AMAZON COM INC
Form 10-Q
April 27, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2012

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 No. 000-22513

Amazon.com, Inc.

(Exact Name of Registrant as Specified in its Charter)

Delaware	**91-1646860**
(State or Other Jurisdiction of	**(I.R.S. Employer**
Incorporation or Organization)	**Identification No.)**

410 Terry Avenue North, Seattle, WA 98109-5210

(206) 266-1000

(Address and Telephone Number, Including Area Code, of Registrant s Principal Executive Offices)

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 x 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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.

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

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

450,525,501 shares of common stock, par value $0.01 per share, outstanding as of April 13, 2012

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AMAZON.COM, INC.

FORM 10-Q

For the Quarterly Period Ended March 31, 2012

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

AMAZON.COM, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)

(unaudited)

	Three Months Ended March 31,		Twelve Months Ended March 31,	
	2012	2011	2012	2011
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	$ 5,269	$ 3,777	$ 2,641	$ 1,844
OPERATING ACTIVITIES:				
Net income	130	201	561	1,054
Adjustments to reconcile net income to net cash from operating activities:				
Depreciation of fixed assets, including internal-use software and website development, and other amortization	457	202	1,338	652
Stock-based compensation	160	110	605	448
Other operating expense (income), net	46	33	168	112
Losses (gains) on sales of marketable securities, net	(2)	2	(8)	1
Other expense (income), net	15	37	(78)	(36)
Deferred income taxes	(38)	15	83	38
Excess tax benefits from stock-based compensation	(40)	(46)	(56)	(219)
Changes in operating assets and liabilities:				
Inventories	747	343	(1,374)	(997)
Accounts receivable, net and other	746	359	(479)	(170)
Accounts payable	(4,258)	(2,649)	1,388	1,641
Accrued expenses and other	(529)	(183)	721	697
Additions to unearned revenue	397	210	1,252	709
Amortization of previously unearned revenue	(269)	(220)	(1,070)	(897)
Net cash provided by (used in) operating activities	(2,438)	(1,586)	3,051	3,033
INVESTING ACTIVITIES:				
Purchases of fixed assets, including internal-use software and website development	(386)	(298)	(1,899)	(1,138)
Acquisitions, net of cash acquired, and other	(50)	(139)	(615)	(473)
Sales and maturities of marketable securities and other investments	1,738	1,939	6,641	5,318
Purchases of marketable securities and other investments	(852)	(1,112)	(5,997)	(6,135)
Net cash provided by (used in) investing activities	450	390	(1,870)	(2,428)
FINANCING ACTIVITIES:				
Excess tax benefits from stock-based compensation	40	46	56	219
Common stock repurchased	(960)		(1,237)	
Proceeds from long-term debt and other	68	89	154	168
Repayments of long-term debt, capital lease, and finance lease obligations	(153)	(111)	(483)	(295)
Net cash provided by (used in) financing activities	(1,005)	24	(1,510)	92
Foreign-currency effect on cash and cash equivalents	12	36	(24)	100

Net increase (decrease) in cash and cash equivalents	(2,981)	(1,136)	(353)	797
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 2,288	$ 2,641	$ 2,288	$ 2,641
SUPPLEMENTAL CASH FLOW INFORMATION:				
Cash paid for interest on long term debt	$ 6	$ 3	$ 17	$ 12
Cash paid for income taxes (net of refunds)	19	7	45	79
Fixed assets acquired under capital leases	149	181	721	526
Fixed assets acquired under build-to-suit leases	17	69	207	182

See accompanying notes to consolidated financial statements.

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AMAZON.COM, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(in millions, except per share data)

(unaudited)

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Net product sales	$ 11,249	$ 8,698
Net services sales	1,936	1,159
Total net sales	13,185	9,857
Operating expenses (1):		
Cost of sales	10,027	7,608
Fulfillment	1,295	855
Marketing	480	327
Technology and content	945	579
General and administrative	200	133
Other operating expense (income), net	46	33
Total operating expenses	12,993	9,535
Income from operations	192	322
Interest income	12	15
Interest expense	(21)	(12)
Other income (expense), net	(99)	(18)
Total non-operating income (expense)	(108)	(15)
Income before income taxes	84	307
Provision for income taxes	(43)	(89)
Equity-method investment activity, net of tax	89	(17)
Net income	$ 130	$ 201
Basic earnings per share	$ 0.29	$ 0.44
Diluted earnings per share	$ 0.28	$ 0.44
Weighted average shares used in computation of earnings per share:		
Basic	453	451
Diluted	460	459

(1) Includes stock-based compensation as follows:

Fulfillment	$	37	$	24
Marketing		12		7
Technology and content		85		61
General and administrative		26		18

See accompanying notes to consolidated financial statements.

