)	1 to 3 years (*)	3 to 5 years (*)	More than 5 years (*)
Long-Term Debt Obligations (1)	\$367.1	\$ 7.4	\$ 14.9	\$ 344.9	\$ —
Operating lease obligations (2)	14.9	3.7	3.9	3.6	3.7
Purchase obligations	7.0	5.5	1.5	—	—
Total	<u>\$389.1</u>	<u>\$ 16.7</u>	<u>\$ 20.2</u>	<u>\$ 348.5</u>	<u>\$ 3.7</u>

(*) The table above may not total due to rounding.

(1) On June 30, 2014, we issued \$330 million of 2.25% convertible senior notes due 2019 (the “Notes”). The Notes are unsecured, unsubordinated obligations of our Company, which pay interest in cash semi-annually, on January 1 and July 1, at a rate of 2.25% per annum. The Notes will mature on July 1, 2019 unless earlier repurchased or converted in accordance with their terms prior to such date.

(2) Includes leases of office space.

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

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

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

Foreign currencies

As of December 31, 2014, we hold cash and cash equivalents in local currencies in our subsidiaries, and have receivables denominated in local currencies in all of our operations. Our subsidiaries generate revenues and incur most of their expenses in local currency. As a result, our subsidiaries use their local currency as their functional currency, except for our Venezuelan subsidiaries which use the U.S. dollar as if it is the functional currency due to Venezuela being a highly inflationary environment. As of December 31, 2014, the total cash and cash equivalents denominated in foreign currencies totaled \$97.2 million, short-term investments denominated in foreign currencies totaled \$58.5 million and accounts receivable and credit cards receivables in foreign currencies totaled \$129.2 million. As of December 31, 2014, we had no long-term investments denominated in foreign currencies. To manage exchange rate risk, our treasury policy is to transfer most cash and cash equivalents in excess of working capital requirements into U.S. dollar-denominated accounts in the United States. As of December 31, 2014, our U.S. dollar-denominated cash and cash equivalents and short-term investments totaled \$372.0 million and our U.S. dollar-denominated long-term investments totaled \$205.3 million. For the year ended December 31, 2014, we had a consolidated loss on foreign currency of \$2.4 million mainly as a consequence of a \$16.4 million loss on forex exchange in our Venezuelan subsidiary (See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Results of operations—Other income (expenses), net” for more information), partially offset by forex gains as a consequence of a devaluation of the local currency in our main locations.

If the U.S. dollar weakens against foreign currencies, the translation of these foreign-currency-denominated transactions will result in increased net revenues, operating expenses, and net income while the re-measurement of our net asset position in U.S. dollars will have a negative impact in our Statement of Income. Similarly, our net revenues, operating expenses and net income will decrease if the U.S. dollar strengthens against foreign currencies, while the re-measurement of our net asset position in U.S. dollars will have a positive impact in our Statement of Income.

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The following table sets forth the percentage of consolidated net revenues by segment for the years ended December 31, 2014, 2013 and 2012:

(% of total consolidated net revenues) (*)	Years ended December 31,		
	2014	2013	2012
Brazil	49.2%	43.7%	48.1%
Argentina	27.1	25.8	23.7
Venezuela	10.4	17.9	14.6
Mexico	6.8	6.9	7.2
Other Countries	6.6	5.6	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.

Foreign Currency Sensitivity Analysis

The table below shows the impact on our net revenues, expenses, other expenses and income tax, net income and equity for a positive and a negative 10% fluctuation on all the foreign currencies to which we are exposed to as of December 31, 2014 and for the year then ended:

(In millions)	Foreign Currency Sensitivity Analysis		
	-10% (1)	Actual	+10% (2)
Net revenues	\$ 618.1	\$ 556.5	\$ 506.2
Expenses	(484.1)	(436.1)	(396.8)
Income from operations	134.0	120.5	109.4
Other expenses and income tax related to P&L items	(51.3)	(45.5)	(42.1)
Foreign Currency impact related to the remeasurement of our Net Asset position	(3.0)	(2.4)	(1.9)
Net income	79.8	72.7	65.4
Less: Net Income attributable to Noncontrolling Interest	0.1	0.1	0.1
Net income attributable to MercadoLibre, Inc.	79.7	72.6	65.3
Total Shareholders' Equity	\$ 349.9	\$ 355.8	\$ 318.4

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

The table above does not total due to rounding.

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

In the past we have entered into transactions to hedge portions of our foreign currency translation exposure; however, during the year ended December 31, 2014 we did not enter into any such hedging transactions.

Venezuelan Segment

In accordance with U.S. GAAP, we have transitioned our Venezuelan operations to highly inflationary status as of January 1, 2010 and have been using the U.S. dollar as the functional currency for these operations since then. In accordance with U.S. GAAP, translation adjustments for prior periods were not removed from equity and the translated amounts for nonmonetary assets at December 31, 2010 became the accounting basis for those assets. As of December 31, 2014, monetary assets and liabilities in BsF were re-measured to the U.S. dollar using the SICAD 2 closing exchange rate of 49.99 BsF per U.S. dollar. As of December 31, 2013, the exchange rate used to re-measure our net monetary assets of our Venezuelan operations was the official exchange rate of 6.30 BsF per U.S. dollar.

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The following table sets forth net revenues for the years ended December 31, 2014, 2013 and 2012 and assets, liabilities and Net Assets of our Venezuelan subsidiaries, before intercompany eliminations, as of December 31, 2014 and 2013:

	2014	December 31, 2013	2012
Venezuelan operations			
Net Revenues	\$58,025,886	\$84,572,485	\$54,676,170
	December 31, 2014	December 31, 2013	
Assets	75,152,574	126,873,804	
Liabilities	(43,358,945)	(62,437,338)	
Net Assets	<u>\$ 31,793,629</u>	<u>\$ 64,436,466</u>	

On February 9, 2013, the BCV eliminated the SITME and devalued the official exchange rate used to re-measure our Venezuelan subsidiaries' non-U.S. dollar denominated monetary assets and liabilities as from February 9, 2013 to 6.3 BsF per U.S. dollar. The effect of using the devalued official exchange rate of 6.3 BsF per U.S. dollar generated a foreign currency loss that 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 (SICAD 1), which acts jointly with the Commission for the Administration of Foreign Exchange Control (CADIVI). In order to operate within this new system, a company should be registered at the Registro Automatizado (Automatized Register, or RUSAD). The acquisition of foreign currencies under this new 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 6.3 BsF per U.S. dollar.

During December 2013, the Venezuelan regulation that created the SICAD 1 was amended to expand its use, and to require publication of the average exchange rate implied by transactions settled in SICAD 1 auctions. Additionally, on January 23, 2014, the exchange regulation was amended to include 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. Due to the change in rules that provided for the creation of the SICAD 1 system, the official exchange rate remains only available to obtain foreign currency to pay for a limited list of goods considered to be of high priority by the Government, which does not include those relating to our business. As a consequence, SICAD 1 became, from that moment, the primary system to which we would have to request U.S. dollars to settle our transactions. As a result, from January 24 to May 15, 2014, the exchange rate we used to re-measure our net monetary asset position and BsF transactions of our Venezuelan operations was the SICAD 1 exchange rate. The average exchange rate of the SICAD 1 during the first quarter of 2014 was 10.1 BsF per U.S. dollar.

In late February 2014, the Venezuelan government issued a decree to open a new exchange control mechanism ("SICAD 2") that allows the purchase of foreign exchange currencies, through authorized foreign exchange operators offered by individuals and companies such as Petróleos de Venezuela, S.A. (PDVSA, the oil state-owned corporation of Venezuela), the BCV and other public entities authorized by the Ministry of Finance. The Venezuelan government published operating rules for the new exchange mechanism in Exchange Agreement N° 27 and, on March 24, 2014 SICAD 2 began operating. Since implementation of the SICAD 1 system, we had been unsuccessful in gaining access to U.S. dollars through SICAD 1. As a result of this ongoing lack of access to the SICAD 1 auction system and the establishment of SICAD 2, on May 16, 2014, we started requesting U.S. dollars through the SICAD 2 mechanism. The SICAD 2 system has been an open mechanism that permitted any company to request U.S. dollars for any purpose. Consequently, we have been eligible for and have been granted U.S. dollars through the SICAD 2 mechanism (see further developments affecting the SICAD 2 mechanism below).

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. Our Venezuelan subsidiaries have not requested authorization since 2012 to acquire U.S. dollars to make dividend distributions and we have not distributed dividends from our Venezuelan subsidiaries since 2011.

In light of the current economic conditions in Venezuela, our determination to access SICAD 2 and re-measure the BsF denominated monetary assets and liabilities of our Venezuelan subsidiaries, and the lower U.S. dollar-equivalent cash flows now expected from our Venezuelan operations, we have reviewed our long-lived assets, goodwill and intangible assets with indefinite useful life for impairment, including considering our current expected use of these assets in light of this foregoing. We currently own two office spaces in Venezuela that we had expected to use to support our main operating activities in that country. However, due to the current conditions, we now intend to rent these office spaces to third parties to generate rental income and will consider opportunities for disposal of these assets as real estate market conditions improve. Because we have concluded that the carrying value of these two real estate properties will not be fully recoverable, we recorded an impairment of long-lived assets of \$49.5 million during the second quarter of 2014.

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In February 2015, the Venezuelan government announced the unification of the SICAD 1 and SICAD 2 foreign exchange systems, into SICAD, with an initial public foreign exchange price of 12 BsF per U.S. dollar. Additionally, on February 10, 2015 it created the “Sistema Marginal de Divisas” (“SIMADI”), a new foreign exchange market, which foreign exchange rate should be published daily by the BCV. The first foreign exchange rate was published on February 12, 2015 at 170.039 BsF per U.S. dollar. At the date of issuance of this report, we requested U.S. dollars in the SIMADI foreign exchange market, and we have not been granted U.S. dollars yet. We are assessing the new regulations and any additional rules that may be established to determine whether they will have any effect on the accounting of the financial position and results of our operations in Venezuela in 2015.

Although the mechanisms available to obtain U.S. dollars for dividend distributions to shareholders outside of Venezuela have implied and may continue to imply restrictions, and although we are assessing the effects of recently issued new regulations relating to a new exchange market, we do not expect that restrictions to purchase U.S. dollars will have a significant adverse effect on our business plans with regard to the investment in Venezuela.

As a consequence of our determination to obtain U.S. dollars through SICAD 2 and our continued lack of access to SICAD 1, we concluded that the SICAD 2 exchange rate should be used to re-measure our bolivar-denominated monetary assets and liabilities in BsF and to re-measure the results of our Venezuelan operations, effective as of May 16, 2014. In connection with this re-measurement, we recorded a foreign exchange loss of \$16.5 million during the second quarter of 2014. As of December 31, 2014, the SICAD 2 exchange rate was 49.99 BsF per U.S. dollar.

In order to assist investors in their overall understanding of the impact on our Venezuelan segment reporting, we developed a scenario that considers an exchange rate of 170 BsF per U.S. dollar starting on January 1, 2014. These disclosures may help investors to project sensitivities, on segment information captions, to devaluations of whatever order of magnitude they choose by simple arithmetic calculations. The information is just a scenario and does not represent a forward-looking statement about our expectations or projections related to future events in Venezuela. The investors and other readers or users of the financial information presented in this caption are cautioned not to place undue reliance on this scenario. This information is not a guarantee of future events.

The information below should not be considered in isolation or as a substitute for measures of performance prepared in accordance with GAAP. In addition, this information is not based on any comprehensive set of accounting rules or principles.

The evolution of the Venezuelan economy and any future governmental interventions in the Venezuelan economy are beyond our ability to control or predict. New events could happen in the future in Venezuela and it is not possible for management to predict all such events, nor can it assess the impact of all such events on our Venezuelan business.

The table below provides specific sensitivity information of our Venezuelan segment reporting for the period indicated assuming an exchange rate of 170 BsF per U.S. dollar, applied for the period starting on January 1, 2014 to December 31, 2014 and does not include any inflation effect, nor the devaluation impact related to the assumed devaluation or any other effect derived from the assumed devaluation:

	Year Ended December 31, 2014	
	Actual (*)	Sensitivity (**)
Net revenues	\$ 58,025,886	\$ 9,360,998
Direct costs	(16,584,667)	(4,080,098)
Direct contribution (1)	\$ 41,441,219	\$ 5,280,900
Direct Contribution Margin % (1)	71.4%	56.4%

(*) As reported.

(**) Computing a hypothetical devaluation of the Venezuelan segment from January 1 to December 31, 2014 (170 BsF per U.S. dollar).

(1) Without including the impairment of long lived assets effect.

We further estimate that, assuming a hypothetical devaluation of our Venezuelan segment to 170 BsF per U.S. dollar at the end of 2014, the carrying value of certain of our real estate investments in Venezuela would not be recoverable and, as a consequence, an additional one-time charge of between approximately \$15 million and \$20 million would have been recorded. Furthermore, if assuming this same hypothetical devaluation, we would have recognized a foreign exchange loss of between \$13 million and \$16 million and a deferred income tax gain of between \$5.5 million and \$7.5 million derived from the loss on foreign exchange related to the revaluation of our U.S. dollar-denominated liabilities.

Despite the continued uncertainty and restrictions relating to foreign currency exchange in Venezuela as described above, we believe that our underlying business in that country is competitively well-positioned and continues to exhibit solid growth, in terms of units sold, even while economic conditions in the Venezuelan economy remain difficult. As economic conditions in that country improve, we expect that our business in Venezuela will benefit accordingly. Although in May 2014 we have experienced a strong devaluation of our business in Venezuela and we are assessing the impact of the new foreign exchange regulations issued in February 2015, we cannot assure you that the BsF will not experience further devaluations in the future, which may be significant and could have a material negative impact on our future financial results for our Venezuela segment and value of our bolivar denominated net assets. However, for the reasons stated at the beginning of this paragraph, we remain strongly committed to our business and investment in Venezuela.

Argentine Segment

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 approximately 8.0 Argentinean Pesos per U.S. dollar. Due to the abovementioned devaluation, during the three-month period ended March 31, 2014, the reported net assets in our Argentine subsidiaries decreased by \$14.6 million with the related impact in Other Comprehensive Income and the Company recognized a foreign exchange gain of \$4.6 million.

Had a hypothetical devaluation of 10% of the Argentinean Peso against the U.S. dollar occurred on December 31, 2014, the reported net assets in our Argentine subsidiaries would have decreased by approximately \$7.1 million with the related impact in Other Comprehensive Income. Additionally, we would have recorded a foreign exchange gain amounting to approximately \$1.5 million in our Argentine subsidiaries.

Interest

Our earnings and cash flows are also affected by changes in interest rates. These changes could have an impact on the interest rates that financial institutions charge us prior to the time we sell our MercadoPago receivables. At December 31, 2014, MercadoPago’s funds receivable from customers totaled \$85.2 million. Interest rate fluctuations could also negatively affect certain of our fixed rate and floating rate investments comprised primarily of time deposits, money market funds, investment grade corporate debt securities, and sovereign debt securities. Investments in both fixed rate and floating rate interest earning products carry a degree of interest rate risk. Fixed rate securities may have their fair market value adversely impacted due to a rise in interest rates, while floating rate securities may produce less income than predicted if interest rates fall.

Under our current policies, we do not use interest rate derivative instruments to manage exposure to interest rate changes. As of December 31, 2014, the average duration of our available for sale securities, defined as the approximate percentage change in price for a 100-basis-point change in yield, is 1.31%. If interest rates were to instantaneously increase (decrease) by 100 basis points, the fair market value of our available for sale securities as of December 31, 2014 could decrease (increase) by approximately \$4.1 million.

As of December 31, 2014, our short-term investments amounted to \$148.8 million and our long-term investments amounted to \$205.3 million. These investments can be readily converted at any time into cash or into securities with a shorter remaining time to maturity. We determine the appropriate classification of our investments at the time of purchase and re-evaluate such designations as of each balance sheet date.

Equity Price Risk

Our board of directors adopted the 2009, 2010, 2011 and 2012 long-term retention plan (the “2009, 2010, 2011 and 2012 LTRP”, respectively) payable as follows:

- eligible will receive a fixed cash payment equal to 6.25% of his or her 2009 and/or 2010 and/or 2011 and/or 2012 LTRP bonus once a year for a period of eight years starting in 2010 and/or 2011 and/or 2012 and/or 2013 (the “2009, 2010, 2011 and 2012 Annual Fixed Payment”, respectively); and
- on each date we pay the Annual Fixed Payment to an eligible employee, he or she will also receive a cash payment (the “2009, 2010, 2011 and 2012 Variable Payment, respectively”) equal to the product of (i) 6.25% of the applicable 2009 and/or 2010 and/or 2011 and/or 2012 LTRP bonus and (ii) the quotient of (a) divided by (b), where (a), the numerator, equals the Applicable Year Stock Price (as defined below) and (b), the denominator, equals the 2008, 2009, 2010 and 2011 Stock Price, defined as \$13.81, \$45.75, \$65.41 and \$77.77 for the 2009, 2010, 2011 and 2012 LTRP, respectively, which was the average closing price of the Company’s common stock on the NASDAQ Global Market during the final 60 trading days of 2008, 2009, 2010 and 2011, respectively. The “Applicable Year Stock Price” equals the average closing price of the Company’s common stock on the NASDAQ Global Market during the final 60 trading days of the year preceding the applicable payment date.

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The 2009, 2010, 2011 and 2012 variable payment LTRP liability subjects us to equity price risk. In May 2013 our board of directors, upon the recommendation of the Compensation Committee, approved certain amendments to the 2009, 2010, 2011 and 2012 Long-Term Retention Plans (the Amended LTRPs), to give us (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. We have 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 Long Term Retention Plan (the “2013 LTRP”) and on March 31, 2014, the Board of Directors, upon the recommendation of the Compensation Committee approved the 2014 employee retention programs (“2014 LTRP”). If earned, payments to eligible employees under the 2013 and 2014 LTRP will be in addition to payments of base salary and cash bonus, the latter if earned, made to those employees. The awards under 2013 and/or 2014 LTRP are payable in cash, common stock or a combination thereof and, as we mentioned in the paragraph before for the others LTRP, we have granted the right to any LTRP participant to request settlement in cash.

In order to receive an award under the 2013 and/or 2014 LTRP, each eligible employee must satisfy the performance conditions established by the board of directors for such employee. If these conditions are satisfied, the eligible employee will, subject to his or her continued employment as of each applicable payment date, receive the full amount of his or her 2013 and/or 2014 LTRP bonus, payable as follows:

- the eligible employee will receive a fixed cash payment, common stock or a combination thereof, equal to 8.333% of his or her 2013 and/or 2014 LTRP bonus once a year for a period of six years starting in March 2014 and/or 2015 (the “2013 and 2014 Annual Fixed Payment, respectively”); and
- on each date we pay the Annual Fixed Payment to an eligible employee, he or she will also receive a cash payment (the “Variable Payment”) equal to the product of (i) 8.333% of the applicable 2013 and/or 2014 LTRP bonus and (ii) the quotient of (a) divided by (b), where (a), the numerator, equals the Applicable Year Stock Price (as defined below) and (b), the denominator, equals the 2012 and 2013 Stock Price, defined as \$79.57 and \$118.48 for the 2013 and 2014 LTRP, respectively, which was the average closing price of our common stock on the NASDAQ Global Market during the final 60 trading days of 2012 and 2013, respectively. The “Applicable Year Stock Price” shall equal the average closing price of our common stock on the NASDAQ Global Market during the final 60 trading days of the year preceding the applicable payment date.

At December 31, 2014, the total contractual obligation fair value of our 2009, 2010, 2011, 2012, 2013 and 2014 Variable Payment LTRP liability amounted to \$31.2 million. As of December 31, 2014, the accrued liability related to the 2009, 2010, 2011, 2012, 2013 and 2014 Variable Payment portion of the LTRP included in Social security payable in our condensed consolidated balance sheet amounted to \$21.3 million. The following table shows a sensitivity analysis of the risk associated with our total contractual obligation related to the 2009, 2010, 2011, 2012, 2013 and 2014 Variable Payment if our common stock price per share were to experience increases or decreases by up to 40%.

(In US dollars)	As of December 31, 2014	
	MercadoLibre, Inc Equity Price	2009, 2010, 2011, 2012, 2013 and 2014 variable LTRP liability
Change in equity price in percentage		
40%	178.21	43,614,976
30%	165.48	40,499,621
20%	152.75	37,384,265
10%	140.02	34,268,910
Static(*)	127.29	31,153,554
-10%	114.56	28,038,199
-20%	101.83	24,922,843
-30%	89.10	21,807,488
-40%	76.38	18,692,133

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The consolidated financial statements and accompanying notes listed in Part IV, Item 15(a)-(1) of this report are included elsewhere in this report and incorporated herein by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES**Evaluation of Disclosure Controls and Procedures**

Based on the evaluation of our disclosure control and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the “Exchange Act”) as of the end of the period covered by this report, our Chief Executive Officer and our Chief Financial Officer have concluded that our disclosure controls and procedures are effective to provide reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms, and is accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There were no changes in our internal controls over financial reporting as defined in Exchange Act Rule 13a-15(f) that occurred during our most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management’s Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

Our management, including our Chief Executive Officer and our Chief Financial Officer, conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control Integrated Framework updated by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. Management’s assessment included evaluation of elements such as the design and operating effectiveness of key financial reporting controls, process documentation, accounting policies, and our overall control environment. Based on its evaluation under the framework in Internal Control—Integrated Framework, our management concluded that our internal control over financial reporting was effective as of December 31, 2014 to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles. We reviewed the results of management’s assessment with the Audit Committee of our board of directors.

In line with the response of the Securities and Exchange Commission to the Question N° 3 of the Frequently Asked Questions regarding Management’s Report on Internal Control Over Financial Reporting, Management excluded from its assessment the internal control over financial reporting at VMK S.A., Inmobiliaria Web Chile S. de R.L. de C.V. and Inmuebles Online S.A., companies acquired on April 8, 2014 (VMK S.A. was merged with Meli Inversiones SpA on August 22, 2014) and Business Vision S.A., company acquired on December 15, 2014. Their financial statements constitute the following percentages of the consolidated financial statement accounts as of and for the year ended December 31, 2014:

	% of Net Revenues	% of Net Income	% of Assets
Meli Inversiones SpA	1,89%	0,66%	4,15%
Business Vision S.A.	0,03%	0,12%	0,13%

The effectiveness of our internal control over financial reporting as of December 31, 2014 has been audited by Deloitte & Co. S.A., an independent registered public accounting firm, as stated in their report which appears in Item 15(a) of this Annual Report on Form 10-K.

[Table of Contents](#)**Inherent Limitations on Effectiveness of Controls**

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls or our internal control over financial reporting will prevent or detect all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of controls effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

ITEM 9B. OTHER INFORMATION

Not applicable.

PART III**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

Information on our directors and executive officers and the audit committee and nominating and corporate governance committee of our board of directors is incorporated by reference from our Proxy Statement (under the headings "Proposal One" "Information on Our Board of Directors and Corporate Governance," "Section 16(a) Beneficial Ownership Reporting Compliance" and "Executive Officers") to be filed with the SEC with respect to our 2015 Annual Meeting of Stockholders (the "2015 Proxy Statement").

ITEM 11. EXECUTIVE COMPENSATION

The information presented under the headings "Director Compensation," "Executive Compensation" and "Compensation Committee Interlocks and Insider Participation" in our 2015 Proxy Statement to be filed with the SEC is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDERS MATTERS

The information presented under the headings "Beneficial Ownership of Our Common Stock" in our 2015 Proxy Statement to be filed with the SEC is incorporated herein by reference.

The following table represents information as of December 31, 2014 with respect to equity compensation plans under which shares of the Company's common stock are authorized for issuance:

<u>Plan Category</u>	<u>Equity Compensation Plan Information</u>		
	<u>Number of securities to be issued upon exercise of outstanding options, Warrants and Rights</u>	<u>Weighted-average exercise price of outstanding options, Warrants and rights</u>	<u>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))</u>
	<u>(a)</u>	<u>(b)</u>	<u>(c)</u>
Equity compensation plans approved by security holders (1)	—	—	259,457
Total	—	—	259,457

(1) Represents our 2009 Equity Compensation which was approved by our stockholders on June 10, 2009

Description of Amended and Restated 1999 Stock Option and Restricted Stock Plan

Our 1999 Plan was adopted by our board of directors on November 3, 1999. The 1999 Plan provides for the grant of incentive stock options, within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended or the Internal Revenue Code, to our employees, and non-qualified stock options and restricted stock to our employees, directors, agents, advisors, independent consultants and contractors. Incentive stock options and non-qualified stock options are referred to as “stock options,” and together with restricted stock are referred to as “awards”. The 1999 Plan expired on November 3, 2009 and as a result, no new awards may be made under the 1999 Plan. However, any outstanding awards at the expiration shall remain in effect until the earlier of the exercise, termination or expiration of such outstanding awards. At December 31, 2013, there are no outstanding options to purchase shares of common stock under the 1999 Plan.

Number of shares of common stock available under the stock option plan. A total of 4,732,400 shares of common stock were reserved for issuance pursuant to the 1999 Plan. Shares covered by awards that are forfeited or terminated without exercise will be available for future awards. The shares of common stock issuable under the 1999 Plan shall be (1) authorized but unissued shares, (2) shares of common stock held in our treasury, or (3) a combination of (1) and (2).

Administration of the stock option plan. The 1999 Plan is administered by our board of directors or a committee appointed by the board of directors (the body in charge of administering the 1999 Plan is referred to as the “administrator”). If the common stock is registered under Section 12(b) or 12(g) of the Exchange Act, the board of directors shall consider in selecting the administrator and the membership of any committee acting as administrator the provisions of Section 162(m) of the Internal Revenue Code regarding “outside directors” and the provisions of Rule 16b-3 under the Exchange Act regarding “non-employee directors.” The administrator determines the recipients of awards, times at which awards are granted, number of shares subject to each type of award, the time for vesting of each award and the duration of the exercise period for options.

Price, exercise and termination of awards. The exercise price for each share of common stock subject to an option is determined by the administrator, and in the case of an incentive stock option the exercise price cannot be less than 100% of the fair market value of the shares of common stock on the date of the grant (or 110% in the case of employees who directly or indirectly own more than 10% of the total combined voting power of all classes of our stock).

Options are exercisable on their vesting date, which is determined by the administrator and set forth in the award agreement governing any particular option. Vesting dates can be accelerated on the occurrence of a specified event, as provided in an award agreement, or can be accelerated at the discretion of the administrator.

If a participant in the Stock Option Plan ceases to be employed or perform services for us, we have the right to repurchase any unvested shares at the exercise price paid per share. The terms and procedures of a repurchase are to be set forth in the Award Agreement that governs the relevant unvested shares.

If an option expires or is terminated or canceled without having been exercised it shall become null and void and of no further force and effect. The term of an option may not exceed beyond the tenth anniversary on which the option is granted (or the fifth anniversary in the case of incentive stock options granted to employees who directly or indirectly own 10% of the total combined voting power of all classes of our stock.) An option terminates 30 days after a participant ceases to be an employee or director as a result of a termination without cause, and after 10 days of termination in the case of a termination for cause. Cause includes the conviction of a crime involving fraud, theft, dishonesty or moral turpitude, the participant’s continuous disregard of or willful misconduct in carrying lawful instructions of superiors, continued use of alcohol or drugs that interfered with the performance of the participant’s duties, the conviction of participant for committing a felony or similar foreign crime, and any other cause for termination set forth in a participant’s employment agreement. An option terminates 10 days after a participant ceases to be an independent consultant, contractor or advisor to us or agent of ours for any reason. It also terminates three months after the death or permanent disability of a participant, or, if the participant is a party to an employment agreement, the disability of such participant as defined in the employment agreement. Other reasons for termination may be set out in the Award Agreement.

An option will not be considered an incentive stock option to the extent that the aggregate fair market value (on the date of the grant of the incentive stock option) of all stock with respect to which incentive stock options are exercisable for the first time by a participant during any calendar year is greater than \$100,000. No option shall be affected by a change of duties or position of a participant (including transfer to our subsidiaries) as long as the participant continues to be our employee or an employee of our subsidiaries.

Adjustments upon the occurrence of material transactions. In the event we undergo dissolution or liquidation, a reorganization, merger or consolidation in which we are not the surviving entity, or a sale of all or substantially all of our assets (each, a “Material Transaction”) holders of options will be given 10-day prior written notice and will decide within those 10 days whether to exercise their respective options. Any option that is not so exercised will terminate. However, such notice and exercise mechanism would not apply if provision is made in connection with a Material Transaction for assumption of outstanding options, or substitution of options for new options or equity securities, with any appropriate adjustments as to the number, kind and prices of shares subject to options.

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Transferability. Unless the prior written consent of the administrator is obtained, no option can be assigned or otherwise transferred by any participant except by will or by the laws of descent and distribution. Except in the case of an approved transfer, an option may be exercised during the lifetime of a participant only by the participant or his/her legal representative if the participant is legally disabled.

Restricted stock. Restricted stock awards are awards of shares of common stock that vest according to the terms and conditions established by the administrator. The administrator may impose whatever restrictions on transferability, risk of forfeiture and other restrictions as it determines. A holder of restricted stock has the rights of a stockholder, including the right to vote the restricted stock. During the restricted period applicable to the restricted stock, it may not be sold, transferred, pledged, hypothecated, margined or otherwise encumbered. Except as otherwise determined by the administrator, restricted stock that is subject to restrictions is subject to forfeiture upon termination of a participant's employment.

Amendment. Our board of directors may modify the 1999 Plan at any time. The approval by a majority of our stockholders is necessary if required by law or necessary to comply with any applicable laws and regulations. No amendment will affect the terms of any award granted prior to the effectiveness of such amendment, except with the consent of the holder of the award.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information presented under the heading "Certain Relationships and Related Transactions" and "Information on Our Board of Directors and Corporate Governance" in our 2015 Proxy Statement to be filed with the SEC is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information presented under the heading "Ratification of Independent Registered Public Accounting Firm" in our 2015 Proxy Statement to be filed with the SEC is incorporated herein by reference.

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PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

- (a) **Financial Statements.** The following financial statements are included in this report:

	Page
Consolidated Financial Statements	
Report of Independent Registered Public Accounting Firm	1
Consolidated balance sheets as of December 31, 2014 and 2013	2
Consolidated statements of income for the years ended December 31, 2014, 2013 and 2012	3
Consolidated statements of comprehensive income for the years ended December 31, 2014, 2013 and 2012	4
Consolidated statements of equity for the years ended December 31, 2014, 2013 and 2012	5
Consolidated statements of cash flows for the years ended December 31, 2014, 2013 and 2012	7
Notes to consolidated financial statements	9

- (b) **Exhibits.** The exhibits required by Item 601 of Regulation S-K are listed below.

<u>Exhibit Number</u>	<u>Exhibit Title</u>
3.01	Registrant's Amended and Restated Certificate of Incorporation. (1)
3.02	Registrant's Amended and Restated Bylaws. (1)
4.01	Form of Specimen Certificate for Registrant's Common Stock (3)
4.02	Second Amended and Restated Registration Rights Agreement, dated September 24, 2001, by and among the Registrant and the investors named therein. (1)
4.03	Indenture with respect to the Registrant's 2.25% Convertible Senior Notes due 2019, dated as of June 30, 2014, between the Registrant and Wilmington Trust, National Association, as trustee. (17)
10.01	Form of Indemnity Agreement entered into by Registrant with each of its directors and executive officers. (2)
10.02	Concession Contract, dated as February 7, 2007, between Border's Parking S.R.L. and MercadoLibre S.A. (1)
10.03	Management Incentive Bonus Plan of the Registrant. (2)
10.04	Employment Agreements with Officers. (2)
10.05	Employment Agreement with Osvaldo Gimenez, dated as of March 26, 2008 (3)
10.06	2009 Equity Compensation Plan (5)

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10.07	2008 Long-Term Retention Plan (4)
10.08	2009 Long-Term Retention Plan (4)
10.09	Property Lease Agreement, dated February 1, 2011, between MercadoLibre Colombia S.A and Mongiana Ltda* (6)
10.10	Property Lease Agreement, dated July 6, 2010 between MercadoLivre.com Atividades de Internet Ltda. and STM Sociedade Técnica de Montageus Ltda. (6)
10.11	Agreement dated June 2, 2011 entered into by MercadoLibre Venezuela S.A. a subsidiary of MercadoLibre, Inc. with Inversiones 1182450 C.A., to acquire an office property in Caracas, Venezuela (7)
10.12	2010 Long-Term Retention Plan. (8)
10.13	2011 Long-Term Retention Plan. (9)
10.14	2012 Long-Term Retention Plan. (10)
10.15	Free Trade Zone Direct User Agreement Aguada Park (Item 5.A.), as amended, dated August 29, 2011, between MELI Uruguay S.R.L. and ITSEN S.A. dated May 21, 2012 and May 22, 2012 (11)
10.16	Preliminary sales contract, as of May 8, 2013, by and among Mercadolibre S.R.L., Ribera Desarrollos S.A., Inc. S.A., Sociedad Anónima La Nación and Desarrolladora Urbana S.A. (12)
10.17	Purchase Agreement, dated as of May 16, 2013, between MercadoLibre Venezuela SRL and Grupo Lods 299, Isalys, Bassben, Arturo Soria, Imas 2006, Miriru, Rurimi, Vivand 2006, Sgm Y 432511, S.N.C. (12)
10.18	Amended and Restated 2009 Long-Term Retention Plan (13)
10.19	Amended and Restated 2010 Long-Term Retention Plan (13)
10.20	Amended and Restated 2011 Long-Term Retention Plan (13)
10.21	Amended and Restated 2012 Long-Term Retention Plan (13)
10.22	2013 Long-Term Retention Plan (14)
10.23	Memorandum of understanding, dated as of September 19, 2013, between MercadoLibre Venezuela SRL and Lopco de Venezuela, C.A. (15)
10.24	2014 Long-Term Retention Plan (16)
10.25	Base Call Option Transaction Confirmation, dated as of June 24, 2014, between MercadoLibre and JPMorgan Chase Bank, National Association, London Branch (18)
10.26	Base Call Option Transaction Confirmation, dated as of June 24, 2014, between MercadoLibre and Bank of America, N.A. (10)

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10.27	Base Call Option Transaction Confirmation, dated as of June 24, 2014, between MercadoLibre and Citibank N.A. (20)
10.28	Base Call Option Transaction Confirmation, dated as of June 24, 2014, between MercadoLibre and Deutsche Bank AG, London Branch (21)
10.29	Additional Call Option Transaction Confirmation, dated as of June 27, 2014, between MercadoLibre and JPMorgan Chase Bank, National Association, London Branch (22)
10.30	Additional Call Option Transaction Confirmation, dated as of June 27, 2014, between MercadoLibre and Bank of America, N.A. (23)
10.31	Additional Call Option Transaction Confirmation, dated as of June 27, 2014, between MercadoLibre and Citibank N.A. (24)
10.32	Additional Call Option Transaction Confirmation, dated as of June 27, 2014, between MercadoLibre and Deutsche Bank AG, London Branch (25)
10.33	Purchase Agreement, dated as of June 24, 2014, by and among the Company, and Goldman, Sachs & Co., Deutsche Bank Securities Inc. and J.P. Morgan Securities LLC, as representatives of the several initial purchasers named therein (26)
21.01	List of Subsidiaries*
23.01	Consent of Deloitte & Co. S.A., Independent Registered Public Accounting Firm*
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32.01	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. **
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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MERCADOLIBRE, INC.

By: /s/ Marcos Galperin
Marcos Galperin
Chief Executive Officer

Date: February 27, 2015

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Marcos Galperin</u> Marcos Galperin	Chief Executive Officer and Director (Principal Executive Officer)	February 27, 2015
<u>/s/ Pedro Arnt</u> Pedro Arnt	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	February 27, 2015
<u>/s/ Mario Vazquez</u> Mario Vazquez	Director	February 27, 2015
<u>/s/ Susan Segal</u> Susan Segal	Director	February 27, 2015
<u>/s/ Michael Spence</u> Michael Spence	Director	February 27, 2015
<u>/s/ Verónica Allende Serra</u> Veronica Allende Serra	Director	February 27, 2015
<u>/s/ Nicolás Galperin</u> Nicolás Galperin	Director	February 27, 2015
<u>/s/ Emiliano Calemzuk</u> Emiliano Calemzuk	Director	February 27, 2015
<u>/s/ Meyer Malka</u> Meyer Malka	Director	February 27, 2015
<u>/s/ Javier Olivan</u> Javier Olivan	Director	February 27, 2015
<u>/s/ Roberto Balls Sallouti</u> Roberto Balls Sallouti	Director	February 27, 2015

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MercadoLibre, Inc.
Consolidated Financial Statements
as of December 31, 2014 and 2013
and for the three years in the period
ended December 31, 2014

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and
Shareholders of MercadoLibre, Inc.

City of Buenos Aires, Argentina

We have audited the accompanying consolidated balance sheets of MercadoLibre, Inc. and its subsidiaries (the “Company”) as of December 31, 2014 and 2013, and the related consolidated statements of income, comprehensive income, equity, and cash flows for each of the three years in the period ended December 31, 2014. We also have audited the Company’s internal control over financial reporting as of December 31, 2014, based on the criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). As described in Management’s Report on Internal Control over Financial Reporting, Management excluded from its assessment the internal control over financial reporting at Meli Inversiones SpA (the company VMK S.A. was acquired on April 8, 2014 and merged into Meli Inversiones SpA on August 22, 2014) and Business Vision S.A. (which was acquired on December 15, 2014), whose financial statements constitute approximately 4% of assets and 2% of revenues of the consolidated financial statement amounts as of and for the year ended December 31, 2014. Accordingly, our audit did not include the internal control over financial reporting at Meli Inversiones SpA or BusinessVision S.A. The Company’s Management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control over Financial Reporting (Item 9A). Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the Company’s internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company’s internal control over financial reporting is a process designed by, or under the supervision of, the company’s principal executive and principal financial officers, or persons performing similar functions, and effected by the company’s board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of MercadoLibre, Inc. and its subsidiaries as of December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on the criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

City of Buenos Aires, Argentina

February 27, 2015

DELOITTE & Co. S.A.

/s/ Alberto Lopez Camabucci

Partner

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MercadoLibre, Inc.
Consolidated Balance Sheets
As of December 31, 2014 and 2013

	December 31, 2014	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	\$ 223,144,226	\$140,285,104
Short-term investments	148,809,539	76,593,214
Accounts receivable, net	46,672,495	25,884,260
Credit cards receivables, net	85,162,276	52,045,851
Prepaid expenses	3,457,693	3,836,081
Deferred tax assets	11,519,522	16,030,880
Other assets	13,984,467	11,488,845
Total current assets	532,750,218	326,164,235
Non-current assets:		
Long-term investments	205,265,042	45,719,737
Property and equipment, net	91,544,836	131,371,909
Goodwill	68,828,504	55,101,218
Intangible assets, net	23,171,349	6,591,585
Deferred tax assets	21,553,696	3,014,905
Other assets	23,734,090	24,399,184
Total non-current assets	434,097,517	266,198,538
Total assets	<u>\$ 966,847,735</u>	<u>\$592,362,773</u>
Liabilities and Equity		
Current liabilities:		
Accounts payable and accrued expenses	\$ 58,005,734	\$ 34,405,333
Funds payable to customers	165,033,797	129,038,663
Salaries and social security payable	28,777,045	23,182,811
Taxes payable	26,012,849	17,854,110
Loans payable and other financial liabilities	1,641,646	13,370,823
Deferred tax liabilities	1,644,706	—
Other liabilities	4,176,830	—
Dividends payable	7,329,546	6,313,869
Total current liabilities	292,622,153	224,165,609
Non-current liabilities:		
Salaries and social security payable	11,326,318	9,185,269
Loans payable and other financial liabilities	282,184,331	2,489,819
Deferred tax liabilities	18,745,855	5,339,359
Other liabilities	6,180,668	3,699,109
Total non-current liabilities	318,437,172	20,713,556
Total liabilities	<u>\$ 611,059,325</u>	<u>\$244,879,165</u>
Commitments and contingencies (Note 15)		
Redeemable noncontrolling interest	\$ —	\$ 4,000,000
Equity:		
Common stock, \$0.001 par value, 110,000,000 shares authorized, 44,154,572 and 44,153,473 shares issued and outstanding at December 31, 2014 and December 31, 2013, respectively	\$ 44,154	\$ 44,153
Additional paid-in capital	137,644,989	121,562,193
Treasury stock	—	(1,012,216)
Retained earnings	353,173,098	310,345,448
Accumulated other comprehensive loss	(135,073,831)	(87,455,970)
Total Equity	355,788,410	343,483,608
Total Liabilities, Redeemable Noncontrolling Interest and Equity	<u>\$ 966,847,735</u>	<u>\$592,362,773</u>

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

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MercadoLibre, Inc.
Consolidated Statements of Income
For the years ended December 31, 2014, 2013 and 2012

	Year Ended December 31,		
	2014	2013	2012
Net revenues	\$ 556,536,002	\$ 472,594,709	\$ 373,601,494
Cost of net revenues	(158,978,001)	(130,076,879)	(98,085,644)
Gross profit	397,558,001	342,517,830	275,515,850
Operating expenses:			
Product and technology development	(53,599,639)	(40,888,139)	(28,626,880)
Sales and marketing	(111,627,304)	(90,484,296)	(72,002,954)
General and administrative	(62,364,509)	(57,606,340)	(45,228,145)
Impairment of Long-Lived Assets	(49,495,686)	—	—
Total operating expenses	(277,087,138)	(188,978,775)	(145,857,979)
Income from operations	120,470,863	153,539,055	129,657,871
Other income (expenses):			
Interest income and other financial gains	15,335,853	10,668,593	11,877,375
Interest expense and other financial losses	(11,659,356)	(2,355,929)	(1,138,379)
Foreign currency (loss) / gain	(2,351,539)	1,258,476	11,597
Other losses net	—	(751)	(190,938)
Net income before income / asset tax expense	121,795,821	163,109,444	140,217,526
Income / asset tax expense	(49,143,050)	(45,583,181)	(38,871,379)
Net income	\$ 72,652,771	\$ 117,526,263	\$ 101,346,147
Less: Net Income attributable to Redeemable Noncontrolling Interest	72,220	18,825	98,849
Net income attributable to MercadoLibre, Inc. shareholders	\$ 72,580,551	\$ 117,507,438	\$ 101,247,298

	Year Ended December 31,		
	2014	2013	2012
Basic EPS			
Basic net income attributable to MercadoLibre, Inc. Shareholders per common share	\$ 1.63	\$ 2.66	\$ 2.30
Weighted average of outstanding common shares	44,153,884	44,152,600	44,147,861
Diluted EPS			
Diluted net income attributable to MercadoLibre, Inc. Shareholders per common share	\$ 1.63	\$ 2.66	\$ 2.30
Weighted average of outstanding common shares	44,153,884	44,152,600	44,149,838
Cash Dividends declared	0.664	0.572	0.436

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

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MercadoLibre, Inc.
Consolidated Statements of Comprehensive Income
For the years ended December 31, 2014, 2013 and 2012