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AMAZON.COM, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in millions)

(unaudited)

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Net income	$ 130	$ 201
Other comprehensive income:		
Foreign currency translation adjustments, net of tax of $(38) and $(7)	137	135
Change in unrealized gains on available-for-sale securities, net of tax of $(2) and $(5)	5	(11)
Total other comprehensive income	142	124
Comprehensive income	$ 272	$ 325

See accompanying notes to consolidated financial statements.

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AMAZON.COM, INC.

CONSOLIDATED BALANCE SHEETS

(in millions, except per share data)

	March 31, 2012 (unaudited)	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,288	$ 5,269
Marketable securities	3,427	4,307
Inventories	4,255	4,992
Accounts receivable, net and other	1,813	2,571
Deferred tax assets	371	351
Total current assets	12,154	17,490
Fixed assets, net	4,653	4,417
Deferred tax assets	27	28
Goodwill	1,970	1,955
Other assets	1,535	1,388
Total assets	$ 20,339	$ 25,278
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 6,886	$ 11,145
Accrued expenses and other	3,602	3,751
Total current liabilities	10,488	14,896
Long-term liabilities	2,580	2,625
Commitments and contingencies		
Stockholders equity:		
Preferred stock, $0.01 par value:		
Authorized shares 500		
Issued and outstanding shares none		
Common stock, $0.01 par value:		
Authorized shares 5,000		
Issued shares 474 and 473		
Outstanding shares 450 and 455	5	5
Treasury stock, at cost	(1,837)	(877)
Additional paid-in capital	7,192	6,990
Accumulated other comprehensive loss	(174)	(316)
Retained earnings	2,085	1,955
Total stockholders equity	7,271	7,757
Total liabilities and stockholders equity	$ 20,339	$ 25,278

See accompanying notes to consolidated financial statements.

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AMAZON.COM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

Note 1 Accounting Policies

Unaudited Interim Financial Information

We have prepared the accompanying consolidated financial statements pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC) for interim financial reporting. These consolidated financial statements are unaudited and, in our opinion, include all adjustments, consisting of normal recurring adjustments and accruals necessary for a fair presentation of our consolidated balance sheets, operating results, and cash flows for the periods presented. Operating results for the periods presented are not necessarily indicative of the results that may be expected for 2012 due to seasonal and other factors. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States (GAAP) have been omitted in accordance with the rules and regulations of the SEC. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and accompanying notes in Item 8 of Part II, Financial Statements and Supplementary Data, of our 2011 Annual Report on Form 10-K.

Principles of Consolidation

The consolidated financial statements include the accounts of Amazon.com, Inc., its wholly-owned subsidiaries, and those entities in which we have a variable interest and are the primary beneficiary (collectively, the Company). Intercompany balances and transactions have been eliminated.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses, and related disclosures of contingent liabilities in the consolidated financial statements and accompanying notes. Estimates are used for, but not limited to, determining the selling price of products and services in multiple element revenue arrangements and determining the lives of these elements, incentive discount offers, sales returns, vendor funding, stock-based compensation, income taxes, valuation of investments and inventory, collectability of receivables, valuation of acquired intangibles and goodwill, depreciable lives of fixed assets and internally-developed software and contingencies. Actual results could differ materially from those estimates.

Equity-method investments

Equity investments, including our 29% investment in LivingSocial, are accounted for using the equity-method of accounting if the investment gives us the ability to exercise significant influence, but not control, over an investee. The total of our investments in equity-method investees, including identifiable intangible assets, deferred tax liabilities and goodwill, is included within Other assets on our consolidated balance sheets. Our share of the earnings or losses as reported by equity-method investees, amortization of the related intangible assets, and related gains or losses, if any, are classified as Equity-method investment activity, net of tax on our consolidated statements of operations. Our share of the net income or loss of our equity-method investees includes operating and non-operating gains and charges, which can have a significant impact on our reported equity-method investment activity and the carrying value of those investments. We regularly evaluate these investments, which are not carried at fair value, for other-than-temporary impairment.