	Year Ended December 31,		
	2014	2013	2012
Net income	\$ 72,652,771	\$ 117,526,263	\$ 101,346,147
Other comprehensive (loss) income, net of income tax:			
Currency translation adjustment	(47,214,002)	(37,971,615)	(11,319,211)
Unrealized net (losses) gains on available for sale investments	(378,392)	25,467	759,564
Less: reclassification adjustment for gains on available for sale investments included in net income	25,467	759,564	924,657
Net change in accumulated other comprehensive loss, net of income tax	(47,617,861)	(38,705,712)	(11,484,304)
Total comprehensive income	<u>\$ 25,034,910</u>	<u>\$ 78,820,551</u>	<u>\$ 89,861,843</u>
Less: Comprehensive (loss) income attributable to Redeemable Noncontrolling Interest	(332,065)	(14,045)	354,327
Comprehensive income attributable to MercadoLibre, Inc. Shareholders	<u>\$ 25,366,975</u>	<u>\$ 78,834,596</u>	<u>\$ 89,507,516</u>

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

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MercadoLibre, Inc.
Consolidated Statement of Equity
For the years ended December 31, 2014, 2013 and 2012

	<u>Common stock</u>		<u>Additional paid-in capital</u>	<u>Treasury Stock</u>	<u>Retained Earnings</u>	<u>Accumulated other comprehensive loss</u>	<u>Total Equity</u>
	<u>Shares</u>	<u>Amount</u>					
Balance as of December 31, 2011	<u>44,142,020</u>	<u>\$44,142</u>	<u>\$120,452,032</u>	<u>\$ —</u>	<u>\$135,726,188</u>	<u>\$(37,043,346)</u>	<u>\$219,179,016</u>
Stock options exercised	3,800	4	5,696	—	—	—	5,700
Stock-based compensation	—	—	11,036	—	—	—	11,036
Dividend distribution	—	—	—	—	(19,249,040)	—	(19,249,040)
LTRP shares issued	5,100	5	(5)	—	—	—	—
Change in redeemable amount of noncontrolling interest	—	—	—	—	359,398	—	359,398
Net income	—	—	—	—	101,247,298	—	101,247,298
Other comprehensive loss	—	—	—	—	—	(11,739,782)	(11,739,782)
Balance as of December 31, 2012	<u>44,150,920</u>	<u>\$44,151</u>	<u>\$120,468,759</u>	<u>\$ —</u>	<u>\$218,083,844</u>	<u>\$(48,783,128)</u>	<u>\$289,813,626</u>
Stock options exercised	2,013	2	3,018	—	—	—	3,020
Stock-based compensation	540	—	58,492	—	—	—	58,492
Dividend distribution	—	—	—	—	(25,255,478)	—	(25,255,478)
LTRP shares issued	9,003	9	1,031,924	—	—	—	1,031,933
Common Stock repurchased	(9,003)	(9)	—	(1,012,216)	—	—	(1,012,225)
Change in redeemable amount of noncontrolling interest	—	—	—	—	9,644	—	9,644
Net income	—	—	—	—	117,507,438	—	117,507,438
Other comprehensive loss	—	—	—	—	—	(38,672,842)	(38,672,842)
Balance as of December 31, 2013	<u>44,153,473</u>	<u>\$44,153</u>	<u>\$121,562,193</u>	<u>\$(1,012,216)</u>	<u>\$310,345,448</u>	<u>\$(87,455,970)</u>	<u>\$343,483,608</u>

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

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MercadoLibre, Inc.
Consolidated Statement of Equity
For the years ended December 31, 2014, 2013 and 2012

	<u>Common stock</u>		<u>Additional paid-in capital</u>	<u>Treasury Stock</u>	<u>Retained Earnings</u>	<u>Accumulated other comprehensive loss</u>	<u>Total Equity</u>
	<u>Shares</u>	<u>Amount</u>					
Balance as of December 31, 2013	<u>44,153,473</u>	<u>\$44,153</u>	<u>\$121,562,193</u>	<u>\$(1,012,216)</u>	<u>\$310,345,448</u>	<u>\$ (87,455,970)</u>	<u>\$343,483,608</u>
Stock-based compensation	1,099	1	117,782	—	—	—	117,783
Dividend distribution	—	—	—	—	(29,318,184)	—	(29,318,184)
LTRP shares issued	20,749	—	1,930,119	—	—	—	1,930,119
Common Stock repurchased	(20,749)	—	(2,955,900)	1,012,216	—	—	(1,943,684)
Convertible Notes – Equity component	—	—	29,774,995	—	—	—	29,774,995
Capped call	—	—	(12,784,200)	—	—	—	(12,784,200)
Change in redeemable amount of noncontrolling interest	—	—	—	—	(434,717)	—	(434,717)
Net income	—	—	—	—	72,580,551	—	72,580,551
Other comprehensive loss	—	—	—	—	—	(47,617,861)	(47,617,861)
Balance as of December 31, 2014	<u>44,154,572</u>	<u>\$44,154</u>	<u>\$137,644,989</u>	<u>\$ —</u>	<u>\$353,173,098</u>	<u>\$(135,073,831)</u>	<u>\$355,788,410</u>

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

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MercadoLibre, Inc.
Consolidated Statements of Cash Flows
For the years ended December 31, 2014, 2013 and 2012

	Year Ended December 31,		
	2014	2013	2012
Cash flows from operations:			
Net income attributable to MercadoLibre, Inc. Shareholders	\$ 72,580,551	\$ 117,507,438	\$ 101,247,298
Adjustments to reconcile net income to net cash provided by operating activities:			
Net income attributable to Redeemable Noncontrolling Interest	72,220	18,825	98,849
Net Devaluation Loss in Venezuela and Argentina	13,808,146	6,420,929	—
Impairment of Long-Lived Assets	49,495,686	—	—
Depreciation and amortization	16,946,897	11,878,565	8,959,293
Accrued interest	(9,028,868)	(9,882,991)	(7,630,203)
Convertible bonds accrued interest and amortization of debt discount	7,874,295	—	—
LTRP accrued compensation	11,851,615	11,645,077	4,442,822
Deferred income taxes	(20,236,973)	(7,847,513)	(492,362)
Changes in assets and liabilities:			
Accounts receivable	(36,119,868)	(22,764,177)	(8,651,951)
Credit Card Receivables	(45,520,887)	(27,315,403)	(15,570,142)
Prepaid expenses	(157,324)	(2,074,543)	(898,959)
Other assets	(5,981,661)	(23,127,493)	(5,809,218)
Accounts payable and accrued expenses	68,780,586	26,037,488	18,061,683
Funds payable to customers	61,072,045	47,557,504	39,889,201
Other liabilities	1,675,258	2,986,452	1,153,610
Interest received from investments	9,681,566	11,473,203	5,091,468
Net cash provided by operating activities	196,793,284	142,513,361	139,891,389
Cash flows from investing activities:			
Purchase of investments	(2,577,130,038)	(1,135,940,553)	(539,355,434)
Proceeds from sale and maturity of investments	2,330,835,825	1,174,789,615	472,871,652
Payment for acquired businesses, net of cash acquired	(36,814,136)	(3,423,439)	—
Payment of remaining amount from business acquisition	(4,000,000)	—	—
Purchases of intangible assets	(856,948)	(458,804)	(1,390,654)
Purchases of property and equipment	(34,425,957)	(113,755,566)	(16,747,746)
Net cash used in investing activities	(322,391,254)	(78,788,747)	(84,622,182)
Cash flows from financing activities:			
Funds received from the issuance of convertible notes	330,000,000	—	—
Transaction costs from the issuance of convertible notes	(8,083,625)	—	—
Purchase of convertible note capped call	(19,668,000)	—	—
Loans payable and other financial liabilities	—	31,453,613	—
Payments on loans payable and other financial liabilities	(7,704,636)	(15,936,551)	—
Dividends paid	(28,302,507)	(23,754,005)	(17,968,004)
Repurchase of Common Stock	(1,944,307)	(1,012,225)	—
Stock options exercised	—	3,020	5,700
Net cash provided by (used in) financing activities	264,296,925	(9,246,148)	(17,962,304)
Effect of exchange rate changes on cash and cash equivalents	(55,839,833)	(15,682,364)	(3,199,578)
Net increase in cash and cash equivalents	82,859,122	38,796,102	34,107,325
Cash and cash equivalents, beginning of the year	140,285,104	101,489,002	67,381,677
Cash and cash equivalents, end of the year	\$ 223,144,226	\$ 140,285,104	\$ 101,489,002

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

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MercadoLibre, Inc.
Consolidated Statements of Cash Flows
For the years ended December 31, 2014, 2013 and 2012

	Year Ended December 31,		
	2014	2013	2012
Supplemental cash flow information:			
Cash paid for interest	\$ 4,750,706	\$ 657,776	\$ 68,916
Cash paid for income and asset taxes	\$67,661,966	\$55,995,590	\$38,837,721
Non-cash financing activities:			
Stock based compensation	\$ 117,782	\$ 58,492	\$ —
LTRP shares issued	\$ 1,930,119	\$ 1,031,933	\$ —
Non-cash investing activities:			
Contingent considerations and escrows from acquired business	\$ 5,806,703	\$ —	\$ —
	2014(1)	2013(2)	2012
Acquisition of business			
Cash and cash equivalents	\$ 1,102,169	\$ 31,058	\$—
Accounts receivable	5,931,787	537,706	—
Tax credits	813,637	—	—
Other current assets	19,033	14,674	—
Non current assets	236,397	94,367	—
Fixed assets	564,323	5,800	—
Total assets acquired	8,667,346	683,605	—
Accounts payable and accrued expenses	4,371,584	143,071	—
Financial liabilities	2,159,797	—	—
Taxes payable	71,265	179,545	—
Payroll and social security payable	526,809	123,098	—
Total liabilities assumed	7,129,455	445,714	—
Net assets acquired	1,537,891	237,891	—
Goodwill, Identifiable Intangible Assets and deferred tax liabilities	21,193,054	2,668,661	—
Trademarks	7,577,000	—	—
Customer lists	10,988,868	—	—
Software	446,625	—	—
Non Solicitation Agreement	1,014,976	—	—
Escrow for employment relationship	—	547,945	—
Total purchase price	42,758,414	3,454,497	—
Cash and cash equivalents acquired	1,102,169	31,058	—
Payment for acquired businesses, net of cash acquired	\$41,656,245	\$3,423,439	\$—

- (1) Related to the acquisition of software development company and Mexican and Chilean classified web site—see Note 6
(2) Related to the acquisition of software development company—See Note 6

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

MercadoLibre, Inc.
Notes to Consolidated Financial Statements

1. Nature of Business

MercadoLibre, Inc. (“MercadoLibre” or the “Company”) was incorporated in Delaware in October 1999. MercadoLibre is a Latin American e-commerce and payments-platform. MercadoLibre is an e-commerce enabler whose mission is to build the necessary online and technology tools to allow practically anyone to trade almost anything in Latin America. MercadoLibre enables commerce through its marketplace platform (including online classifieds for motor vehicles, vessels, aircraft, services and real estate), a Latin American online marketplace, which allows users to buy and sell in most of the Latin America countries; through MercadoPago, which enables individuals and businesses to send and receive online payments; through MercadoClics, which facilitates the advertising service to large retailers and brands to promote their product and services on the web; and through MercadoShops which facilitates users to set-up, manage promote their own on-line web-stores. Additionally, during 2013 the Company launched the MercadoEnvios service, to facilitate the shipping of goods from sellers to buyers.

As of December 31, 2014, the Company, through its wholly-owned subsidiaries, operated online commerce platforms directed towards Argentina, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Mexico, Panama, Peru, Portugal, Uruguay and Venezuela. In addition, the Company operates a real estate classified platform that covers some areas of State of Florida, U.S.A. During April 2014 the Company acquired online real estate classifieds advertisement companies in Chile and Mexico, and in December 2014, a software development company in Argentina (see Note 6 for further details).

MercadoPago is currently available to users in each of Argentina, Brazil, Chile, Colombia, Mexico and Venezuela.

MercadoEnvios is currently available to users in Argentina, Brazil and Mexico.

2. Summary of significant accounting policies

Principles of consolidation

The accompanying consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) and include the accounts of the Company and its wholly-owned subsidiaries. Ownership interests of minority interests are recorded as noncontrolling interest. These consolidated financial statements are stated in U.S. dollars. Intercompany transactions and balances have been eliminated for consolidation purposes.

Substantially all net revenues, cost of net revenues and operating expenses, are generated in the Company’s foreign operations, amounting to approximately 99.7%, 99.6% and 99.5% of the consolidated amounts during 2014, 2013 and 2012, respectively. Long-lived assets and Goodwill located in the foreign operations totaled \$170,147,135 and \$183,922,432 as of December 31, 2014 and 2013, respectively.

Cash and cash equivalents, short-term and long-term investments, amounted to \$577,218,807 and \$262,598,055 as of December 31, 2014 and 2013, respectively. As of December 31, 2014 those assets are located 71% in the United States of America and 29% in foreign locations, mainly in Brazil, Argentina and Venezuela. As of December 31, 2013 those assets are located 39% in the United States of America and 61% in foreign locations, mainly in Brazil, Argentina and Venezuela.

MercadoLibre, Inc.
Notes to Consolidated Financial Statements

2. Summary of significant accounting policies (Continued)

Use of estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates are used for, but not limited to accounting for allowance for doubtful accounts and chargeback provisions, depreciation, amortization, recoverability of goodwill and intangible assets with indefinite useful lives, useful lives and impairment of long-lived assets, impairment of short-term and long-term investments, compensation costs relating to the Company's long term retention plan, recognition of income taxes and contingencies. Actual results could differ from those estimates.

Cash and cash equivalents

The Company considers all highly liquid investments with an original maturity of three months or less when purchased, consisting primarily of money market funds and certificates of deposit, to be cash equivalents.

Investments

Time deposits are valued at amortized cost plus accrued interest. Debt securities classified as available-for-sale are recorded at fair value. Unrealized gains and losses on available-for-sale securities are reported as a component of other comprehensive income (loss), net of the related tax provisions or benefits.

Investments are classified as current or non-current depending on their maturity dates and when it is expected to be converted into cash.

The Company assesses whether an other-than-temporary impairment loss on its investments has occurred due to declines in fair value or other market conditions. With respect to debt securities, this assessment takes into account the intent to sell the security, whether it is more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis, and if the Company does not expect to recover the entire amortized cost basis of the security (that is, a credit loss exists). The Company did not recognize any other-than-temporary impairment on our investments in 2014, 2013, or 2012.

Cash, money market funds, corporate and sovereign debt securities and certain certificates of deposits are valued at fair value. Deposits in bank accounts, accounts receivables, credit cards receivables, prepaid expenses, other assets, accounts payables, funds payable to customers, payroll and social security payables, taxes payables, loans and provisions and other liabilities, are valued at cost plus accrued interest (when applicable) which approximates their fair value because of its short-term maturity. See Note 8 "Fair Value Measurement of Assets and Liabilities" for further details.

MercadoLibre, Inc.
Notes to Consolidated Financial Statements

2. Summary of significant accounting policies (Continued)

Concentration of credit risk

Cash and cash equivalents, short-term and long-term investments, credit card receivables and accounts receivable are potentially subject to concentration of credit risk. Cash and cash equivalents and investments are placed with financial institutions that management believes are of high credit quality. Accounts receivable are derived from revenue earned from customers located internationally. Accounts receivable balances are settled through customer credit cards, debit cards, and MercadoPago accounts, with the majority of accounts receivable collected upon processing of credit card transactions. The Company maintains an allowance for doubtful accounts and credit cards receivables based upon its historical experience and current aging of customers. Historically, such charges have been within management expectations. However, unexpected or significant future changes in trends could result in a material impact to future statements of income or cash flows. Due to the relatively small dollar amount of individual accounts receivable, the Company generally does not require collateral on these balances. The allowance for doubtful accounts is recorded as a charge to operating expense.

During the years ended December 31, 2014, 2013 and 2012, no single customer accounted for more than 5% of net revenues. As of December 31, 2014 and 2013, no single customer accounted for more than 5% of accounts receivables.

Allowances for doubtful accounts

The Company maintains allowances for doubtful accounts, for management's estimate of probable losses that may result if customers do not make the required payments. Allowances are based upon several factors including, but not limited to, historical experience and the current aging of customers.

The Company writes-off receivables when the customer balance becomes 180 days past due.

Provision for chargebacks

The Company is exposed to losses due to credit card fraud and other payment misuse. Provisions for these items represent our estimate of actual losses based on our historical experience, as well as economic conditions.

Credit cards receivables and funds payable to customers

Credit cards receivables mainly relate to the Company's payments solution and arise due to the time taken to clear transactions through external payment networks or during a short period of time until those credit cards receivables are sold to financial institutions.

Credit cards receivables are presented net of the related allowance for doubtful accounts.

As of December 31, 2014 and 2013, there are no past due credit cards receivables.

MercadoLibre, Inc.
Notes to Consolidated Financial Statements

2. Summary of significant accounting policies (Continued)

Credit cards receivables and funds payable to customers (Continued)

Funds payable to customers relate also to the Company's payments solution and are originated by the amounts due to sellers held by the Company until the transaction is completed. Funds, net of any amount due to the Company by the seller, are maintained in the seller's current account until collection is requested by the customer.

Transfer of financial assets

The Company may sell credit cards coupons to financial institutions, included within "Credit cards receivables". These transactions are accounted for as a true sale. Accounting guidance on transfer of financial assets establishes that the transferor has surrendered control over transferred assets if and only if all of the following conditions are met: (1) the transferred assets have been isolated from the transferor, (2) each transferee has the right to pledge or exchange the assets it received (3) the transferor does not maintain effective control over the transferred assets. When all the conditions are met, the Company derecognizes the corresponding financial asset from its balance sheet. As of December 31, 2014 and 2013, there is no continuing involvement with transferred financial assets. The aggregate amount of pre-tax gain included in net revenue recognized on sale of credit card coupons is \$71,409,155, \$49,735,842 and \$39,502,228, for the years ended December 31, 2014, 2013 and 2012, respectively.

Property and equipment, net

Property and equipment are recorded at their acquisition cost and depreciated over their estimated useful lives using the straight-line method. Repair and maintenance costs are expensed as incurred.

Costs related to the planning and post implementation phases of website development are recorded as an operating expense. Direct costs incurred in the development phase of website are capitalized and amortized using the straight-line method over an estimated useful life of three years. As of December 31, 2014 and 2013, the Company capitalized \$7,036,816 and \$5,387,385, respectively.

In April 2013, the Company through its Argentine subsidiary acquired three floors or 3,918 square meters in a new office building located in Buenos Aires for a total amount of \$18,481,024 plus VAT. The price was paid in Argentine pesos. As of December 31, 2013, the Company had fully paid: i) \$495,453 plus VAT in advance; ii) \$3,184,580 plus VAT at the date of signing of the purchase agreement and iii) \$14,800,991 plus VAT.

In May 2013, the Company acquired 1,158 square meters, 13 parking spaces and 4 storage spaces, in an office building located in Caracas for a total amount of \$20,002,357 or BF\$126,014,852. The price has been paid in Bolivares Fuertes.

In October 2013, the Company through its Venezuelan subsidiary acquired an office property totaling 1,367 square meters, in Caracas, Venezuela. The purchase price of BF\$328,195,200, or approximately \$52,094,476, was paid in local currency. The Company's Venezuelan subsidiary funded a portion of the purchase price with its own funds

MercadoLibre, Inc.
Notes to Consolidated Financial Statements

2. Summary of significant accounting policies (Continued)

Property and equipment, net (Continued)

and the balance of approximately BF\$85,115,000, or \$13,510,317, pursuant to an unsecured line of credit. The unsecured line of credit had a 12-month term and was obtained from a Venezuelan bank at a fixed interest rate of 13% per annum. As of December 31, 2014, the loan was fully paid.

On October 9, 2014, the Company through its Venezuelan subsidiary acquired an office property located in Centro San Ignacio, Caracas, for a total amount of BF\$170.6 million, or approximately \$3.4 million. The price of the transaction was paid with own funds as follows: i) 50% of the price, or BF\$ 85.3 million was paid at the date of signing the memorandum of understanding; ii) 30% of the price, or BF\$ 51.2 million, was paid on October 20, 2014; and iii) the remaining 20% was paid at the moment of transfer of the property ownership.

Those buildings, excluding lands, are depreciated from the date when they were ready to be used, using the straight-line depreciation method over a 50-year depreciable life.

Goodwill and intangible assets

Goodwill represents the excess of the purchase price over the fair value of the net assets acquired in a business combination.

Intangible assets consist of customer lists, trademarks, licenses, software, non-solicitation and non-compete agreements acquired in business combinations and valued at fair value at the acquisition date. Intangible assets with definite useful life are amortized over the period of estimated benefit to be generated by those assets and using the straight-line method; their estimated useful lives ranges from three to five years. Trademarks with indefinite useful life are not subject to amortization, but are subject to an annual impairment test, by comparing their carrying amount with their corresponding fair value. For any given intangible asset with indefinite useful life, if its fair value exceeds its carrying amount no impairment loss shall be recognized.

Impairment of long-lived assets

The Company reviews long-lived assets for impairments whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparing the carrying amount of an asset to the undiscounted future net cash flows expected to be generated by the 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 the fair value of such asset.

As explained in the section “Foreign Currency Translation” of the present Note to these consolidated financial statements, as a consequence of an ongoing lack of access to SICAD 1 auction system, on May 16, 2014 the Company decided to start requesting U.S. dollars through the SICAD 2 mechanism and use the SICAD 2 exchange rate to re-measure its Bolivar-denominated monetary assets and liabilities in BsF and to re-measure the result of its Venezuelan operations, effective as of May 16, 2014.

MercadoLibre, Inc.
Notes to Consolidated Financial Statements

2. Summary of significant accounting policies (Continued)

Impairment of long-lived assets (Continued)

Considering this change in facts and circumstances and the lower U.S. dollar-equivalent cash flows now expected from our Venezuelan business, and their expected current use in the new context (receive rental income instead of using the long-lived assets to support the Company's future growth of operations in Venezuela), the Company compared the carrying amount of the long-lived assets with the expected undiscounted future net cash flows and concluded that two office spaces held in Caracas, Venezuela, should be impaired. As a consequence, the Company estimated the fair value of the impaired long-lived assets by using the market approach considering prices for similar assets and recorded an impairment loss of \$49,495,686 during the second quarter of 2014.

Impairment of goodwill and intangible assets with indefinite useful life

Goodwill and intangible assets with indefinite useful life are reviewed at the end of the year for impairment or more frequently, if events or changes in circumstances indicate that the carrying value may not be recoverable. Goodwill is tested for impairment at the reporting unit level (considering each segment of the Company as a reporting unit) by comparing the reporting unit's carrying amount, including goodwill, to the fair value of such reporting unit.

The Company adopted the new guidance to test goodwill and intangible assets with indefinite useful life and, as a consequence, it may perform a qualitative assessment before performing the quantitative assessment. If the Company performs the qualitative assessment and determines, on the basis of qualitative factors, that it is more likely than not that the fair value of the reporting unit or the intangible asset with indefinite useful life is less than its carrying amount, the fair-value based on quantitative impairment test is applied. However, if the Company concludes, based on the qualitative assessment, that the fair value of each of its reporting units or the intangible assets with indefinite useful life is greater than the respective carrying amounts, the two-step impairment test is unnecessary.

As of December 31, 2014 and 2013, the Company elected to perform the quantitative impairment test for both goodwill and intangible assets with indefinite useful life.

For the year ended December 31, 2014, the fair values of the reporting units were estimated using the income 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 10.3% to 21.0%. The average discount rate used for 2014 was 13.4%. That rate reflected the Company's estimated 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 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 analysis include a business to e-commerce rate, which represents growth of e-commerce as a percentage of Gross Domestic Product ("GDP"), internet penetration rates as well as trends in the Company's market share.

MercadoLibre, Inc.
Notes to Consolidated Financial Statements

2. Summary of significant accounting policies (Continued)

Impairment of goodwill and intangible assets with indefinite useful life (Continued)

If the carrying amount of the reporting unit exceeds its fair value, goodwill is considered impaired and the second step is performed to measure the amount of impairment loss, if any. No impairment loss has been recognized in the years ended December 31, 2014, 2013 and 2012 and management's assessment of the fair value of each reporting unit exceeds its carrying value.

Intangible assets with indefinite useful life are considered impaired if the carrying amount of the intangible asset exceeds its fair value. No impairment loss has been recognized in the years ended December 31, 2014, 2013 and 2012.

Revenue recognition

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

Revenues are recognized when evidence of an arrangement exists, the fee is fixed or determinable and collection is reasonably assured.

Revenues from services are separately recognized according to the following criteria described for each type of services:

- Revenues from intermediation services derive from listing and final value fees paid by sellers. Listing fee revenues are recognized ratably over the estimated period of the listing, while revenues related to final value fees are recognized at the time that the transaction is successfully concluded. An auction transaction is considered successfully concluded when at least one buyer has bid above the seller's specified minimum price or reserve price, whichever is higher, at the end of the transaction term. Our payment services revenues are generated primarily from processing transactions for customers. Revenues resulting from a payment processing transaction are recognized once the transaction is completed. The Company does not charge a separate fee for on-platform transactions.
- Listing and optional feature services, which fees relate to the right of a seller to have the item offered listed in a preferential way, as well as classified advertising services, are recorded as revenue ratably during the listing period. Those fees are charged at the time the listing is uploaded onto the Company's platform and is not subject to successful sale of the items listed.
- Revenues derived from the use of the Company's on-line payments solution, for transactions off-platform are earned once the transaction is considered completed, when the payment is processed by the Company. The Company also earns revenues as a result of offering financing to our MercadoPago users, either directly or when the Company elects to sell the corresponding financial assets to financial institutions.

MercadoLibre, Inc.
Notes to Consolidated Financial Statements

2. Summary of significant accounting policies (Continued)

Revenue recognition (Continued)

- Advertising revenues such as the sale of banners are recognized on accrual basis, and MercadoClicks services or sponsorship of sites are recognized based on “per-click” (which are generated each time users on our websites click through our text-based advertisements to an advertiser’s designated website) values and as the “impressions” (i.e., the number of times that an advertisement appears in pages viewed by users of our websites) are delivered.
- Revenues from shipping services are generated when a buyer elects to receive the item through our shipping service and the service is rendered to the client. Revenues are disclosed net of third party provider’s cost.

Share-based payments

Fair value of restricted and additional shares was calculated using the grant date price of the Company’s shares.

The liability related to the variable portion of 2014, 2013, 2012, 2011, 2010 and 2009 long term retention plan is remeasured at fair value (See Note 16 “Long Term Retention Plan” for more details).

For share-based awards that have a graded vesting schedule, compensation cost is recognized on a straight-line basis over the requisite service period for each separate vesting portion of the award as if the award was in-substance multiple awards.

Sales tax

The Company’s subsidiaries in Brazil, Argentina, Venezuela and Colombia are subject to certain sales taxes which are classified as cost of net revenues and totaled \$39,377,262, \$28,388,734 and \$22,529,191 for the years ended December 31, 2014, 2013 and 2012, respectively.

Advertising costs

The Company expenses the costs of advertisements in the period during which the advertising space or airtime is used as sales and marketing expense. Internet advertising expenses are recognized based on the terms of the individual agreements, which is generally over the greater of the ratio of the number of clicks delivered over the total number of contracted clicks, on a pay-per-click basis, or on a straight-line basis over the term of the contract. Advertising costs totaled \$42,051,770, \$31,594,894 and \$18,764,629 for the years ended December 31, 2014, 2013 and 2012, respectively.

Comprehensive income

Comprehensive income is comprised of two components, net income and other comprehensive income. This last component is defined as all other changes in the equity of the Company that result from transactions other than with shareholders. Other comprehensive income includes the cumulative translation adjustment relating to the

MercadoLibre, Inc.
Notes to Consolidated Financial Statements

2. Summary of significant accounting policies (Continued)

Comprehensive income (Continued)

translation of the financial statements of the Company's foreign subsidiaries (except Venezuela since January 1, 2010, see "Foreign currency translation") and unrealized gains and losses on investments classified as available-for-sale. Total comprehensive income attributable to MercadoLibre, Inc. shareholders' for the years ended December 31, 2014, 2013 and 2012 amounted to \$25,366,975, \$78,834,596 and \$89,507,516 respectively.

Redeemable noncontrolling interest

In September 2011, the Company acquired the 60% of the shares of AP Clasificados S.R.L. de C.V. ("AP Clasificados"), and signed a call and a put option agreement to acquire the remaining 40% interest in AP Clasificados (See note 6 "Business Combinations, Goodwill and Intangible Assets" for more detail). According to the signed agreement, the price for the remaining 40% interest call or put options will be determined by the greater of (i) \$4,000,000 and (ii) the amount resulting from multiplying (A) the percentage of the seller's interests as of the exercise date of the call/put option by (B) an amount equal to 3.5 times the amount of invoiced sales of such company for the twelve months period ending on the exercise date.

The put option is exercised if any of the following events occurs: (i) the third anniversary of the acquisition date, (ii) the termination of the employment of the main operating officer, and (iii) death or incapacitation of the main operating officer. The call option is to be exercised following the earlier to occur of (i) third anniversary of the acquisition date and (ii) members holding a majority of the issued and outstanding interests determine that an additional capital contribution is required to capitalize AP Clasificados and the seller does not make such additional capital contribution.

In December 2014, the Company exercised the call option and acquired the remaining 40% interest for a total amount of \$4,000,000.

As of December 31, 2013, redeemable noncontrolling interest was not considered to be a component of Equity and was reported in the mezzanine section between total liabilities and equity in the consolidated balance sheet for a total amount of \$4,000,000. The noncontrolling interest was measured at its estimated redemption value according to the abovementioned agreed conditions. Changes in the estimated redemption value as of the years ended December 31, 2014 and 2013 were recorded in retained earnings.

Foreign currency translation

All of the Company's foreign operations have determined the local currency to be their functional currency, except for Venezuela since January 1, 2010, as described below. Accordingly, these foreign subsidiaries translate assets and liabilities from their local currencies into U.S. dollars by using year-end exchange rates while income and expense accounts are translated at the average rates in effect during the year, unless exchange rates fluctuate significantly during the period, in which case the exchange rates at the date of the transaction are used. The resulting translation adjustment is recorded as a component of other comprehensive income (loss). Gains and losses resulting from transactions denominated in non-functional currencies are recognized in earnings. Net foreign currency transaction results are included in the consolidated statements of income under the caption "Foreign currency (loss) gain" and amounted to (\$2,351,539), \$1,258,476 and \$11,597 for the years ended December 31, 2014, 2013 and 2012, respectively.

MercadoLibre, Inc.
Notes to Consolidated Financial Statements

2. Summary of significant accounting policies (Continued)

Foreign currency translation (Continued)

Venezuelan currency status

According to U.S. GAAP, the Company has transitioned its Venezuelan operations to highly inflationary status as from January 1, 2010, which requires that transactions and balances are re-measured as if the U.S. dollar was the functional currency for such operation. The cumulative three year inflation rate as of December 31, 2010 exceeded 100%. As of the date of these consolidated financial statements, the cumulative three-year inflation rate approximates 100%. The Company continues to treat the economy of Venezuela as highly-inflationary. Therefore, no translation effect was accounted for in other comprehensive income during the years ended December 31, 2014, 2013 and 2012 related to the Venezuelan operations.

In February 2013, the Government of Venezuela eliminated the Foreign Currency Securities Transactions System (SITME), a former exchange rate system that allowed companies limited access to foreign currencies for payments to foreign suppliers, and devalued the official exchange rate to 6.3 Bolivares Fuertes per U.S. dollar. The devaluation required re-measurement of the Company's Venezuelan subsidiaries' non-U.S. dollar denominated monetary assets and liabilities at that rate from February 2013.

The SITME rate that had been used to re-measure foreign currency transactions during 2012 was 5.3 Bolivares Fuertes per U.S. dollar, and the devaluation of the official exchange rate of the Bolivares Fuertes against the U.S. dollar to 6.3 Bolivares Fuertes per U.S. dollar generated a foreign currency loss amounting 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, SICAD, which would act jointly with the Commission for the Administration of Foreign Exchange Control (CADIVI). In order to operate within that system, a company had to be registered at the Registro Automatizado (Automatized Register, or "RUSAD"), and the acquisition of foreign currencies under that system was organized under an auction process to obtain foreign currencies for payments to foreign suppliers, where the minimum exchange rate to be offered was 6.30 Bolivares Fuertes per U.S. dollar.

During December 2013, the Venezuelan regulation that created the SICAD 1 was amended to expand its use, and to require publication of the average exchange rate implied by transactions settled in SICAD 1 auctions. Additionally, on January 23, 2014, the exchange regulation was amended to include 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

MercadoLibre, Inc.
Notes to Consolidated Financial Statements

2. Summary of significant accounting policies (Continued)

Foreign currency translation (Continued)

and technical assistance. Due to the change in rules that provided for the creation of the SICAD 1 system, the official exchange rate remains only available to obtain foreign currency to pay for a limited list of goods considered to be of high priority by the Government, which does not include those relating to the Company's business. As a consequence, SICAD 1 became, from that moment, the primary system to which the Company would have to request U.S. dollars to settle its transactions. As a result, from January 24 to May 15, 2014, the exchange rate used to re-measure the Company's net monetary asset position in BsF and BsF transactions of its Venezuelan operations was the SICAD 1 exchange rate.

In late February 2014, the Venezuelan government issued a decree to open a new exchange control mechanism ("SICAD 2") that was intended to allow the purchase of foreign exchange currencies, through authorized foreign exchange operators offered by individuals and companies such as Petróleos de Venezuela, S.A. (PDVSA, the oil state-owned corporation of Venezuela), the BCV and other public entities authorized by the Ministry of Finance. The Venezuelan government published operating rules for that exchange mechanism in Exchange Agreement N° 27, and SICAD 2 began operating on March 24, 2014. Since implementation of the SICAD 1 system, the Company was unsuccessful in gaining access to U.S. dollars through SICAD 1. As a result of this ongoing lack of access to the SICAD 1 auction system, on May 16, 2014, the Company decided to start requesting U.S. dollars through the SICAD 2 mechanism. The SICAD 2 system was an open mechanism that was intended to permit any company to request dollars for any purpose. Consequently, the Company was eligible for and was granted, U.S. dollars through the SICAD 2 mechanism.

As a consequence of the determination to obtain U.S. dollars through SICAD 2 and the lack of access to SICAD 1 since May 16, 2014, the Company concluded that the SICAD 2 exchange rate should be used to re-measure their bolivar-denominated monetary assets and liabilities in BsF and to re-measure the results of its Venezuelan operations, effective as of May 16, 2014. As a consequence, the Company recorded a foreign exchange loss of \$16.5 million during the second quarter of 2014. As of December 31, 2014 the SICAD 2 exchange rate was 49.98 BsF per U.S. dollar.

In light of the current economic conditions in Venezuela, the determination to access SICAD 2 and re-measure the BsF denominated monetary assets and liabilities of its Venezuelan subsidiaries, and the lower U.S. dollar-equivalent cash flows then expected from the Venezuelan business, the Company reviewed in May 2014, the long-lived assets, goodwill and intangible assets with indefinite useful life for impairment. For that purpose, the Company considered the current expected use of these assets, which in the case of two office spaces in Venezuela that had been expected to be used to support the growth of the main operating activities in that country, are currently for rent, and eventually consider opportunities for disposal if real estate market conditions are favorable in the future. Because the Company concluded that the carrying value of these two real estate properties will not be fully recoverable, it recorded an impairment of long-lived assets of \$49,495,686 during the second quarter of 2014. The carrying amount has been adjusted to its estimated fair value of approximately \$22 million as of that date, by using the market approach, and considering prices for similar assets.

MercadoLibre, Inc.
Notes to Consolidated Financial Statements

2. Summary of significant accounting policies (Continued)

Foreign currency translation (Continued)

Until 2010 the Company had been 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. Our Venezuelan subsidiaries have not requested authorization since 2012 to acquire U.S. dollars to make dividend distributions. The Company has not distributed dividends from our Venezuelan subsidiaries since 2011.

The following table sets forth the assets, liabilities and net assets of the Company's Venezuelan subsidiaries, before intercompany eliminations, as of December 31, 2014 and 2013 and net revenues for the years ended December 31, 2014, 2013 and 2012:

	December 31,		
	2014	2013	2012
Venezuelan operations			
Net Revenues	\$58,025,886	\$84,572,485	\$54,676,170
	December 31,	December 31,	
	2014	2013	
Assets	75,152,574	126,873,804	
Liabilities	(43,358,945)	(62,437,338)	
Net Assets	<u>\$ 31,793,629</u>	<u>\$ 64,436,466</u>	

As of December 31, 2014, net assets (before intercompany eliminations) of the Venezuelan subsidiaries amounted to approximately 8.9% of consolidated net assets, and cash and investments of the Venezuelan subsidiaries held in local currency in Venezuela amounted to approximately 3.2% of our consolidated cash and investments.

The Company's ability to obtain U.S. dollars in Venezuela is negatively affected by the exchange regulations in Venezuela that are described above and elsewhere in these financial statements. In addition, its 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.

Despite the current difficult macroeconomic environment in Venezuela, the Company continues to actively manage, through its Venezuelan subsidiaries, its investment in Venezuela. Regardless the current operating, political and economic conditions

MercadoLibre, Inc.
Notes to Consolidated Financial Statements

2. Summary of significant accounting policies (Continued)

Foreign currency translation (Continued)

in Venezuela, management currently plans to continue supporting its business in Venezuela in the long run. See Note 23 “Subsequent Events” for recent developments relating to Venezuela exchange rate.

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, the Company does 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.

Additionally, 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 approximately 8.0 Argentinean Pesos per U.S. dollar. Due to the abovementioned devaluation, during the first quarter of 2014, the reported net assets in Argentina decreased in \$14,625,451 with the related impact in Other Comprehensive Income and the Company recognized a foreign exchange gain of \$4,597,510. As of December 31, 2014, the Argentinean Peso exchange rate was \$8.56 per U.S. dollar.

Highly inflationary status in Venezuela

During May 2009, the International Practices Task Force discussed the highly inflationary status of the Venezuelan economy.

The cumulative three year inflation rate as of December 31, 2009 exceeded 100%. According to U.S. GAAP, calendar year-end companies should apply highly inflationary accounting as from January 1st of the year in which the status of hyperinflationary is raised. Therefore, the Company transitioned its Venezuelan operations to highly inflationary status as of January 1, 2010 considering the U.S. dollar as its functional currency. As of the date of these consolidated financial statements, the cumulative three-year inflation rate approximates 100%. The Company continues to treat the economy of Venezuela as highly-inflationary.

MercadoLibre, Inc.
Notes to Consolidated Financial Statements

2. Summary of significant accounting policies (Continued)

Income and asset tax

The Company is subject to U.S. and foreign income taxes. The Company accounts for income taxes following the liability method of accounting which requires the recognition of deferred tax liabilities and assets for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred tax assets are also recognized for tax loss carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets or liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is recorded when, based on the available evidence, it is more likely than not that all or a portion of the Company's deferred tax assets will not be realized. The Company's income tax expense consists of taxes currently payable, if any, plus the change during the period in the Company's deferred tax assets and liabilities.

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 are successful in being admitted as beneficiaries under the new law, we estimate that the Argentine effective income tax rate would 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. During May 2014, the Company presented all the required documentation in order to apply for the new software development law. At the date of issuance of these consolidated financial statements, the Industry Secretary resolution which approves the Company's application is still pending. For that reason, in the fourth quarter of 2014, no income tax holiday has been recorded.

According to Argentine law, from fiscal year 2008, the Company's Argentine subsidiary had been a beneficiary of a software development law. Part of the benefits obtained from being a beneficiary of the aforementioned law was a relief of 60% of total income tax determined in each year, thus resulting in an effective tax rate in Argentina lower than the income tax law statutory rate. The law expired on September 17, 2014. As a consequence, the average tax rate for 2014 is approximately 22% as the Company expects no income tax holiday during last quarter of fiscal year 2014.

MercadoLibre, Inc.
Notes to Consolidated Financial Statements

2. Summary of significant accounting policies (Continued)

Income and asset tax (Continued)

Aggregate tax benefit totaled \$8,034,619, \$11,592,825 and \$9,204,773 for the years ended December 31, 2014, 2013 and 2012, respectively. Aggregate per share effect of the Argentine tax holiday amounts to \$0.18, \$0.26 and \$0.21 for the years ended December 31, 2014, 2013 and 2012, respectively.

In addition, during fiscal year 2013 and on December 15, 2014 the Company acquired two software development companies (see Note 6), located in the Province of Cordoba and in the City of Buenos Aires, Argentina, respectively, which are also beneficiary of the aforementioned income tax holiday, so the effect is included in the amounts disclosed in the previous paragraph. In the fourth quarter of 2014, no income tax holiday has been recorded for these two acquired companies.

If the Company had not been granted the Argentine tax holiday, it would have pursued an alternative tax planning strategy and, therefore, the impact of not having this particular benefit would not necessarily be the abovementioned dollar and per share effect.

As of December 31, 2014 and 2013, the Company had included under non-current deferred tax assets caption the foreign tax credits related to the dividend distributions received from its subsidiaries for a total amount of \$4,327,796 and \$668,659, respectively. Those foreign tax credits will be used to offset the future domestic income tax payable.

Uncertainty in income taxes

The Company recognizes, if any, uncertainty in income taxes by applying the accounting prescribed by U.S. GAAP, for which a more likely than not recognition threshold and measurement attribute for the financial statement recognition and measurement of an income tax position taken or expected to be taken in a tax return should be considered. It also provides guidance on de-recognition, classification of a liability for unrecognized tax benefits, accounting for interest and penalties, accounting in interim periods, and expanded income tax disclosures. The Company classifies interest and penalties, if any, within income and asset taxes expense, in the statement of income.

The Company is subject to taxation in the U.S. and various foreign jurisdictions. The material jurisdictions that are subject to examination by tax authorities for tax years after 2007 primarily include the U.S., Argentina, Brazil, Mexico and Venezuela.

Convertible Senior Notes

On June 30, 2014, the Company issued \$330 million of 2.25% convertible senior notes due 2019 (the "Notes"). The Notes are unsecured, unsubordinated obligations of the Company, which pay interest in cash semi-annually, on January 1 and July 1, at a rate of 2.25% per annum. The Notes will mature on July 1, 2019 unless earlier repurchased or converted in accordance with their terms prior to such date. The Notes may be converted, under specific conditions, based on an initial conversion rate of 7.9353 shares of common stock per \$1,000 principal amount of Notes (equivalent to an initial conversion price of approximately \$126.02 per share of common stock), subject to adjustment as described in the indenture governing the Notes.

MercadoLibre, Inc.
Notes to Consolidated Financial Statements

2. Summary of significant accounting policies (Continued)

Convertible Senior Notes (Continued)

Prior to January 1, 2019, the Notes will be convertible only upon the occurrence of certain events and during certain periods, and thereafter, at any time until the close of business on the second scheduled trading day immediately preceding the maturity date of the Notes. The conversion rate is subject to customary anti-dilution adjustments. Following certain corporate events described in the Indenture that occur prior to the maturity date, the conversion rate will be increased for a holder who elects to convert its Notes in connection with such corporate event in certain circumstances. The Indenture contains customary terms and covenants, including that upon certain events of default occurring and continuing, either the Trustee or the holders of at least 25% in principal amount of the outstanding Notes may declare 100% of the principal of, and accrued and unpaid interest on, all the Notes to be due and payable.

In accordance with ASC 470-20 *Debt with Conversion and Other Options*, the convertible debt instrument within the scope of the cash conversion subsection, was separated into debt and equity components at issuance and a fair value was assigned. The value assigned to the debt component was the estimated fair value, as of the issuance date, of a similar debt without the conversion feature. As of the issuance date, the Company determined the fair value of the liability component of the Notes based on market data that was available for senior, unsecured nonconvertible corporate bonds issued by comparable companies. The difference between the cash proceeds and this estimated fair value, represents the value assigned to the equity component and was recorded as a debt discount. The debt discount is amortized using the effective interest method from the origination date through its stated contractual maturity date.