We record purchases, including incremental purchases, of shares in equity-method investees at cost. Reductions in our ownership percentage of an investee, including through dilution, are generally valued at fair value, with the difference between fair value and our recorded cost reflected as a gain or loss in our equity-method investment activity. In the event we no longer have the ability to exercise significant influence over an equity-method investee, we would discontinue accounting for the investment under the equity method.

Recent Accounting Pronouncements

In 2011, the Financial Accounting Standards Board (FASB) issued two Accounting Standard Updates (ASU), which amend guidance for the presentation of comprehensive income. The amended guidance requires an entity to present components of net income and other comprehensive income in one continuous statement, referred to as the statement of comprehensive income, or in two separate, but consecutive statements. The current option to report other comprehensive income and its components in the statement of stockholders equity has been eliminated. Although the new guidance changes the presentation of comprehensive income, there are no changes to the components that are recognized in net income or other comprehensive income under existing guidance. We adopted these ASUs using two consecutive statements in Q1 2012 for all periods presented.

Note 2 Cash, Cash Equivalents, and Marketable Securities

As of March 31, 2012, and December 31, 2011, our cash, cash equivalents, and marketable securities primarily consisted of cash, U.S. and foreign government and agency securities, AAA-rated money market funds, and other investment grade securities. Our marketable fixed-income securities have effective maturities of less than 5 years. Cash equivalents and marketable securities are recorded at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. To increase the comparability of fair value measures, the following hierarchy prioritizes the inputs to valuation methodologies used to measure fair value:

Level 1 Valuations based on quoted prices for identical assets and liabilities in active markets.

Level 2 Valuations based on observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.

Level 3 Valuations based on unobservable inputs reflecting our own assumptions, consistent with reasonably available assumptions made by other market participants. These valuations require significant judgment.

We measure the fair value of money market funds and equity securities based on quoted prices in active markets for identical assets or liabilities. All other financial instruments were valued either based on recent trades of securities in inactive markets or based on quoted market prices of similar instruments and other significant inputs derived from or corroborated by observable market data. We did not hold any cash, cash equivalents, or marketable securities categorized as Level 3 as of March 31, 2012, or December 31, 2011.

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The following table summarizes, by major security type, our cash, cash equivalents, and marketable securities that are measured at fair value on a recurring basis and are categorized using the fair value hierarchy (in millions):

	March 31, 2012				December 31, 2011
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Total Estimated Fair Value	Total Estimated Fair Value
Cash	$ 1,044	$	$	$ 1,044	$ 1,207
Level 1 securities:					
Money market funds	1,231			1,231	3,651
Equity securities	2		(1)	1	1
Level 2 securities:					
Foreign government and agency securities	1,193	15		1,208	1,640
U.S. government and agency securities	1,689	4	(2)	1,691	2,593
Corporate debt securities	649	5		654	563
Asset-backed securities	54			54	55
Other fixed income securities	16			16	22
	$ 5,878	$ 24	$ (3)	$ 5,899	$ 9,732
Less: Restricted cash, cash equivalents, and marketable securities (1)				(184)	(156)
Total cash, cash equivalents, and marketable securities				$ 5,715	$ 9,576

(1) We are required to pledge or otherwise restrict a portion of our cash, cash equivalents, and marketable securities as collateral for standby letters of credit, guarantees, debt and real estate lease agreements. We classify cash and marketable securities with use restrictions of less than twelve months as Accounts receivable, net and other and of twelve months or longer as non-current Other assets on our consolidated balance sheets. See Note 3 Commitments and Contingencies.

Note 3 Commitments and Contingencies

Commitments

We have entered into non-cancellable operating, capital and financing leases for equipment and office, fulfillment center, and data center facilities. Rental expense under operating lease agreements was $111 million and $74 million for Q1 2012 and Q1 2011.

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The following summarizes our principal contractual commitments, excluding open orders for inventory purchases that support normal operations, as of March 31, 2012:

	Nine Months Ended December 31, 2012	Year Ended December 31,					
		2013	2014	2015	2016	Thereafter	Total
	(in millions)						
Operating and capital commitments:							
Debt principal and interest	$ 118	$ 287	$ 2	$ 34	$	$	$ 441
Capital leases, including interest	328	361	201	70	35	76	1,071
Financing lease obligations, including interest	37	51	54	55	56	598	851
Operating leases	327	476	469	410	353	1,609	3,644
Unconditional purchase obligations	94	140	87	58	25		404
Other commitments (1) (2)	336	120	51	48	46	465	1,066
Total commitments	$ 1,240	$ 1,435	$ 864	$ 675	$ 515	$ 2,748	$ 7,477

(1) Includes the estimated timing and amounts of payments for rent, operating expenses, and tenant improvements associated with build-to-suit leases that have not been placed in service.