The initial debt component of the Notes was valued at \$283,015,125, based on the contractual cash flows discounted at an appropriate market rate for a non-convertible debt at the date of issuance, which was determined to be 5.55%. The carrying value of the permanent equity component reported in additional paid-in-capital was initially valued at \$46,984,875. The effective interest rate after allocation of transaction costs to the liability component is 6.10% and is used to amortize the debt discount and transaction costs. The amortization of the debt discount and transaction costs is allocated to the caption interest expense and other financial losses.

In connection with the issuance of the Notes, the Company paid approximately \$19,668,000 to enter into capped call transactions with respect to its common shares (the "Capped Call Transactions"), with certain financial institutions. The Capped Call Transactions are expected generally to reduce the potential dilution upon conversion of the Convertible Notes and / or offset any cash payments the Company may be required to make in excess of the principal amount of any converted notes in the event that the market price of the common shares is greater than the strike price of the Capped Call Transactions, initially set at \$126.02 per common share, which corresponds to the initial conversion price of the Notes and is subject to anti-dilution adjustments substantially similar to those applicable to the conversion rate of the Notes, and have a cap price of approximately \$155.81 per common share.

MercadoLibre, Inc.
Notes to Consolidated Financial Statements

2. Summary of significant accounting policies (Continued)

Convertible Senior Notes (Continued)

The \$19,668,000 cost of the capped call transactions, which net of deferred income tax effect amounts to \$12,784,200, is included as a net reduction to additional paid-in capital in the stockholders' equity section of our consolidated balance sheets.

For more detailed information in relation to the Notes and the Capped Call transactions, see Note 17 to those consolidated financial statements.

Recently issued accounting pronouncements

In April 2014, the FASB issued the Accounting Standards Update ("ASU") N° 2014-8, "Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity", which changes the criteria for determining which disposals can be presented as discontinued operations and modifies related disclosure requirements. Under the ASU, only disposals that represent a strategic shift that has (or will have) a major effect on the entity's results and operations would qualify as discontinued operations. In addition, the ASU (1) expands the disclosure requirements for disposals that meet the definition of discontinued operation, (2) requires entities to disclose information about disposals of individually significant components, and (3) defines "discontinued operations" similarly to how it is defined under IFRS 5, "Non-current Assets Held for Sale and Discontinued Operations". The standard is required to be adopted in annual periods beginning on or after December 15, 2014, and interim periods within those annual periods. Early adoption is permitted, but only for disposals (or classifications as held for sale) that have not been reported in financial statements previously issued or available for issuance. The Company does not anticipate that this adoption will have a significant impact on its financial position, results of operations or cash flows.

On May 28, 2014, the FASB issued the Accounting Standard Update ("ASU") N° 2014-09, "Revenue contracts with clients", which changes in the timing of revenue recognition, includes variable consideration in the transaction price prior to resolution of contingencies, allocates the transaction price based on standalone selling price, among other changes. This standard is required to be adopted for annual reporting periods beginning after December 15, 2016 for public entities, no early adoption is permitted. The Company is assessing the effects that the adoption of this accounting pronouncement will have on the Company's financial position, results of operations or cash flows.

In August 2014, the FASB issued new guidance related to the disclosures around going concern. The new standard provides guidance around management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016.

MercadoLibre, Inc.
Notes to Consolidated Financial Statements

2. Summary of significant accounting policies (Continued)

Recently issued accounting pronouncements (Continued)

Early adoption is permitted. The adoption of this standard is not expected to have a material impact on the Company's financial statements.

On January 9, 2015, the FASB issued the ASU 2015-01. This new standard eliminates from general accepted accounting principles the concept of extraordinary items included in Subtopic 225-20. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted provided that the guidance is applied from the beginning of the year of adoption. The adoption of this standard is not expected to have a material impact on the Company's financial statements.

3. Net income per share

Basic earnings per share for the Company's common stock is computed by dividing, net income available to common shareholders attributable to common stock for the period, and the corresponding adjustment attributable to changes in redeemable non-controlling interest, by the weighted average number of common shares outstanding during the year.

Diluted earnings per share for the Company's common stock assume the issuance of shares as a consequence of a convertible debt securities conversion event.

The following table shows how net income is allocated using the "if converted" method for earnings per common share for the years ended December 31, 2014, 2013 and 2012:

	Year Ended December 31,					
	2014		2013		2012	
	Basic	Diluted	Basic	Diluted	Basic	Diluted
Net income	<u>\$72,652,771</u>	<u>\$72,652,771</u>	<u>\$117,526,263</u>	<u>\$117,526,263</u>	<u>\$101,346,147</u>	<u>\$101,346,147</u>
Net loss attributable to noncontrolling interests	<u>(72,220)</u>	<u>(72,220)</u>	<u>(18,825)</u>	<u>(18,825)</u>	<u>(98,849)</u>	<u>(98,849)</u>
Change in redeemable amount of noncontrolling interest	<u>(434,717)</u>	<u>(434,717)</u>	<u>9,644</u>	<u>9,644</u>	<u>359,398</u>	<u>359,398</u>
Net income attributable to MercadoLibre, Inc.						
Shareholders corresponding to common stock	<u>\$72,145,834</u>	<u>\$72,145,834</u>	<u>\$117,517,082</u>	<u>\$117,517,082</u>	<u>\$101,606,696</u>	<u>\$101,606,696</u>

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MercadoLibre, Inc.
Notes to Consolidated Financial Statements
3. Net income per share (Continued)

Net income per share of common stock is as follows for the years ended December 31, 2014, 2013 and 2012:

	Year Ended December 31,					
	2014		2013		2012	
	Basic	Diluted	Basic	Diluted	Basic	Diluted
Net income attributable to MercadoLibre, Inc.						
Shareholders per common share	\$ 1.63	\$ 1.63	\$ 2.66	\$ 2.66	\$ 2.30	\$ 2.30
Numerator:						
Net income attributable to MercadoLibre, Inc.						
Shareholders	\$72,145,834	\$72,145,834	\$117,517,082	\$117,517,082	\$101,606,696	\$101,606,696
Denominator:						
Weighted average of common stock outstanding for Basic earnings per share	44,153,884	44,153,884	44,152,600	44,152,600	44,147,861	44,147,861
Adjustment for stock options	—	—	—	—	—	1,977
Adjusted weighted average of common stock outstanding for Diluted earnings per share	44,153,884	44,153,884	44,152,600	44,152,600	44,147,861	44,149,838

On June 30, 2014, the Company issued the 2.25% Convertible Senior Notes due 2019 (please refer to Note 17 of these consolidated financial statements for discussion regarding these debt notes). The conversion of these debt notes are considered for diluted earnings per share utilizing the “if converted” method, the effect of that conversion is not assumed for purposes of computing diluted earnings per share if the effect is antidilutive. For the year ended December 31, 2014, the effect of the Convertible Senior Notes due 2019 on diluted earnings per share was anti-dilutive and, as a consequence, it was not computed for diluted earnings per share.

The denominator for diluted net income per share for the year ended on December 31, 2014 does not include any effect from the capped call because it would be antidilutive. In the event of conversion of any or all of the Notes, the shares that would be delivered to the Company under the note hedges are designed to partially neutralize the dilutive effect of the shares that the Company would issue under the Notes.

4. Short-term and long-term investments

The composition of short-term and long-term investments is as follows:

	December 31, 2014	December 31, 2013
Short-term investments		
Time Deposits	\$ 58,475,057	\$66,677,156
Sovereign Debt Securities	4,721,440	5,520,193
Corporate Debt Securities	81,810,731	4,395,865
Certificates of deposits	3,802,311	—
Total	\$148,809,539	\$76,593,214
Long-term investments		
Sovereign Debt Securities	44,428,490	24,875,697
Corporate Debt Securities	156,832,560	20,844,040
Certificates of deposits	4,003,992	—
Total	\$205,265,042	\$45,719,737

MercadoLibre, Inc.
Notes to Consolidated Financial Statements

4. Short-term and long-term investments (Continued)

Unrealized (losses) gains of available-for-sale securities, net of tax, were (\$378,392), \$25,467 and \$759,564 for the years ended December 31, 2014, 2013 and 2012, respectively.

As of December 31, 2014 and 2013, the Company has no security considered held-to-maturity.

5. Balance sheet components

	December 31, 2014	December 31, 2013
Accounts receivable, net:		
Users	\$ 45,347,095	\$ 37,500,773
Credit cards and other means of payments	8,591,753	3,967,585
Advertising	3,568,620	2,306,622
Others debtors	5,330,468	1,104,084
	62,837,936	44,879,064
Allowance for doubtful accounts	(16,165,441)	(18,994,804)
	<u>\$ 46,672,495</u>	<u>\$ 25,884,260</u>
	December 31, 2014	December 31, 2013
Credit card receivables		
Credit cards and other means of payments	\$85,691,504	\$53,054,922
Allowance for chargebacks	(529,228)	(1,009,071)
	<u>\$85,162,276</u>	<u>\$52,045,851</u>
	December 31, 2014	December 31, 2013
Other current assets:		
VAT credits	\$ 1,751,169	\$ 3,589,730
Other taxes	8,937,683	5,128,602
Other	3,295,615	2,770,513
	<u>\$13,984,467</u>	<u>\$11,488,845</u>

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MercadoLibre, Inc.
Notes to Consolidated Financial Statements

5. Balance sheet components (Continued)

		December 31, 2014	December 31, 2013
Other non current assets:			
Legal Deposits		\$ 433,382	\$ 660,475
Deposit in Court (Note 15)		21,043,446	22,295,223
Other		2,257,262	1,443,486
		<u>\$23,734,090</u>	<u>\$24,399,184</u>
	Estimated useful life (years)	December 31, 2014	December 31, 2013
Property and equipment, net:			
Equipment	3-5	\$ 39,649,237	\$ 31,819,593
Land & Building	50(1)(2)	57,541,713	105,142,930
Furniture and fixtures	3-5	10,756,038	10,081,433
Software	3	25,052,266	14,720,776
Cars	3	153,335	286,397
		133,152,589	162,051,129
Accumulated depreciation		(41,607,753)	(30,679,220)
		<u>\$ 91,544,836</u>	<u>\$131,371,909</u>

- (1) Estimated useful life attributable to “Buildings”.
(2) After impairment test. See Note 2, “Impairment of Long-lived Assets”.

	Year Ended December 31,		
	2014	2013	2012
Depreciation and amortization:			
Cost of net revenues	\$ 800,691	\$ 1,168,570	\$ 859,364
Product and technology development	12,073,886	8,622,723	6,112,771
Sales and marketing	180,925	213,018	190,143
General and administrative	3,891,395	1,874,254	1,797,015
	<u>\$16,946,897</u>	<u>\$11,878,565</u>	<u>\$8,959,293</u>

	December 31, 2014	December 31, 2013
Accounts payable and accrued expenses:		
Accounts payable	\$50,812,453	\$26,658,109
Accrued expenses		
Advertising	3,912,234	2,513,890
Professional fees	1,364,597	1,571,771
Other expense provisions	1,691,544	3,658,422
Other current liabilities	224,906	3,141
	<u>\$58,005,734</u>	<u>\$34,405,333</u>

MercadoLibre, Inc.
Notes to Consolidated Financial Statements

5. Balance sheet components (Continued)

	December 31, 2014	December 31, 2013
Current loans payable and other financial liabilities:		
Unsecured lines of credit	\$ 1,640,370	\$13,348,861
Car leasing financing	1,276	21,962
	<u>\$ 1,641,646</u>	<u>\$13,370,823</u>
	December 31, 2014	December 31, 2013
Non current loans payable and other financial liabilities:		
Convertible notes	\$280,630,258	\$ —
Unsecured lines of credit	1,554,073	2,489,819
	<u>\$282,184,331</u>	<u>\$ 2,489,819</u>
	December 31, 2014	December 31, 2013
Current other liabilities:		
Contingent considerations and escrows from acquisitions	2,971,025	—
Others	1,205,805	—
	<u>\$ 4,176,830</u>	<u>\$ —</u>
	December 31, 2014	December 31, 2013
Non current other liabilities:		
Provisions and contingencies	\$ 3,008,537	\$ 3,330,108
Contingent considerations and escrows from acquisitions	3,047,655	—
Others	124,476	369,001
	<u>\$ 6,180,668</u>	<u>\$ 3,699,109</u>

	December 31, 2014	December 31, 2013	December 31, 2012
Accumulated balances of other comprehensive income			
Foreign currency translation	\$(134,695,439)	\$(87,481,437)	\$(49,542,692)
Unrealized (loss) gain on investments	(577,507)	36,626	1,146,662
Estimated tax gain (loss) on unrealized gains on investments	199,115	(11,159)	(387,098)
	<u>\$(135,073,831)</u>	<u>\$(87,455,970)</u>	<u>\$(48,783,128)</u>

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MercadoLibre, Inc.
Notes to Consolidated Financial Statements

5. Balance sheet components (Continued)

The following table summarizes the changes in accumulated balances of other comprehensive income for the year December 31, 2014:

	Unrealized Gains (Losses) on Investments	Foreign Currency Translation	Estimated tax (expense) benefit	Total 2014	Total 2013
Balances as of December 31, 2013	\$ 36,626	\$ (87,481,437)	\$ (11,159)	\$ (87,455,970)	\$(48,783,128)
Other comprehensive income before reclassification adjustments for (losses) gains on available for sale investments	(577,507)	(47,214,002)	199,115	(47,592,394)	(37,913,278)
Amount of gain (loss) reclassified from accumulated other comprehensive income to net income	(36,626)	—	11,159	(25,467)	(759,564)
Net current period other comprehensive income	(614,133)	(47,214,002)	210,274	(47,617,861)	(38,672,842)
Balances as of December 31, 2014	<u>\$(577,507)</u>	<u>\$(134,695,439)</u>	<u>\$199,115</u>	<u>\$(135,073,831)</u>	<u>\$(87,455,970)</u>

The following table provides details about reclassifications out of accumulated other comprehensive income for the year ended December 31, 2014:

Details about Accumulated Other Comprehensive Income Components for the year ended December 31, 2014	Amount of Gain (Loss) Reclassified from Accumulated Other Comprehensive Income	Affected Line Item in the Statement of Income
Unrealized gains on investments	\$ 36,626	Interest income and other financial gains
Estimated tax loss on unrealized gains on investments	(11,159)	Income / asset tax expense
Total reclassifications for the year	<u>\$ 25,467</u>	Total, net of income taxes

6. Business combinations, goodwill and intangible assets

Business combinations

Acquisition of AutoPlaza.com in Mexico

On September 14, 2011, the Company completed, through one of its subsidiaries, Meli Participaciones, S.L. (“ETVE” or “the Buyer”), the acquisition of the 60 % of outstanding membership interest of Autopark LLC, a limited liability company organized under the laws of Delaware, from Hasteny Trading S.A. (“Hasteny” or “the Seller”), a parent company organized under the laws of Uruguay, who owned all the shares of the capital stock of Autopark LLC.

Autopark LLC owns directly and indirectly the 100% of the membership interest of AP Clasificados S.R.L. de C.V. (“AP Clasificados”), a company organized under the laws of Mexico. AP Clasificados operates an online classified advertisements platform in Mexico primarily dedicated to the sale of vehicles and real estate (“the Acquired Business”).

MercadoLibre, Inc.
Notes to Consolidated Financial Statements

6. Business combinations, goodwill and intangible assets (Continued)

Business Combinations (Continued)

On September 12, 2014, ETVE acquired the remaining 40% of the membership interest of Autopark LLC for a total amount of \$4,000,000 in order to own the 100% of the membership interest of the Acquired Business. On December 10, 2014, ETVE paid with its own funds the total price.

Acquisition of online classifieds advertisement companies in Chile and Mexico

On April 8, 2014, through its subsidiaries Meli Inversiones SpA and Meli Participaciones, S.L., the Company acquired 100% of the issued and outstanding shares of capital stock of the companies VMK S.A., Inmobiliaria Web Chile S. de R.L. de C.V. and Inmuebles Online S.A., companies that operate online classified advertisements platforms dedicated to the sale of real estate in Chile through Portal Inmobiliario brand and in Mexico through Guia de Inmuebles brand, in order to increase its participation on e-commerce business in those countries.

The aggregate purchase price for the acquisition of the 100% of the acquired business was \$37,989,865, measured at its fair value, amount that included: (i) the total cash payment of \$32,147,755 at closing day; (ii) an escrow of \$1,000,000 held in an escrow agent, according to the stock purchase agreement; (iii) the contingent additional cash considerations and escrows up to \$4,621,085 in case the companies achieve certain revenue performance targets during 2014 and 2015, measured at fair value; and, (iv) an additional price adjustment escrow of \$221,025, which was paid in January 2015.

In addition, the Company incurred in certain direct costs of the business combination which were expensed as incurred.

As of December 31, 2014, the fair value of the contingent consideration recorded is \$4,833,061. Contingent additional cash considerations are to be paid after the achievement of the performance targets.

The Company's consolidated statement of income includes the results of operations of the acquired business as from April 8, 2014. The net revenues and net income of the acquiree included in the Company's consolidated statement of income since the acquisition amounted to \$10,631,998 and \$2,207,709, respectively.

MercadoLibre, Inc.
Notes to Consolidated Financial Statements

6. Business combinations, goodwill and intangible assets (Continued)

Business Combinations (Continued)

The following table summarizes the purchase price allocation for the acquisition:

	Chile	Mexico	Total
Cash and cash equivalents	\$ 546,736	\$ 474,214	\$ 1,020,950
Other net tangible assets / (liabilities)	2,306,226	(2,727,285)	(421,059)
Trademarks	5,422,000	2,155,000	7,577,000
Customer Lists	10,104,059	321,809	10,425,868
Software	446,625	—	446,625
Non solicitation agreement	587,000	—	587,000
Deferred tax assets and liabilities	(2,643,784)	213,973	(2,429,811)
Goodwill	14,709,583	6,073,709	20,783,292
Purchase Price	\$31,478,445	\$ 6,511,420	\$37,989,865

The purchase price was allocated based on the measurement of the fair value of assets acquired and liabilities assumed considering the information available as of the date of these consolidated financial statements. The valuation of identifiable intangible assets acquired reflects management's estimates based on the use of established valuation methods. Such assets consist of trademarks, customer lists, software and non-solicitation agreements for a total amount of \$19,036,493. Management of the Company estimates that trademarks have an indefinite lifetime and the intangible assets associated with customer list will be amortized over a ten year period. The non-solicitation agreement intangible asset will be amortized over a four year period and the software in three years.

Acquisitions of Software Development Companies in Argentina

On March 22, 2013, the Company completed, through its subsidiaries Meli Participaciones S.L. (ETVE) and MercadoLibre S.R.L. (MercadoLibre Argentina) (together referred to as the "Buyer"), the acquisition of the 100% of equity interest in a software development company located and organized under the laws of 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 acquisition of the 100% of the acquired business was \$3,454,497 (settled in Argentine pesos 17,652,480). On such same date, the Buyer paid and agreed to pay the purchase price as follows: i) \$2,191,781 in cash; ii) set an escrow amounting to \$489,237 for a 24-months period, aiming to cover unexpected liabilities and negative working capital; iii) set an escrow amounting to \$547,945 for a 36-months period, aiming to continue the employment relationship of certain key employees; and iv) on June 24, 2013 the Company paid the remaining \$225,534 net of certain negative working capital adjustments.

In addition, the Company incurred in certain direct costs of the business combination which were expensed as incurred.

MercadoLibre, Inc.
Notes to Consolidated Financial Statements**6. Business combinations, goodwill and intangible assets (Continued)****Business Combinations (Continued)**

The above mentioned escrow for the continuing employment relationship of \$547,945 is expensed over the 36-months period or a lesser period of time if certain other conditions determined in the Selling and Purchase Agreement (SPA) occur. The escrow will be released at the end of such period, together with the accrued interest.

The Company's consolidated statement of income includes the results of operations of the acquired business as from March 22, 2013. The net revenues and net loss of the acquiree included in the Company's consolidated statement of income as of December 31, 2013 since the acquisition amounted to \$524,965 and \$7,562, respectively.

The following table summarizes the definitive purchase price allocation for the acquisition:

Net assets acquired	\$ 237,891
Goodwill	<u>2,668,661</u>
Purchase price	2,906,552
Escrow for employment relationship	<u>547,945</u>
Aggregate price paid	<u>\$3,454,497</u>

Additionally, on December 15, 2014, the Company completed, through its subsidiaries Meli Participaciones S.L. and Marketplace Investment LLC, a limited liability company organized under the laws of Delaware, USA (together referred to as the "Buyers"), the acquisition of the 100% of equity interest of Business Vision S.A., a software development company located and organized under the laws of the Buenos Aires City, 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 acquisition of the 100% of the acquired business was \$4,768,549. On such same date, the Buyer paid and agreed to pay the purchase price as follows: i) \$3,803,955 in cash, net of \$111,045 of negative working capital adjustments; ii) set an escrow amounting to \$250,000 for a 24-months period, aiming to cover unexpected adjustments to the initial aggregate purchase price; and iii) set an escrow amounting to \$735,000, 50% for a 12-months period and 50% for a 24-months period since the closing date.

The Company's consolidated statement of income includes the results of operations of the acquired business as from December 15, 2014. The net revenues and net loss of the acquiree included in the Company's consolidated statement of income as of December 31, 2014, are immaterial to the consolidated financial statements.

MercadoLibre, Inc.
Notes to Consolidated Financial Statements**6. Business combinations, goodwill and intangible assets (Continued)****Business Combinations (Continued)**

The following table summarizes the definitive purchase price allocation for the acquisition:

Cash and cash equivalents	\$ 81,219
Other net tangible assets	<u>856,781</u>
Total net tangible assets acquired	\$ 938,000
Customer Lists	563,000
Non solicitation agreement	<u>427,976</u>
Deferred tax assets and liabilities	(299,770)
Goodwill	<u>3,139,343</u>
Purchase Price	<u>\$4,768,549</u>

Supplemental pro-forma information required by U.S. GAAP, is impracticable after making every reasonable effort to do so, however, amounts involved are deemed to be immaterial.

In both acquisitions described above, arising goodwill has been allocated proportionally to each of the segments identified by the Company's management, considering the synergies expected from this acquisition and it is expected that the acquiree will contribute to the earnings generation process of such segments.

The Company recognized goodwill for those acquisitions based on management expectation that the acquired businesses will increase the software capabilities of the Company and will improve the Company's business in Latin America.

Goodwills are not deductible for tax purposes, except for the proportion acquired by Meli Inversiones SpA (Chile) of the Portal Inmobiliario brand in Chile.

The results of operations for periods prior to the acquisitions, individually and in the aggregate, were not material to the consolidated statements of operations of the Company and, accordingly, pro forma information has not been presented.

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MercadoLibre, Inc.
Notes to Consolidated Financial Statements

6. Business combinations, goodwill and intangible assets (Continued)

Goodwill and intangible assets

The composition of goodwill and intangible assets is as follows:

	December 31, 2014	December 31, 2013
Goodwill	\$68,828,504	\$55,101,218
Intangible assets with indefinite lives		
– Trademarks	10,276,386	5,238,090
Amortizable intangible assets		
– Licenses and others	5,110,836	3,430,003
– Non-compete / solicitation agreement	1,829,208	1,025,605
– Customer list	11,293,828	1,568,190
Total intangible assets	\$28,510,258	\$11,261,888
Accumulated amortization	(5,338,909)	(4,670,303)
Total intangible assets, net	<u>\$23,171,349</u>	<u>\$ 6,591,585</u>

Goodwill

The changes in the carrying amount of goodwill for the years ended December 31, 2014 and 2013 are as follows:

Year ended December 31, 2014								
	Brazil	Argentina	Chile	Mexico	Venezuela	Colombia	Other Countries	Total
Balance, beginning of the year	\$10,366,018	\$14,676,145	\$ 6,520,194	\$11,376,140	\$5,251,667	\$ 5,506,062	\$1,404,992	\$ 55,101,218
– Business acquisition	1,538,278	775,418	14,709,583	6,293,463	477,180	81,623	47,090	23,922,635
– Effect of exchange rates change	(1,347,193)	(3,592,495)	(2,128,326)	(1,950,906)	—	(1,066,229)	(110,200)	(10,195,349)
Balance, end of the year	<u>\$10,557,103</u>	<u>\$11,859,068</u>	<u>\$19,101,451</u>	<u>\$15,718,697</u>	<u>\$5,728,847</u>	<u>\$ 4,521,456</u>	<u>\$1,341,882</u>	<u>\$ 68,828,504</u>

Year ended December 31, 2013								
	Brazil	Argentina	Chile	Mexico	Venezuela	Colombia	Other Countries	Total
Balance, beginning of year	\$10,706,281	\$18,889,094	\$7,115,211	\$11,404,780	\$4,846,030	\$5,897,136	\$1,507,531	\$60,366,063
– Business Acquisition	1,307,644	659,159	—	186,806	405,637	69,385	40,030	2,668,661
– Effect of exchange rates changes	(1,647,907)	(4,872,108)	(595,017)	(215,446)	—	(460,459)	(142,569)	(7,933,506)
Balance, end of the year	<u>\$10,366,018</u>	<u>\$14,676,145</u>	<u>\$6,520,194</u>	<u>\$11,376,140</u>	<u>\$5,251,667</u>	<u>\$5,506,062</u>	<u>\$1,404,992</u>	<u>\$55,101,218</u>

Intangible assets with definite useful life

Intangible assets with definite useful life are comprised of customer lists and user base, non-compete and non-solicitation agreements, acquired software licenses and other acquired intangible assets including developed technologies. Aggregate amortization expense for intangible assets totaled \$1,691,771, \$781,074 and \$891,661 for the years ended December 31, 2014, 2013 and 2012, respectively.

MercadoLibre, Inc.
Notes to Consolidated Financial Statements

6. Business combinations, goodwill and intangible assets (Continued)

Goodwill and intangible assets (Continued)

The following table summarizes the remaining amortization of intangible assets with definite useful life as of December 31, 2014.

For year ended 12/31/2015	\$ 2,301,349
For year ended 12/31/2016	2,144,583
For year ended 12/31/2017	1,852,736
For year ended 12/31/2018	1,291,703
Thereafter	<u>5,304,592</u>
	<u>\$12,894,963</u>

7. Segments

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

Segment reporting is based on geography as the main basis of segment breakdown to reflect the evaluation of the Company's performance defined by the management. The Company's segments include Brazil, Argentina, Mexico, Venezuela and other countries (such as Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Panama, Peru, Portugal, Uruguay and USA).

Direct contribution consists of net revenues from external customers less direct costs and any impairment of long lived assets. Direct costs include specific costs of net revenues, sales and marketing expenses, and general and administrative expenses over which segment managers have direct discretionary control, such as advertising and marketing programs, customer support expenses, allowances for doubtful accounts, payroll, third party fees. All corporate related costs have been excluded from the Company's direct contribution.

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

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MercadoLibre, Inc.
Notes to Consolidated Financial Statements
7. Segments (Continued)

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

	Year Ended December 31, 2014					Total
	Brazil	Argentina	Mexico	Venezuela	Other Countries	
Net revenues	\$ 273,638,197	\$ 150,667,541	\$ 37,668,802	\$ 58,025,886	\$ 36,535,576	\$ 556,536,002
Direct costs	(158,412,078)	(81,273,193)	(24,067,532)	(16,584,667)	(20,163,263)	(300,500,733)
Impairment of Long-lived Assets	—	—	—	(49,495,686)	—	(49,495,686)
Direct contribution	115,226,119	69,394,348	13,601,270	(8,054,467)	16,372,313	206,539,583
Operating expenses and indirect costs of net revenues						(86,068,720)
Income from operations						120,470,863
Other income (expenses):						
Interest income and other financial gains						15,335,853
Interest expense and other financial losses						(11,659,356)
Foreign currency loss						(2,351,539)
Net income before income / asset tax expense						\$ 121,795,821

	Year Ended December 31, 2013					Total
	Brazil	Argentina	Mexico	Venezuela	Other Countries	
Net revenues	\$ 206,394,480	\$ 122,123,347	\$ 32,843,482	\$ 84,572,485	\$ 26,660,915	\$ 472,594,709
Direct costs	(119,422,924)	(66,492,770)	(18,558,010)	(29,578,762)	(12,339,112)	(246,391,578)
Direct contribution	86,971,556	55,630,577	14,285,472	54,993,723	14,321,803	226,203,131
Operating expenses and indirect costs of net revenues						(72,664,076)
Income from operations						153,539,055
Other income (expenses):						
Interest income and other financial gains						10,668,593
Interest expense and other financial losses						(2,355,929)
Foreign currency gains						1,258,476
Other losses, net						(751)
Net income before income / asset tax expense						163,109,444

	Year Ended December 31, 2012					Total
	Brazil	Argentina	Mexico	Venezuela	Other Countries	
Net revenues	\$ 179,639,592	\$ 88,513,640	\$ 26,987,130	\$ 54,676,170	\$ 23,784,962	\$ 373,601,494
Direct costs	(104,501,652)	(41,841,587)	(14,912,375)	(17,768,989)	(11,458,627)	(190,483,230)
Direct contribution	75,137,940	46,672,053	12,074,755	36,907,181	12,326,335	183,118,264
Operating expenses and indirect costs of net revenues						(53,460,393)
Income from operations						129,657,871
Other income (expenses):						
Interest income and other financial gains						11,877,375
Interest expense and other financial losses						(1,138,379)
Foreign currency gain						11,597
Other losses, net						(190,938)
Net income before income / asset tax expense						\$ 140,217,526

MercadoLibre, Inc.
Notes to Consolidated Financial Statements

7. Segments (Continued)

The following table summarizes the allocation of property and equipment, net based on geography:

	December 31, 2014	December 31, 2013
US property and equipment, net	\$13,226,091	\$ 9,131,777
Other countries property and equipment, net		
Argentina	28,005,493	29,119,057
Brazil	8,237,459	5,559,702
Mexico	2,801,115	711,200
Venezuela (*)	36,237,494	83,655,816
Other countries	3,037,184	3,194,357
	<u>\$78,318,745</u>	<u>\$122,240,132</u>
Total property and equipment, net	<u>\$91,544,836</u>	<u>\$131,371,909</u>

(*) After the impairment of Venezuelan long-lived assets (See Note 2 “Impairment of Long-lived assets”).

Office building acquisition agreement in Caracas, Venezuela

In May 2013, the Company acquired 1,158 square meters, 13 parking spaces and 4 storage spaces, in an office building located in Caracas for a total amount of \$20,002,357 or BF\$126,014,852. The price has been paid in Bolivares Fuertes.

In addition, in October 2013, one of the Company’s Venezuelan subsidiaries acquired an office property totaling 1,367 square meters, in Caracas, Venezuela. The purchase price of BF\$328,195,200, or approximately \$52,094,476, 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\$85,115,000, or \$13,510,317, pursuant to an unsecured line of credit, which has a 12-month term, obtained from a Venezuelan bank at a fixed interest rate of 13% per annum. As of December 31, 2014, the loan was fully paid.

On October 9, 2014, the Company through its Venezuelan subsidiary acquired an office property located in Centro San Ignacio, Caracas, for a total amount of BF\$170.6 million, or approximately \$3.4 million. The price of the transaction was paid as follows: i) 50% of the price, or BF\$ 85.3 was paid at the date of signing the memorandum of understanding; ii) 30% of the price, or BF\$ 51.2 million, was paid on October 20, 2014; and iii) the remaining 20% was paid at the moment of transfer of the property ownership.

MercadoLibre, Inc.
Notes to Consolidated Financial Statements

7. Segments (Continued)

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

	December 31, 2014	December 31, 2013
US intangible assets	\$ 171,463	\$ 10,503
Other countries goodwill and intangible assets		
Argentina	12,580,157	15,575,776
Brazil	11,212,437	10,380,974
Mexico	21,734,078	14,512,949
Venezuela	7,514,679	6,913,604
Other countries (*)	38,787,039	14,298,997
	<u>\$91,828,390</u>	<u>\$61,682,300</u>
Total goodwill and intangible assets	<u>\$91,999,853</u>	<u>\$61,692,803</u>

(*) Includes the acquisition of online classified advertisement company in Chile. See Note 6.

Consolidated net revenues by similar products and services for the years ended December 31, 2014, 2013 and 2012 were as follows:

Consolidated Net Revenues	2014	2013	2012
Marketplace	\$376,156,156	\$331,338,080	\$261,997,021
Non-marketplace (*)	\$180,379,846	\$141,256,629	\$111,604,473
Total	<u>\$556,536,002</u>	<u>\$472,594,709</u>	<u>\$373,601,494</u>

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

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MercadoLibre, Inc.
Notes to Consolidated Financial Statements

8. Fair value measurement of assets and liabilities

The following table summarizes the Company's financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2014 and 2013:

Description	Balances as of 2014	Quoted Prices in active markets for (Level 1)	Significant other (Level 2)	Balances as of 2013	Quoted Prices in active markets for (Level 1)	Significant other (Level 2)
Assets						
Cash and Cash Equivalents:						
Money Market Funds	\$ 37,495,186	\$ 37,495,186	\$ —	\$19,630,109	\$19,630,109	\$ —
Corporate Debt Securities	13,003,843	108,028	12,895,815	88,648	88,648	—
Investments:						
Sovereign Debt Securities	49,149,930	49,149,930	—	30,395,890	30,395,890	—
Corporate Debt Securities	238,643,291	59,919,359	178,723,932	25,239,905	19,110,709	6,129,196
Certificates of deposit	7,806,303	—	7,806,303	—	—	—
Total Financial Assets	\$346,098,553	\$146,672,503	\$199,426,050	\$75,354,552	\$69,225,356	\$6,129,196
Liabilities:						
Contingent considerations	\$ 4,833,061	—	\$ 4,833,061	—	—	—
Total Financial Liabilities	\$ 4,833,061	\$ —	\$ 4,833,061	\$ —	\$ —	\$ —

As of December 31, 2014 and 2013, the Company's financial assets valued at fair value consisted of assets valued using i) Level 1 inputs: unadjusted quoted prices in active markets (Level 1 instrument valuations are obtained from observable inputs that reflect quoted prices (unadjusted) for identical assets in active markets); and ii) Level 2 inputs, which are obtained from readily-available pricing sources for comparable instruments as well as instruments with inactive markets at the measurement date. As of December 31, 2014 and 2013, the Company did not have any assets without market values that would require a high level of judgment to determine fair value (Level 3).

As of December 31, 2014, the Company's liabilities valued at fair value consisted of contingent considerations from acquisitions valued using level 2 inputs.

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

As of December 31, 2014 and 2013, the carrying value of the Company's financial assets and liabilities measured at amortized cost approximated their fair value because of its short term maturity. These assets and liabilities included cash and cash equivalents (excluding money markets funds), accounts receivables, credit card receivables, funds payable to customers, other receivables, other assets, accounts payables, social security payables, taxes payables, loans payable and provisions and other liabilities. The convertible senior notes, the rest of the loans payable and other financial liabilities approximate their fair value because the interest rates are not materially different from market interest rates.

MercadoLibre, Inc.
Notes to Consolidated Financial Statements

8. Fair value measurement of assets and liabilities (Continued)

The following table summarizes the fair value level for those financial assets and liabilities of the Company measured at amortized cost as of December 31, 2014 and 2013:

	Balances as of December 31, 2014	Significant other observable inputs (Level 2)	Balances as of December 31, 2013	Significant other observable inputs (Level 2)
Assets				
Time Deposits	\$ 58,475,057	58,475,057	\$ 66,677,156	66,677,156
Accounts receivable	46,672,495	46,672,495	25,884,260	25,884,260
Credit Cards receivable	85,162,276	85,162,276	52,045,851	52,045,851
Prepaid expenses	3,457,693	3,457,693	3,836,081	3,836,081
Other assets	37,718,557	37,718,557	35,888,029	35,888,029
Total Assets	\$231,486,078	\$231,486,078	\$184,331,377	\$184,331,377
Liabilities				
Accounts and funds payable	\$ 58,005,734	\$ 58,005,734	\$ 34,405,333	\$ 34,405,333
Funds payable to customers	165,033,797	165,033,797	129,038,663	129,038,663
Salaries and social security payable	18,834,627	18,834,627	15,863,028	15,863,028
Tax payable	26,012,849	26,012,849	17,854,110	17,854,110
Dividends payable	7,329,546	7,329,546	6,313,869	6,313,869
Loans payable and other financial liabilities	283,825,977	283,825,977	15,860,642	15,860,642
Other liabilities	5,524,436	5,524,436	3,699,109	3,699,109
Total Liabilities	\$564,566,966	\$564,566,967	\$223,034,754	\$223,034,754

In addition, as of December 31, 2014 and 2013, the Company had \$58,475,057 and \$66,677,156 of short-term investments, respectively, which consisted of time deposits.

Those investments are accounted for at amortized cost which, as of December 31, 2014 and 2013, approximates their fair values.

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MercadoLibre, Inc.
Notes to Consolidated Financial Statements

8. Fair value measurement of assets and liabilities (Continued)

For the years ended December 31, 2014 and 2013, the Company held no direct investments in auction rate securities, collateralized debt obligations or structured investment vehicles, and does not have any non-financial assets or liabilities measured at fair value.

As of December 31, 2014 and 2013, the fair value of money market funds, short and long-term investments classified as available for sale securities are as follows:

	December 31, 2014			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses (1)	Estimated Fair Value
Cash and cash equivalents				
Money Market Funds	\$ 37,530,995	\$ 1,871	\$ (37,680)	\$ 37,495,186
Corporate Debt Securities	13,008,662	—	(4,819)	13,003,843
Total Cash and cash equivalents	\$ 50,539,657	\$ 1,871	\$ (42,499)	\$ 50,499,029
Short-term investments				
Sovereign Debt Securities	\$ 4,725,763	\$ —	\$ (4,323)	\$ 4,721,440
Corporate Debt Securities	81,885,144	375	(74,788)	81,810,731
Certificates of deposit	3,802,710	670	(1,069)	3,802,311
Total Short-term investments	\$ 90,413,617	\$ 1,045	\$ (80,180)	\$ 90,334,482
Long-term investments				
Sovereign Debt Securities	\$ 44,510,898	\$ 445	\$ (82,853)	\$ 44,428,490
Corporate Debt Securities	157,205,298	22,227	(394,965)	156,832,560
Certificates of deposit	4,006,590	—	(2,598)	4,003,992
Total Long-term investments	\$205,722,786	\$ 22,672	\$ (480,416)	\$205,265,042
Total	\$346,676,060	\$ 25,588	\$ (603,095)	\$346,098,553

	December 31, 2013			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses (1)	Estimated Fair Value
Cash and cash equivalents				
Money Market Funds	\$19,631,550	\$ 2,619	\$ (4,060)	\$19,630,109
Corporate Debt Securities	88,640	8	—	88,648
Total Cash and cash equivalents	\$19,720,190	\$ 2,627	\$ (4,060)	\$19,718,757
Short-term investments				
Sovereign Debt Securities	\$ 5,518,577	\$ 1,616	\$ —	\$ 5,520,193
Corporate Debt Securities	4,393,594	2,271	—	4,395,865
Total Short-term investments	\$ 9,912,171	\$ 3,887	\$ —	\$ 9,916,058
Long-term investments				
Sovereign Debt Securities	\$24,881,440	\$ 483	\$ (6,226)	\$24,875,697
Corporate Debt Securities	20,804,125	59,437	(19,522)	20,844,040
Total Long-term investments	\$45,685,565	\$ 59,920	\$ (25,748)	\$45,719,737
Total	\$75,317,926	\$ 66,434	\$ (29,808)	\$75,354,552

- (1) Unrealized losses from securities are primarily attributable to market price movements. Management does not believe any remaining unrealized losses represent other-than-temporary impairments based on the evaluation of available evidence including the credit rating of the investments, as of December 31, 2014 and 2013.

MercadoLibre, Inc.
Notes to Consolidated Financial Statements**8. Fair value measurement of assets and liabilities (Continued)**

The material portion of the Sovereign Debt Securities is U.S. Treasury Notes with no significant risk associated.

As of December 31, 2014, the estimated fair values of money market funds, short-term and long-term investments classified by its effective maturities are as follows:

One year or less	140,833,511
One year to two years	123,938,339
Two years to three years	52,039,030
Three years to four years	19,805,889
Four years to five years	9,481,784
Total	<u>\$346,098,553</u>

9. Common stockAuthorized, issued and outstanding shares

As of December 31, 2014, 2013 and 2012, as stated in the Company's Fourth Amended and Restated Certificate of Incorporation (the "Fourth Amended Certificate of Incorporation"), the Company has authorized 110,000,000 shares of Common Stock, par value \$0.001 per share ("Common Stock").

As of December 31, 2014 and 2013, there were 44,154,572 and 44,153,473 shares of common stock issued and outstanding with a par value of \$0.001 per share, respectively.

Voting rights

Each outstanding share of common stock, is entitled to one vote on all matters submitted to a vote of holders of common stock, except for stockholders that beneficially own more than 20% of the shares of the outstanding common stock, in which case the board of directors (the "Board") may declare that any shares of stock above such 20% do not have voting rights. The holders of common stock do not have cumulative voting rights in the election of directors.

10. Mandatorily redeemable convertible preferred stock

Pursuant to the Fourth Amended Certificate of Incorporation, the Company authorized preferred stock consisting of 40,000,000 shares of preferred stock, par value \$0.001 per share. As of December 31, 2014, 2013 and 2012, the Company has no preferred stock subscribed and or issued.

11. Compensation Plan for Outside Directors

The Company compensates its outside directors for their annual services provided through a cash payment, and from time to time through the issuance of equity awards, as follows:

MercadoLibre, Inc.
Notes to Consolidated Financial Statements

11. Compensation Plan for Outside Directors (Continued)

On June 25, 2010, the board of directors of the Company (the “Board”), upon the recommendation of the Compensation Committee of the Board, adopted The MercadoLibre, Inc. 2010 Director Compensation Program (the “Plan”) for outside directors which was a three-year plan effective as from June 10, 2010. 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 divided by the average closing sale price of the Company’s share during the last 30-trading day period as of the date of the prior year’s Annual Meeting. The Plan also included a Non-Adjustable Chairman Service Award for services provided to the Company for such periods. Under the terms of the Plan, the Chairman of the Company’s Audit Committee, of the Compensation Committee, of the Nominating and Corporate Governance Committee and the lead independent director of the Company are entitled to receive annual cash compensation in addition to the existing director compensation for the period from June 10, 2010 through June 9, 2011 amounting to \$16,218, \$12,974, \$5,406 and \$10,812, respectively. For the period from June 10, 2011 through June 9, 2012 such annual cash compensation amounted to \$18,852, \$15,081, \$6,284 and \$12,568, respectively. For the period from June 10, 2012 through June 9, 2013 such annual compensation amounted to \$21,913, \$17,531, \$7,304 and \$14,609, respectively.

On September 27, 2013, the Board, upon the recommendation of the compensation committee of the Board, adopted a new director compensation program (the “New Director Compensation Program”) that sets compensation for the Company’s outside directors for the period of June 2013 to June 2016. The New Director Compensation Program, which became effective as of June 2013, provides that each outside director of the Company receives an annual fee for Board services, comprised of a non-adjustable Board service award and an adjustable Board service award. The non-adjustable Board service award consists of a fixed cash payment of \$50,000. The adjustable Board service award consists of a fixed cash amount of \$70,000 multiplied by the quotient of (a) the average closing sale price of the Company’s share on the NASDAQ Global Market during the 30-trading day period preceding the Annual Meeting of Stockholders to be held during the respective compensation period divided by (b) the average closing sale price of the Company’s share on the NASDAQ Global Market during the 30-trading day period preceding the prior Annual Meeting of Stockholders. The New Director Compensation Program also includes a non-adjustable chair service award for committee services from June 2013 to June 2016. Under the terms of the New Director Compensation Program, the chair of each of the audit committee, the compensation committee and the nominating and corporate governance committee and the lead independent director are entitled to receive annual cash compensation in addition to existing director compensation in the amount of \$21,913, \$17,531, \$7,304 and \$14,609, respectively.