(2) Excludes $233 million of tax contingencies for which we cannot make a reasonably reliable estimate of the amount and period of payment, if any.

Pledged Securities

As of March 31, 2012, and December 31, 2011, we have pledged or otherwise restricted $184 million and $156 million of our cash and marketable securities as collateral for standby and trade letters of credit, guarantees, debt related to our international operations, as well as real estate leases.

Legal Proceedings

The Company is involved from time to time in claims, proceedings and litigation, including the matters described in Item 8 of Part II, Financial Statements and Supplementary Data Note 7 Commitments and Contingencies Legal Proceedings and Other Contingencies of our 2011 Annual Report on Form 10-K, as supplemented by the following:

In October 2009, Eolas Technologies Incorporated filed a complaint against us for patent infringement in the United States District Court for the Eastern District of Texas. The complaint alleges, among other things, that our website technology infringes two patents owned by Eolas purporting to cover Distributed Hypermedia Method for Automatically Invoking External Application Providing Interaction and Display of Embedded Objects within a Hypermedia Document (U.S. Patent No. 5,838,906) and Distributed Hypermedia Method and System for Automatically Invoking External Application Providing Interaction and Display of Embedded Objects within a Hypermedia Document (U.S. Patent No. 7,599,985) and seeks injunctive relief, monetary damages, costs and attorneys fees. In February 2012, the Court held a jury trial to determine the validity of the asserted patent claims, and the jury found all asserted claims invalid. The plaintiff is expected to appeal.

In November 2010, Kelora Systems, LLC filed a complaint against us for patent infringement in the United States District Court for the Western District of Wisconsin. The complaint alleges that our website infringes a patent owned by Kelora Systems purporting to cover a Method and system for executing a guided parametric search (U.S. Patent No. 6,275,821) and seeks monetary damages, costs, attorneys fees, and injunctive relief. In August 2011, Kelora filed an amended complaint adding Amazon subsidiaries Audible and Zappos as defendants. In April 2012, Kelora s damages expert opined that, if we are found to infringe the patent-in-suit and the patent is found to be valid (both of which we dispute), Amazon and its affiliates should pay damages of approximately $25 million. While our damages expert has not yet issued its report, we anticipate that the expert will opine that, under the same circumstances, the maximum damages fairly recoverable against Amazon and its affiliates would be substantially lower. Kelora s damages could be trebled if Kelora prevails in its claim that any infringement was willful. We dispute the allegations of wrongdoing and intend to vigorously defend ourselves in this matter.

In April 2011, Walker Digital LLC filed several complaints against us for patent infringement in the United States District Court for the District of Delaware. The complaints allege that we infringe several of the plaintiff s U.S. patents by, among other things, providing cross benefits to customers through our promotions, (U.S. Patent Nos. 7,831,470 and 7,827,056), using a customer s identified original product to offer a substitute product (U.S. Patent No. 7,236,942), using our product recommendations and personalization features to offer complementary products together (U.S. Patent Nos. 6,601,036 and 6,138,105), enabling customers to

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subscribe to a delivery schedule for products they routinely use at reduced prices (U.S. Patent No. 5,970,470), and offering personalized advertising based on customers preferences identified using a data pattern (U.S. Patent No. 7,933,893). Another complaint, filed in the same court in October 2011, alleges that we infringe plaintiff s U.S. Patent No. 8,041,711 by offering personalized advertising based on customer preferences that associate data with resource locators. Another complaint, filed in the same court in February 2012, alleges that we infringe plaintiff s U.S. Patent No. 8,112,359 by using product information received from customers to identify and offer substitute products using a manufacturer database. The complaints seek monetary damages, interest, injunctive relief, costs, and attorneys fees. We dispute the allegations of wrongdoing and intend to vigorously defend ourselves in these matters.

In September 2011, Execware, LLC filed a complaint against us for patent infringement in the United States District Court for the District of Delaware. The complaint alleged, among other things, that by rapidly formatting and reformatting tabular displays of records, such as product listings on our websites, Amazon infringes a patent owned by the plaintiff purporting to cover an Integrated Dialog Box for Rapidly Altering Presentation of Parametric Text Data Objects on a Computer Display (U.S. Patent No. 6,216,139), and sought monetary damages, injunctive relief, costs, and attorneys fees. In March 2012, we entered into a settlement of the litigation that included, among other things, a payment to the plaintiff and a non-exclusive patent license agreement. The settlement was not material to either the current or future years.