MercadoLibre, Inc.
Notes to Consolidated Financial Statements

11. Compensation Plan for Outside Directors (Continued)

The following table summarizes the total accrued compensation cost related to outside Directors, included in operating expenses in the accompanying consolidated statement of income, for the years ended December 31, 2014, 2013 and 2012:

	Year ended December 31,		
	2014	2013	2012
Chairman Fee	\$ 61,357	\$ 55,858	\$ 57,680
Adjustable Award	544,756	575,242	282,703
Non-adjustable Award	358,630	322,538	242,179
	<u>\$964,743</u>	<u>\$953,638</u>	<u>\$582,562</u>

12. Equity compensation plan and restricted shares

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

On June 10, 2009, the Annual Shareholders’ Meeting approved the adoption of the 2009 Equity Compensation Plan, which contains terms substantially similar to the terms of the “1999 Stock Option and Restricted Stock Plan” scheduled to expire in November 2009. The 2009 plan has reserved for issuance 294,529 shares of the Company’s common stock under the 1999 plan. As of December 31, 2014, there are 259,457 shares available for grant under the 1999 plan.

Equity compensation awards granted under the Plan are at the discretion of the Company’s board of directors and may be in the form of either incentive or nonqualified stock options. As of December 31, 2014, there are no outstanding options granted under the Plan.

There was no granting during the period from January 1, 2007 to December 31, 2014.

13. Management incentive bonus plan

In September 2001, the Company implemented the 2001 Management Incentive Bonus Plan (the “Incentive Plan”) to provide incentives to, and align the interests of, senior management with the Company’s shareholders. As established in the Incentive Plan, the Company’s Chief Executive Officer, with the consent of the board of directors, made the initial determination as to the executives entitled to the benefits under the plan (the “Participants”) and the amounts of participation (the “Participation Percentages”). The board of directors administers the Incentive Plan.

Pursuant to the Incentive Plan, if the Company is sold, the Participants are entitled to receive a “sale bonus” and a “stay bonus” as follows:

- If the purchase price is equal or greater than \$20,000,000, then Participants shall be entitled to receive i) a sale bonus equal to 5.5% of the purchase price and ii) a stay bonus equal to 7.1% of the purchase price; provided, however, that in no event shall the amount paid or payable by the purchaser considered for the Incentive Plan calculation exceed \$78,335,000. Each Participant shall participate on these bonuses based on its Participation Percentage.

MercadoLibre, Inc.
Notes to Consolidated Financial Statements

13. Management incentive bonus plan (Continued)

- If the purchase price is less than \$20,000,000, then Participants shall be entitled to receive a stay bonus equal to 7.1% of the purchase price. Each Participant shall participate on this stay bonus based on its Participation Percentage.

As the consummation of the sale is not considered probable, no provision has been recognized at December 31, 2014.

14. Income taxes

The components of pretax income in consolidated companies for the years ended December 31, 2014, 2013 and 2012 are as follows:

	Year Ended December 31,		
	2014	2013	2012
United States	\$ (10,848,050)	\$ (1,641,203)	\$ (753,531)
Brazil	91,136,394	61,573,972	52,460,902
Argentina	53,065,458	46,438,235	40,466,354
Venezuela	(31,360,284)	36,855,421	29,620,800
Mexico	6,094,361	9,490,012	7,320,041
Other Countries	13,707,942	10,393,007	11,102,960
	<u>\$121,795,821</u>	<u>\$163,109,444</u>	<u>\$140,217,526</u>

Income / asset tax is composed of the following:

	Year Ended December 31,		
	2014	2013	2012
Current:			
Federal	\$ 2,120	\$ —	\$ —
Foreign	66,786,496	49,488,472	\$39,371,170
Deferred:			
Federal	465,277	799,166	998,536
Foreign	(18,110,844)	(4,913,379)	(1,586,024)
	<u>(17,645,567)</u>	<u>(4,114,213)</u>	<u>(587,488)</u>
Income Tax:	<u>49,143,050</u>	<u>45,374,259</u>	<u>38,783,682</u>
Foreign asset tax	—	208,922	87,697
Income / asset tax expense	<u>\$ 49,143,050</u>	<u>\$45,583,181</u>	<u>\$38,871,379</u>

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MercadoLibre, Inc.
Notes to Consolidated Financial Statements

14. Income taxes (Continued)

The following is a reconciliation of the difference between the actual provision for income taxes and the provision computed by applying the blended income tax rate for 2014, 2013 and 2012 to income before taxes:

	Year Ended December 31,		
	2014	2013	2012
Net income before income tax	\$121,795,821	\$163,109,444	\$140,217,526
Weighted average income tax rate	33%	34%	33%
Income tax expense at blended tax rate	\$ 40,783,129	\$ 55,241,195	\$ 46,593,938
Permanent differences:			
Federal and assets taxes	3,527	—	—
Transfer Pricing	616,101	—	—
Non-deductible tax	258,153	—	—
Non-deductible expenses	2,310,535	1,777,180	1,657,662
Dividend distributions	4,221,176	1,414,915	847,798
Impairment of Venezuelan long-lived assets	14,734,001	—	—
Non-taxable income (*)	(9,564,540)	(12,321,790)	(9,852,468)
Currency translation	(5,217,696)	(1,552,169)	(1,213,340)
Change in valuation allowance	1,094,214	736,910	572,790
Business Combination	(40,469)	34,706	—
True up	(55,081)	43,312	177,302
Income tax expense	\$ 49,143,050	\$ 45,374,259	\$ 38,783,682

(*) Includes Argentine Tax holiday described in Note 2 “Income and asset tax”

Deferred tax assets and liabilities are recognized for the future tax consequences of differences between the carrying amounts of assets and liabilities and their respective tax bases using enacted tax rates in effect for the year in which the differences are expected to reverse. The following table summarizes the composition of deferred tax assets and liabilities for the years ended December 31, 2014 and 2013:

	December 31, 2014	December 31, 2013
Deferred tax assets		
Allowance for doubtful accounts	\$ 8,278,013	\$ 8,210,283
Unrealized net losses on investments	42,783	—
Property and equipment	2,636,124	147,263
Accounts payable and accrued expenses	953,842	2,014,026
Payroll and social security payable	5,407,562	3,960,481
Foreign exchange effect	7,526,669	22,714
Customer lists	—	47,929
Taxes payable	354,272	1,058,659
Goodwill	519,432	—
Provisions	4,946,080	3,553,360
Foreign tax credit	4,327,796	668,659
Tax loss carryforwards	2,611,877	2,451,524
Total deferred tax assets	37,604,450	22,134,898
Valuation allowance	(4,531,232)	(3,089,113)
Total deferred tax assets, net	33,073,218	19,045,785

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MercadoLibre, Inc.
Notes to Consolidated Financial Statements

14. Income taxes (Continued)

	December 31, 2014	December 31, 2013
Total deferred tax assets, net	<u>33,073,218</u>	<u>19,045,785</u>
Deferred tax liabilities		
Unrealized net gains on investments	—	(10,767)
Property and equipment	(3,233,145)	(2,883,458)
Customer lists	(2,618,827)	(45,963)
Non compete agreement	(265,670)	(26,019)
Outside basis dividends	(4,327,796)	(668,659)
Trademarks	(1,577,422)	(1,693,256)
Convertible notes and Capped Call	(8,367,701)	—
Other liabilities	—	(11,237)
Total deferred tax liabilities	<u>(20,390,561)</u>	<u>(5,339,359)</u>
Net deferred tax assets	<u>\$ 12,682,657</u>	<u>\$13,706,426</u>

The total amount of \$12,682,657 for the year ended December 31, 2014, is disclosed in the consolidated balance sheet as current asset, non-current asset, current liability and non-current liability amounting to \$11,519,522, \$21,553,696, \$1,644,706 and \$18,745,855, respectively.

The total amount of \$13,706,426 for the year ended December 31, 2013, is disclosed in the consolidated balance sheet as current asset, non-current asset and non-current liability amounting to \$16,030,880, \$3,014,905 and \$5,339,359, respectively.

As of December 31, 2014, consolidated loss carryforwards for income tax purposes were \$8,755,535. If not utilized, tax loss carryforwards will begin to expire as follows:

2016	\$ 36,411
2017	4,794
2018	39,327
Thereafter	5,753,888
Without due dates	<u>2,921,115</u>
Total	<u><u>\$8,755,535</u></u>

At the applicable tax rates, the above loss carryforwards amount to a tax loss carryforward of \$2,611,877 that the Company estimates will be starting to use in 2016.

During the year ended December 31, 2014, the Company reduced \$63,473 related to the valuation allowance of certain subsidiaries, acquired in 2008. In addition, during that same year, the Company increased the valuation allowance relating to Argentine operation by \$442,903, as a consequence of the assessment of the recoverability of certain deferred tax assets in such jurisdiction.

During the year ended December 31, 2013, the Company reduced \$156,851 related to valuation allowance of certain subsidiaries, acquired in 2008. In addition, during that same year, the Company increased the valuation allowance relating to Argentine operation by \$290,561 as a consequence of the assessment of the recoverability of certain deferred tax assets in such jurisdiction.

MercadoLibre, Inc.
Notes to Consolidated Financial Statements

14. Income taxes (Continued)

During the year ended December 31, 2012, the Company reversed \$240,653 related to certain foreign and domestic valuation allowances based on the assessment that it was more likely than not that the deferred tax asset would be realized.

The Company has not considered \$96.7 million of the non-U.S. subsidiaries' undistributed earnings as of December 31, 2014 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, 2014 to be subject to U.S. federal income tax purposes because such earnings are intended to be indefinitely reinvested in its 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 its 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 its foreign operations, which the Company is allowed to compute for domestic income tax purposes.

15. Commitments and Contingencies

Litigation and Other Legal Matters

The Company is subject to certain contingent liabilities with respect to existing or potential claims, lawsuits and other proceedings. The Company accrues liabilities when it considers probable that future costs will be incurred and such costs can be reasonably estimated. The proceeding-related reserve is based on developments to date and historical information related to actions filed against the Company. As of December 31, 2014, the Company had established reserves for proceeding-related contingencies of \$3,008,537 to cover legal actions against the Company in which its Management has assessed the likelihood of a final adverse outcome as probable. In addition, as of December 31, 2014 the Company and its subsidiaries are subject to certain legal actions considered by the Company's management and its legal counsels to be reasonably possible for an aggregate amount up to \$4,451,708.

No loss amount has been accrued for such reasonably possible legal actions of which most significant (individually or in the aggregate) are described below.

As of December 31, 2014, there were 34 lawsuits pending against our Argentine subsidiary in the Argentine ordinary courts and 715 pending claims in the Argentine Consumer Protection Agencies, where a lawyer is not required to file or pursue a claim.

As of December 31, 2014, there was one claim pending against our Mexican subsidiaries in the Mexican ordinary courts and 60 claims pending against our Mexican subsidiaries in the Mexican Consumer Protection Agencies, where a lawyer is not required to file or pursue a claim.

As of December 31, 2014, 651 legal actions were pending in the Brazilian ordinary courts. In addition, as of December 31, 2014, there were 2,535 cases still pending in Brazilian consumer courts. Filing and pursuing of an action before Brazilian consumer courts do not require the assistance of a lawyer. In most of the cases filed against the Company, the plaintiffs asserted that the Company was responsible for fraud committed against them, or responsible for damages suffered when purchasing an item on the Company's website, when using MercadoPago, or when the Company invoiced them.

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.

MercadoLibre, Inc.
Notes to Consolidated Financial Statements**15. Commitments and Contingencies (Continued)**

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. On July 3, 2014, Vintage appeal was denied by the Brazilian Federal Superior Court of Justice. On August 12, 2014, Vintage presented an interlocutory appeal to the Brazilian Federal Superior Court of Justice, seeking the Court to review its previous decision. On September 30, 2014 the Brazilian Federal Superior Court of Justice overruled Vintage's appeal and Vintage did not appeal the decision, therefore the favorable ruling is confirmed. The case was closed at the date of these consolidated financial statements.

On August 25, 2010, Citizen Watch do Brasil S/A, or Citizen, sued Brazilian subsidiaries in the 31st 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 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. On February 21, 2014, Brazilian subsidiaries presented its response to Citizen's Extraordinary Appeal. On March 10, 2014, Citizen's extraordinary appeal was not accepted by the Brazilian Superior Court of Justice and, on March 26, 2014, Citizen filed an appeal against such decision, aiming at its Extraordinary Appeal to be accepted and ruled by Brazilian Federal Supreme Court. On May 5, 2014 the Company presented its response to Citizen's appeal to The Brazilian Federal Supreme Court. On December, 19, 2014 Brazilian Federal Supreme Court overruled Citizen's Extraordinary Appeal, ending the discussion regarding the injunction sought by Citizen which was definitely not granted. On February 19, 2015 the judge presiding the 31st Central Civil Court of the City of São Paulo, State of São Paulo, Brazil ruled the case in its merits totally in favor of the Brazilian subsidiary, stating that MercadoLivre shall not be held responsible for any of Citizen's pleas and allegations. At the date of these consolidated Financial Statements, Citizen's deadline to appeal mentioned decision was still open. In the opinion of the Company's management and its legal counsel the risk of loss is therefore remote.

State of São Paulo Fraud Claim

On June 12, 2007, a state prosecutor of the State of São Paulo, Brazil presented a claim against the Company's Brazilian subsidiary. The state prosecutor alleges that the Brazilian subsidiary should be held liable for any fraud committed by sellers on the Brazilian version of the Company's website, or responsible for damages suffered by buyers when purchasing an item on the Brazilian version of the MercadoLibre website. On June 26, 2009, the Lower Court Judge ruled in favor of the State of São Paulo prosecutor, declaring that the Brazilian subsidiary shall be held joint and severally liable for fraud committed by sellers and damages suffered by buyers when using the website, and ordering the Brazilian subsidiary to remove from the Terms of Service of the Brazilian website any provision limiting the Company'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 the Company 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. On May 23, 2014 the State Court of Appeals issued its ruling stating that MercadoLivre shall not be held responsible for the quality, nature or

MercadoLibre, Inc.
Notes to Consolidated Financial Statements**15. Commitments and Contingencies (Continued)**

defective products or services purchased through the Brazilian website. While the decision is not clear, it could be understood that the State Court of Appeals ruled that MercadoLivre could be held joint and severally liable for fraud committed by sellers-buyers when using the website. On June 13, 2014, MercadoLivre filed a motion to clarify the decision. On October 6, 2014, the State Court of Appeals overruled MercadoLivre's motion to clarify its decision. The Company appealed the decision to the Brazilian Federal Superior Court of Justice. As of the date of issuance of these consolidated financial statements, the Company's appeal to the Brazilian Federal Superior Court of Justice was still being processed before the State Court of Appeals. In the opinion of the Company's management and its legal counsel the risk of loss is reasonably possible.

City of São Paulo Tax Claim

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 these financial statements, 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 \$3.9 million, according to the exchange rate at December 31, 2014, 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, 2014, 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. 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 \$15.4 million, according to the exchange rate at December 31, 2014. On January 28, 2014 São Paulo Municipal Council was summoned and on April 8, 2014 the São Paulo Municipal Council presented its defense. On April 24, 2014 the Company presented its response to the mentioned defense. As of December 31, 2014, the lower court's ruling was still pending.

In January 2005 the Brazilian subsidiary moved its 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 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.

The collection date of the legal deposits cannot be determined since it will depend on the actual duration of the related legal proceedings.

Brazilian Federal Tax Claims

On September 2, 2011, the Brazilian Federal tax authority has 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 \$2.0 million, according to the exchange rate at December 31, 2014. 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. As of the date of issuance of these consolidated financial statements the Superior Administrative Court of Tax Appeals ruling was still pending. The Company's management and its legal counsel believe that the tax position adopted is more likely than not, based on the technical merits of the tax position, that it will be sustained, and as a result, the Company has not recorded any liability for this claim.

MercadoLibre, Inc.
Notes to Consolidated Financial Statements

15. Commitments and Contingencies (Continued)

State of Rio de Janeiro Customer Service Level Claim

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 judge ruled in favor of the Company and dismissed the claim against the Company. The Public Prosecutor appealed the decision and the Company 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 the Company presented its response on July 2, 2013. As of December 31, 2014, 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.

State of Rio Grande do Sul Service 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. On March 11, 2014, the Company presented its defense. On March 24, 2014, the Company filed an appeal against the preliminary injunction before the State Court of Rio Grande do Sul, Brazil, and on March 26, 2014 it was granted a motion to stay, revoking temporarily the effects of the injunction until the final ruling of the Interlocutory Appeal. On October 16, 2014, the State Court of Rio Grande do Sul, Brazil, ruled the Interlocutory Appeal in favor of the Brazilian subsidiary, revoking definitely the injunction. As of the date of issuance if these consolidated financial statements the case merits' ruling by the 15th Civil Court of Porto Alegre was still pending. In the opinion of the Company's management the risk of losing the case is reasonably possible, but not probable.

Argentine Labor Union Claim

On September 29, 2014, the Argentina Commercial Labor Union "Federación Argentina de Empleados de Comercio y Servicios" ("Sindicato de Comercio" or the "Plaintiff") filed a lawsuit against the Company's Argentine subsidiary, MercadoLibre S.R.L. ("MercadoLibre" or the "Company"), in the First Instance National Court on Labor Matters Number Fifty Eight of Buenos Aires, Argentina (the "Court"). The Plaintiff seeks the payment of allegedly unpaid monthly obligations due for employees for the last 10 years, for AR\$ 3.2 million or \$0.43 million plus interests and legal expenses. The deadline to file the defense of MercadoLibre is actually suspended because the Company is trying to arrive to a settlement. As of December 31, 2014, according to the opinion of the Company's management and its external legal counsel, the Company has recorded a provision for the amount that has been considered as a probable amount of settlement, which the Company believes it is not material to the consolidated financial statements.

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

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

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

Operating leases

The Company has leases for office space in the various countries in which it operates. Total rental expense amounted to approximately \$3,111,137, \$3,043,604 and \$2,441,866 for the years ended December 31, 2014, 2013 and 2012, respectively.

MercadoLibre, Inc.
Notes to Consolidated Financial Statements**15. Commitments and Contingencies (Continued)**

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

For the year ended December 31, 2015	\$ 3,696,620
For the year ended December 31, 2016	2,023,373
For the year ended December 31, 2017	1,854,456
For the year ended December 31, 2018	1,841,012
For the year ended December 31, 2019	1,796,172
Thereafter	3,719,578
	<u>\$14,931,211</u>

Employment Contracts

Each of the executive officers of the Company are a party to individual employment agreements that provide for annual base estimated salaries aggregating approximately \$1,529,000 per year, a performance based estimated bonus aggregating to approximately \$1,641,000 per year, and some fringe benefits. The employment agreements automatically renew annually, if not terminated by either party. Each agreement includes clauses that provide in the event of employment termination without cause, the Company must pay the employee 12 months of base salary.

Additionally, the executive officers of the Company are included in the Long Term Retention Plans mentioned in note 16. Under the 2009 Plan the executive officers of the Company will receive approximately \$1,546,000 in a period of 2 years and 3 months. Under the 2010 Plan the executive officers of the Company will receive approximately \$3,298,000 in a period of 3 years and 3 months. Under the 2011 Plan the executive officers of the Company will receive approximately \$4,106,000 in a period of 4 years and 3 months. Under the 2012 Plan the executive officers of the Company will receive approximately \$5,099,000 in a period of 5 years and 3 months. Under the 2013 Plan the executive officers of the Company will receive approximately \$11,294,000 in a period of 4 years and 3 months. Finally, under the 2014 Plan the executive officers of the Company will receive approximately \$10,814,000 in a period of 5 years and 3 months. In all cases, the estimated amount has been calculated considering the Company's closing stock price as of December 31, 2014.

Loans payable and other financial liabilities

In September 2013, the Company through its Venezuelan subsidiary obtained an unsecured line of credit from a Venezuelan bank to fund a portion of the purchase price relating to our acquisition of a new office building in Caracas, Venezuela. As of December 31, 2014, the total amount of the loan was fully paid.

Additionally, during last quarter of 2013, the Company through its Argentine subsidiary obtained two unsecured lines of credit from two Argentinean banks, denominated in Argentinean pesos, to fund the acquisition of office equipment in Buenos Aires. As of December 31, 2014, amounts outstanding under these unsecured lines of credit were AR\$16,625,876 or \$1,942,275. The unsecured lines of credit bear interest fixed rates of 15.25% per annum and the last maturity date is in 48 months. One of the loan agreements include certain covenants and commitments which, in case of non-compliance would cause the loans to be payable immediately, and which main provisions include that the Argentine subsidiary should obtain prior bank approval for any business combination involving such subsidiary, limitations for certain property sales and the commitment to maintain certain indebtedness ratios and minimum net worth.

Finally, as part of the acquisition of the Chilean classifieds website detailed in note 6, the Company incorporated financial liabilities of its subsidiary for an amount of \$1,116,746, of which \$648,148 were classified as current liabilities and \$468,598 as non-current liabilities.

See additionally Note 17 with the detail of the 2.25% Convertible Senior Note due 2019.

MercadoLibre, Inc.
Notes to Consolidated Financial Statements

16. Long term retention plan

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

- Year 1 (2008): 17%
- Year 2 (2009): 22%
- Year 3 (2010): 27%
- Year 4 (2011): 34%

The shares granted for the 2008 LTRP were valued at the grant-date fair market value of \$36.8 per share. As of December 31, 2012, the Company fully paid the 2008 LTRP.