In March 2012, Data Carriers, LLC filed a complaint against us in the United States District Court for the District of Delaware alleging, among other things, that certain aspects of the software used in Kindle and on www.amazon.com, www.imdb.com, www.zappos.com, www.wireless.amazon.com, and www.audible.com infringe U.S. Patent No. 5,388,198, entitled Proactive Presentation of Automating Features to a Computer User. The complaint seeks an unspecified amount of damages, attorneys fees, and interest. We dispute the allegations of wrongdoing and intend to vigorously defend ourselves in this matter.

In March 2012, OIP Technologies, Inc. filed a complaint against us for patent infringement in the United States District Court for the Northern District of California. The complaint alleges, among other things, that certain aspects of our pricing methods infringe U.S. Patent No. 7,970,713, entitled Method and Apparatus for Automatic Pricing in Electronic Commerce. The complaint seeks three times an unspecified amount of damages, attorneys fees, and interest. We dispute the allegations of wrongdoing and intend to vigorously defend ourselves in this matter.

We cannot predict the impact (if any) that any of the matters described above or in our 2011 Annual Report on Form 10-K, may have on our business, results of operations, financial position, or cash flows. Because of the inherent uncertainties of such matters, including the early stage and lack of specific damage claims in many of them, we cannot estimate the range of possible losses from them (except as otherwise indicated).

Other Contingencies

In September 2010, the State of Texas issued an assessment of $269 million for uncollected sales taxes for the period from December 2005 to December 2009, including interest and penalties through the date of the assessment. The State of Texas alleged that we should have collected sales taxes on applicable sales transactions during those years. While we continue to believe the assessment was without merit, in April 2012, we entered into a settlement with the State of Texas that included an agreement to collect sales taxes on applicable sales transactions for our US-focused internet retailers beginning July 1, 2012, resolution of Texas sales taxes up to that date, certain commitments related to capital investment and job creation in the state, and an immaterial payment to the state.

See also Note 6 Income Taxes.

Note 4 Equity-Method Investments

Our equity-method investments include a 29% interest in LivingSocial. Summarized condensed financial information for this investee, as provided to us by LivingSocial, is as follows (in millions):

	Three Months Ended March 31,	
	2012	**2011**
Statement of Operations:		
Revenue	$ 110	$ 41
Operating expense	202	144

Operating loss	(92)	(103)
Net income (loss) (1)	$ 156	$ (60)

(1) The difference between the operating loss and net income in Q1 2012 is primarily due to the recognition of non-operating, non-cash gains on previously held equity positions in companies that LivingSocial acquired during the quarter.

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As of March 31, 2012, the book value of our LivingSocial investment was $298 million. The summarized financial information is included for the periods in which we held an equity-method ownership interest.

Note 5 Stockholders Equity

Stock Repurchase Activity

In January 2010, our Board of Directors authorized the Company to repurchase up to $2 billion of our common stock with no fixed expiration. We repurchased 1.5 million shares of common stock for $277 million in 2011 and 5.3 million shares of our common stock for $960 million in Q1 2012 under this program.

Stock Award Activity

We granted restricted stock units representing 0.9 million and 0.7 million shares of common stock with a per share weighted average fair value of $190.93 and $171.47 during Q1 2012 and Q1 2011.

Common shares outstanding plus shares underlying outstanding stock awards totaled 464 million and 468 million at March 31, 2012, and December 31, 2011. These totals include all vested and unvested stock-based awards outstanding, including those awards we estimate will be forfeited. The following table summarizes our restricted stock unit activity for the three months ended March 31, 2012 (in millions):

	Number of Units
Outstanding at December 31, 2011	13.1
Units granted	0.9
Units vested	(0.8)
Units forfeited	(0.3)
Outstanding at March 31, 2012	12.9

Scheduled vesting for outstanding restricted stock units at March 31, 2012, is as follows (in millions):

	Nine Months Ended December 31,	Year Ended December 31,					
	2012	2013	2014	2015	2016	Thereafter	Total
Scheduled vesting restricted stock units	3.5	4.2	2.8	1.7	0.7	0.0	12.9

As of March 31, 2012, there was $822 million of net unrecognized compensation cost related to unvested stock-based compensation arrangements. This compensation is recognized on an accelerated basis, with approximately half of the compensation expected to be expensed in the next twelve months, and has a weighted average recognition period of 1.2 years.