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, 2011 and the 2012 employee retention programs (the “2009, 2010, 2011 and 2012 LTRP”). 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 quotas (12.5% each) commencing on March 31, 2010, March 31, 2011, and 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 amounted to \$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 (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 and March 31, 2014, the Board of Directors, upon the recommendation of the Compensation Committee approved the 2013 and 2014 employee retention programs (“2013 and 2014 LTRP”) respectively. The awards under 2013 and 2014 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.

MercadoLibre, Inc.
Notes to Consolidated Financial Statements

16. Long term retention plan (Continued)

The 2013 and 2014 LTRP will be paid in 6 equal annual quotas (16.67% each) commencing on March 31, 2014 and March 31, 2015 respectively. Each quota is calculated as follows:

- 8.333% of the amount is calculated in nominal terms (“the nominal basis share”),
- 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 and 2013, respectively. The average closing stock price for the 2013 and 2014 LTRP amounted to \$79.57 and \$118.48 (“the variable share”) respectively.

The following tables summarize the 2009, 2010, 2011, 2012, 2013 and 2014 LTRP accrued compensation expense for the years ended December 31, 2014, 2013 and 2012:

	December 31, 2014		December 31, 2013		December 31, 2012	
	Aggregate Intrinsic value	Weighted- average remaining contractual life (years)	Aggregate Intrinsic value	Weighted- average remaining contractual life (years)	Aggregate Intrinsic value	Weighted- average remaining contractual life (years)
Outstanding LTRP 2009	3,229,139	1.25	4,305,518	1.75	3,854,742	2.25
Outstanding LTRP 2010	2,307,641	1.75	2,884,551	2.25	3,461,461	2.75
Outstanding LTRP 2011	3,624,856	2.25	4,093,119	2.75	3,288,647	3.25
Outstanding LTRP 2012	4,354,116	2.74	4,806,997	3.25	3,800,492	3.75
Outstanding LTRP 2013	9,005,706	2.25	10,167,959	2.75	—	—
Outstanding LTRP 2014	7,525,925	2.74	—	—	—	—

The 2009, 2010, 2011, 2012, 2013 and 2014 LTRP have performance and/or eligibility conditions to be achieved at each year end and also require the employee to stay in the Company at the payment date.

The variable share compensation cost of the 2009, 2010, 2011, 2012, 2013 and 2014 LTRP is recognized in accordance with the graded-vesting attribution method and is accrued up to each payment date. The 2009, 2010, 2011, 2012, 2013 and 2014 LTRP nominal basis portion is recognized in straight line bases using the equal annual accrual method.

MercadoLibre, Inc.
Notes to Consolidated Financial Statements

16. Long term retention plan (Continued)

The following tables summarize the LTRP accrued compensation expense for the years ended December 31, 2014, 2013 and 2012:

	Year ended December 31,		
	2014	2013	2012
LTRP 2008	—	—	20,595
LTRP 2009	664,619	1,562,957	587,106
LTRP 2010	930,244	1,611,521	1,006,740
LTRP 2011	1,107,795	1,698,285	1,236,275
LTRP 2012	1,385,407	2,013,011	1,603,142
LTRP 2013	3,935,215	4,759,303	—
LTRP 2014	3,828,335	—	—
	<u>\$11,851,615</u>	<u>\$11,645,077</u>	<u>\$4,453,858</u>

17. 2.25% Convertible Senior Notes Due 2019

On June 30, 2014, the Company issued \$330 million of 2.25% convertible senior notes due 2019 (the “Notes”). The Notes are unsecured, unsubordinated obligations of the Company, which pay interest in cash semi-annually, on January 1 and July 1, at a rate of 2.25% per annum. The Notes will mature on July 1, 2019 unless earlier repurchased or converted in accordance with their terms prior to such date. The Notes may be converted, under the conditions specified below, based on an initial conversion rate of 7.9353 shares of common stock per \$1,000 principal amount of Notes (equivalent to an initial conversion price of approximately \$126.02 per share of common stock), subject to adjustment as described in the indenture governing the Notes. The net proceeds from the Notes were approximately \$322 million, net of the transaction costs.

Holders may convert their notes at their option at any time prior to January 1, 2019 only under the following circumstances: (1) during any calendar quarter commencing after the calendar quarter ending on September 30, 2014 (and only during such calendar quarter), if the last reported sale price of the common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day; (2) during the five business day period after any five consecutive trading day period (the “measurement period”) in which the trading price per \$1,000 principal amount of notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of our common stock and the conversion rate on each such trading day; or (3) upon the occurrence of specified corporate events. On or after January 1, 2019 until the close of business on the second scheduled trading day immediately preceding the maturity date, holders may convert their notes at any time, regardless of the foregoing circumstances. Upon conversion, the Company will pay or deliver, as the case may be, cash, shares of our common stock or a combination of cash and shares of our common stock, at our election.

As of December 31, 2014, none of the conditions allowing holders of the Notes to convert had been met.

MercadoLibre, Inc.
Notes to Consolidated Financial Statements**17. 2.25% Convertible Senior Notes Due 2019 (Continued)**

In accordance with ASC 470-20 *Debt with Conversion and Other Options*, the convertible debt instrument within the scope of the cash conversion subsection, was separated into debt and equity components at issuance and be assigned a fair value. The value assigned to the debt component is the estimated fair value, as of the issuance date, of a similar debt without the conversion feature. As of June 30, 2014, the Company determined the fair value of the liability component of the Notes by reviewing market data that was available for senior, unsecured nonconvertible corporate bonds issued by comparable companies. Assumptions used in the estimate represent what market participants would use in pricing the liability component, including market interest rates, credit standing, and yield curves, all of which are defined as level 2 observable inputs. The difference between the cash proceeds and this estimated fair value, represents the value assigned to the equity component and is recorded as a debt discount. The debt discount is amortized using the effective interest method from the origination date through its stated contractual maturity date.

The initial debt component of the Notes was valued at \$283,015,125, based on the contractual cash flows discounted at an appropriate market rate for a non-convertible debt at the date of issuance, which was determined to be 5.55%. The carrying value of the permanent equity component reported in additional paid-in-capital was initially valued at \$46,984,875. The effective interest rate after allocation of transaction costs to the liability component is 6.10% and is used to amortize the debt discount and transaction costs. Additionally, the Company recorded a deferred tax liability related to the additional paid in capital component of the convertible notes amounting to \$16,444,706.

The following table presents the carrying amounts of the liability and equity components:

Amount of the equity component(1)	<u>\$ 45,807,685</u>
2.25% convertible senior notes due 2019	\$330,000,000
Unamortized debt discount(2)	(42,843,705)
Unamortized transaction costs related to the debt component	(6,526,037)
Contractual coupon interest accrual	3,733,125
Contractual coupon interest payment	(3,733,125)
Net carrying amount	<u>\$280,630,258</u>

(1) Net of \$1,177,190 of transaction costs related to the equity component of the Notes.

(2) As of December 31, 2014, the remaining period over which the unamortized debt discount will be amortized is 4.5 years.

[Table of Contents](#)**MercadoLibre, Inc.**
Notes to Consolidated Financial Statements**17. 2.25% Convertible Senior Notes Due 2019 (Continued)**

The following table presents the interest expense for the contractual interest and the accretion of debt discount and the amortization of debt issuance costs:

	Year ended December 31, 2014
Contractual coupon interest expense	\$ 3,733,125
Amortization of debt discount	4,141,170
Amortization of debt issuance costs	568,559
Total interest expense related to Notes	<u>\$ 8,442,854</u>

Capped call transactions

The net proceeds from the Notes were approximately \$321,731,960, after considering the transaction costs in an amount of \$8,268,040. In connection with the issuance of the Notes, the Company paid \$19,668,000 to enter into capped call transactions with respect to its common shares (the "Capped Call Transactions"), with certain financial institutions. The Capped Call Transactions are expected generally to reduce the potential dilution upon conversion of the Convertible Notes and / or offset any cash payments the Company may be required to make in excess of the principal amount of any converted notes in the event that the market price of the common shares is greater than the strike price of the Capped Call Transactions, initially set at \$126.02 per common share, which corresponds to the initial conversion price of the Notes and is subject to anti-dilution adjustments substantially similar to those applicable to the conversion rate of the Notes, and have a cap price of approximately \$155.81 per common share. Therefore, as a result of executing the Capped Call Transactions, the Company will reduce its exposure to potential dilution once the market price of its common shares exceeds the strike price of \$126.02 and up to a cap price of approximately \$155.81 per common share. The Capped Call Transactions allow us to receive shares of our common stock and/or cash related to the excess conversion value that the Company would pay to the holders of the Notes upon conversion, up to the above mentioned cap price.

The \$19,668,000 cost of the capped call transactions, which net of deferred income tax effect amounts to \$12,784,200, is included as a net reduction to additional paid-in capital in the stockholders' equity section of these interim condensed consolidated balance sheets, in accordance with the guidance in ASC 815-40 *Derivatives and Hedging-Contracts in Entity's Own Equity*.

18. Related Party TransactionsIndemnification agreements

The Company has entered into indemnification agreements with each of the directors and executive officers of its local subsidiaries. These agreements require the Company to indemnify such individuals, to the fullest extent permitted by the laws of the jurisdiction where these subsidiaries operate, for certain liabilities to which they may become subject by reason of the fact that such individuals are or were directors or executive officers of the local subsidiaries of the Company.

MercadoLibre, Inc.
Notes to Consolidated Financial Statements

18. Related Party Transactions (Continued)

Curtidos San Luis S.A.

Until February 22, 2011, the Company leased office space from Curtidos San Luis S.A.

Immediate families of Marcos Galperin (CEO) are managers and shareholders of the controlling company of Curtidos San Luis S.A. After February 14, 2011, the Company's Argentine subsidiary moved its headquarters and Argentine operation offices to a new own office building located in the City of Buenos Aires. During the years ended December 31, 2014, 2013 and 2012, the Company did not recognized expenses from Curtidos San Luis S.A. As of December 31, 2012, the Company had recovered the last portion of the lease contract escrow for \$16,553.

During the year ended December 31, 2012, the Company bought VAT credits from Curtidos San Luis S.A. The Company recognized a gain for \$24,472 related to the discount received in the transaction. As of December 31, 2013, there are no receivables related to these transactions.

19. Valuation and qualifying accounts

The following table summarizes valuation and qualifying accounts activity during the years ended December 31, 2014, 2013 and 2012:

	Balance at beginning of year	Charged / credited to Net income / (loss)	Charges Utilized / Write-offs	Balance at end of year
Allowance for doubtful accounts				
Year ended December 31, 2012	15,951,497	17,280,243	(20,285,663)	12,946,077
Year ended December 31, 2013	12,946,077	19,093,704	(13,044,977)	18,994,804
Year ended December 31, 2014	18,994,804	20,863,867	(23,693,230)	16,165,441
Credit cards receivable allowance for chargebacks				
Year ended December 31, 2012	205,107	414,145	(458,794)	160,458
Year ended December 31, 2013	160,458	877,312	(28,699)	1,009,071
Year ended December 31, 2014	1,009,071	668,834	(1,148,677)	529,228
Tax valuation allowance				
Year ended December 31, 2012	2,885,596	837,473	(496,892)	3,226,177
Year ended December 31, 2013	3,226,177	398,223	(535,287)	3,089,113
Year ended December 31, 2014	3,089,113	1,608,264	(166,145)	4,531,232
Contingencies				
Year ended December 31, 2012	1,765,242	2,700,988	(1,666,033)	2,800,197
Year ended December 31, 2013	2,800,197	3,358,538	(2,828,627)	3,330,108
Year ended December 31, 2014	3,330,108	3,650,230	(3,971,801)	3,008,537

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MercadoLibre, Inc.
Notes to Consolidated Financial Statements

20. Quarterly Financial Data (unaudited)

The following tables present certain consolidated quarterly financial information for each of the last twelve quarters for the years ended December 31, 2014, 2013 and 2012:

	Quarter Ended			
	March 31,	June 30,	September 30,	December 31,
2014				
Net Revenues	\$115,382,319	\$131,849,139	\$147,934,895	\$161,369,649
Gross profit	83,842,654	95,477,600	104,533,218	113,704,529
Net Income (loss)	30,327,953	(25,588,478)	33,751,967	34,161,329
Net Income (loss) per share-basic	0.69	(0.58)	0.76	0.76
Net Income (loss) per share-diluted	0.69	(0.58)	0.76	0.76
Weighted average shares				
Basic	44,153,818	44,153,892	44,153,892	44,154,412
Diluted	44,153,818	44,182,668	44,153,892	44,154,412
2013				
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
2012				
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

21. Cash Dividend Distribution

During the fiscal year ended December 31, 2014, the Company approved cash dividends for a total amount of \$29,318,184 or \$0.664 per share, which had all been paid as of the year-end, except for the one approved in October 2014, consisting of \$7,329,546 (or \$0.166 per share, which was paid on January 15, 2015) to stockholders of record as of the close of business on December 31, 2014.

MercadoLibre, Inc.
Notes to Consolidated Financial Statements

21. Cash Dividend Distribution (Continued)

During the fiscal year ended December 31, 2013, the Company approved cash dividends for a total amount of \$25,255,478 or \$0.572 per share, which had all been paid as of the year-end, except for the one approved in October 2013, consisting of 6,313,869 or \$0.143 per share, which was paid on January 15, 2014.

During the fiscal year ended December 31, 2012, the Company approved cash dividends for a total amount of \$19,249,040 or \$0.436 per share, which had all been paid as of the year-end, except for the one approved in October 2012, consisting of \$4,812,396 or \$0.109 per share, which was paid on January 15, 2013.

On February 24, 2015, the board of directors approved a quarterly cash dividend of \$4,596,284 (or \$0.103 per share) on our outstanding shares of common stock. The first quarterly dividend is payable on April 15, 2015 to stockholders of record as of the close of business on March 31, 2015.

22. New Law of “Costs, Earnings, and Fair Profits”

In November 2013 the Venezuelan Congress approved an “enabling law” granting the president of Venezuela the authority to enact laws and regulations in certain policy areas by decree. This authority includes the ability to restrict profit margins and impose greater controls on foreign exchange and the production, import, and distribution of certain goods. Among other actions, the president has used this decree power to pass the Law of Costs, Earnings, and Fair Profits, which became effective in January 2014 and, among other provisions, authorizes the Venezuelan government to set “fair prices” and maximum profit margins in the private sector. The Management of the Company estimates that this new law will not have a significant effect in 2014 as a consequence of losses incurred in the Venezuelan segment during this year. In addition, management of the Company will continue monitoring the potential effects of this new law as the detailed provisions for its implementation are issued in the future.

23. Subsequent Events

In February 2015, the Venezuelan government announced the unification of the SICAD 1 and SICAD 2 foreign exchange systems, into SICAD, with an initial public foreign exchange price of 12 BsF per U.S. dollar. Additionally, on February 10, 2015 it created the “Sistema Marginal de Divisas” (“SIMADI”), a new foreign exchange market, which foreign exchange rate is published daily by the BCV. The first foreign exchange rate was published on February 12, 2015 at 170.04 BsF per U.S. dollar.

As of the date of issuance of these financial statements the Company is assessing the new regulations and any additional rules that may be established to determine whether they will have any effect on the accounting of the financial position and results of the operations in Venezuela in 2015.

* * * *

MercadoLibre Inc.

LIST OF SUBSIDIARIES

Parent company:

MercadoLibre, Inc.

Delaware, USA

Date of Incorporation: October 15, 1999

Subsidiaries:

MercadoLibre S.R.L. (Argentina)

Date of Incorporation: July 29, 1999

MercadoLibre S. de R.L. de C.V. (Mexico)

Date of Incorporation: October 6, 1999

MercadoLivre.Com Atividades de Internet Ltda. (Brazil)

Date of Incorporation: August 16, 1999

MercadoLibre Chile Ltda. (Chile)

Date of Incorporation: January 7, 2000

MercadoLibre Colombia, Ltda. (Colombia)

Date of Incorporation: February 7, 2000

MercadoLibre Venezuela S.R.L. (Venezuela)

Date of Incorporation: March 1, 2000

Ibazar.com Atividades de Internet Ltda. (Brazil)

Date of Incorporation: September 16, 1999

MercadoLibre S.A. (Uruguay)

Date of Incorporation: March 23, 2004

Former name: MercadoLibre Zonaamerica S.A.

MercadoLibre Ecuador Cia. Ltda. (Ecuador)

Date of Incorporation: July 12, 2006

MercadoLibre Perú S.R.L. (Peru)

Date of Incorporation: January 26, 2000

Former name: Deremate.com del Peru S.A.

Hammer.com, LLC

Delaware, USA

Date of Incorporation: November 1, 2005

MercadoPago, LLC

Delaware, USA

Date of Incorporation: April 10, 2006

ListaPop, LLC

Delaware, USA

Date of Incorporation: April 20, 2007

Deremate.com de Mexico S. de R.L. de C.V. (Mexico)

Date of Incorporation: November 9, 1999

Deremate.com de Uruguay S.A. (Uruguay)

Date of Incorporation: June 14, 1999

eBazar.com.br Ltda. (Brazil)

Date of Incorporation: February 11, 1999

MercadoPago.com Representações Ltda. (Brazil)

Date of Incorporation: December 2, 2008

MercadoPago Colombia S.A. (Colombia)

Date of Incorporation: October 25, 2006

MercadoPago S.A. (Chile)

Date of Incorporation: April 7, 2006

Servicios Administrativos y Comerciales, LLC

Delaware, USA

Date of Incorporation: October 11, 2007

PSGAC Prestadora de Servicios Gerenciales, Administrativos y Comerciales, S de R.L. de C.V (Mexico)

Date of Incorporation: November 12, 2007

Classifieds LLC

Delaware, USA

Date of Incorporation in Delaware: June 30, 2008

Former name: CMG Classified Media Group, Inc.

Former jurisdiction: Panama

Grupo Veneclasificados C.A. (Venezuela)

Date of Incorporation: March 11, 2003

DeRemate.com de Argentina S.A. (Argentina)

Date of Incorporation: August 19, 1999

Former name: Etaskforce S.A.

DeRemate.com Chile S.A. (Chile)

Date of Incorporation: January 14, 2000

Interactivos y Digitales México S.A. de C.V. (Mexico)

Date of Incorporation: December 20, 2006

MercadoLibre Costa Rica S.R.L. (Costa Rica)

Date of Incorporation: January 4, 2010

Meli Participaciones S.L. (Spain)

Date of Incorporation: October 21, 2010

A.P. Clasificados, S. de R.L. de C.V. (Mexico)

Date of incorporation: August 29, 2011

Autopark, LLC

Delaware, USA

Date of incorporation: August 9, 2011

Autopark Classifieds, LLC

Delaware, USA

Date of incorporation: August 17, 2011

Meli Uruguay S.R.L. (Uruguay)

Date of incorporation: May 30, 2011

Marketplace Investments, LLC

Delaware, USA

Date of incorporation: October 11, 2011

Meli Technology, Inc.

California, USA

Date of incorporation: July 1, 2011

Neosur S.A.

Ciudad de Cordoba, Argentina

Date of incorporation: September 22, 2006

Meli Inversiones SpA

Santiago, Chile

Date of incorporation: December 23, 2013

Tikleral S.A.

Montevideo, Uruguay

Date of incorporation: January 25, 2013

Brick.com, LLC

Delaware, USA

Date of incorporation: February 6, 2013

Meli Clasificados MLV S.R.L. (Venezuela)

Date of incorporation: February 2, 2012

Business Vision S.A.

Ciudad de Buenos Aires, Argentina

Date of incorporation: Septiembre 9, 2002

Inmobiliaria Web Chile S. de R.L de C.V

Date of incorporation: December 16, 2009

Inmuebles Online SAPI de CV

Date of incorporation: December 16, 2009

MercadoEnvios Servicios de Logística Ltda.

Date of incorporation: March 25, 2014

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (No. 333-151063) and (No. 333-159891) of MercadoLibre, Inc. of our report dated February 27, 2015 relating to the consolidated financial statements and the effectiveness of internal control over financial reporting of MercadoLibre, Inc., which appears in this Form 10-K for the year ended December 31, 2014.

Buenos Aires, Argentina
February 27, 2015

Deloitte & Co S.A.

/s/ Alberto Lopez Camabucci
Partner

**CERTIFICATION PURSUANT TO
RULE 13A 14 OF THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Marcos Galperin, certify that:

1. I have reviewed this Annual Report on Form 10-K for the fiscal year ended December 31, 2014 of MercadoLibre, Inc. (the “registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of registrant’s board of directors (or persons performing the equivalent function):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

February 27, 2015

By: /s/ Marcos Galperin

Marcos Galperin
President and Chief Executive Officer
(Principal Executive Officer)

**CERTIFICATION PURSUANT TO
RULE 13A 14 OF THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Pedro Amt, certify that:

1. I have reviewed this Annual Report on Form 10-K for the fiscal year ended December 31, 2014 of MercadoLibre, Inc. (the “registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of registrant’s board of directors (or persons performing the equivalent function):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

February 27, 2015

By: /s/ Pedro Amt

Pedro Amt
Executive Vice President and
Chief Financial Officer
(Principal Financial Officer)

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report on Form 10-K of MercadoLibre, Inc. (the "Company") for the year ended December 31, 2014, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Marcos Galperin, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Marcos Galperin

Marcos Galperin
President and Chief Executive Officer
(Principal Executive Officer)
February 27, 2015

The foregoing certification is being furnished solely to accompany this report pursuant to 18 U.S.C. 1350, and is not being filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the Company whether made before or after the date hereof, regardless of any general incorporation language in such filing. A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report on Form 10-K of MercadoLibre, Inc. (the "Company") for the year ended December 31, 2014, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Pedro Amt, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Pedro Amt

Pedro Amt

Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

February 27, 2015

The foregoing certification is being furnished solely to accompany this report pursuant to 18 U.S.C. 1350, and is not being filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the Company whether made before or after the date hereof, regardless of any general incorporation language in such filing. A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