Note 6 Income Taxes

Our tax provision for interim periods is determined using an estimate of our annual effective tax rate, adjusted for discrete items, if any, that are taken into account in the relevant period. Each quarter we update our estimate of the annual effective tax rate, and if our estimated tax rate changes, we make a cumulative adjustment.

Our quarterly tax provision, and our quarterly estimate of our annual effective tax rate is subject to significant volatility due to several factors, including from variability in accurately predicting our pre-tax and taxable income and loss and the mix of jurisdictions to which they relate, changes in how we do business, acquisitions (including integrations) and investments, foreign currency gains (losses), changes in law and relative changes of expenses or losses for which tax benefits are not recognized. Additionally, our effective tax rate can be more or less volatile based on the amount of pre-tax income. For example, the impact of discrete items and non-deductible expenses on our effective tax rate is greater when our pre-tax income is lower.

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In 2012, our effective tax rate will reflect the favorable impact of earnings in lower tax rate jurisdictions that primarily relate to our European operations, which are headquartered in Luxembourg, offset by the adverse effect of losses incurred in other foreign jurisdictions for which we may not realize a tax benefit and have therefore recorded a valuation allowance against the related deferred tax asset. Such losses reduce our pre-tax income without a corresponding reduction in our tax expense, and therefore increase our effective tax rate. Our effective tax rate may also be adversely impacted by the amount of our pre-tax income relative to our income tax expense, nondeductible expenses, and changes in tax law such as the expiration of the US federal research and development credit at the end of 2011. Taking these items into account, we estimate our annual effective tax rate to be higher than both the 35% US federal statutory rate and our 2011 effective tax rate.

As compared to our current estimate of annual 2012 pre-tax income, we generated a disproportionate amount of losses during Q1 2012 in jurisdictions for which no tax benefit is recognized. Accordingly, our 51% Q1 2012 effective tax rate is higher than both our current estimated annual effective rate and our 2011 effective tax rate.

Cash paid for income taxes (net of refunds) was $19 million and $7 million in Q1 2012 and Q1 2011.

As of March 31, 2012 and December 31, 2011, gross unrecognized tax benefits (tax contingencies) were $233 million and $229 million. Due to the nature of our business operations, we expect the total amount of our tax contingencies for prior period tax positions will grow in 2012 in comparable amounts to 2011; however, changes in state and federal tax laws or tax assessments may impact our tax contingencies. It is reasonably possible that within the next 12 months, we will receive additional assessments by various tax authorities. These assessments may or may not result in changes to our contingencies.

We are under examination by the IRS for calendar years 2005 and 2006 and may be subject to examination by the IRS for all years thereafter. Certain of our subsidiaries are under examination or investigation or may be subject to examination or investigation by the French Tax Administration (FTA) for calendar year 2006 or thereafter. In March 2012, the U.S. and Japanese tax authorities reached an agreement on the allocation of our income between the U.S. and Japan for calendar years 2006 through 2012. The amount of tax expense, net of related foreign tax credits, recorded for this agreement was not significant. We are also subject to taxation in various states and other foreign jurisdictions including China, Germany, Luxembourg, and the United Kingdom. We are or may be subject to examination by these particular tax authorities for the calendar year 2003 and thereafter.

Note 7 Segment Information

We have organized our operations into two principal segments: North America and International. We present our segment information along the same lines that our chief executive reviews our operating results in assessing performance and allocating resources.

We allocate to segment results the operating expenses Fulfillment, Marketing, Technology and content, and General and administrative, but exclude from our allocations the portions of these expense lines attributable to stock-based compensation. We do not allocate the line item Other operating expense (income), net to our segment operating results. A majority of our costs for Technology and content are incurred in the United States and most of these costs are allocated to our North America segment. There are no internal revenue transactions between our reporting segments.

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Information on reportable segments and reconciliation to consolidated net income was as follows:

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
	(in millions)	
North America		
Net sales	$ 7,427	$ 5,465
Segment operating expenses (1)	7,078	5,175
Segment operating income	$ 349	$ 290
International		
Net sales	$ 5,758	$ 4,392
Segment operating expenses (1)	5,709	4,217
Segment operating income	$ 49	$ 175
Consolidated		
Net sales	$ 13,185	$ 9,857
Segment operating expenses (1)	12,787	9,392
Segment operating income	398	465
Stock-based compensation	(160)	(110)
Other operating income (expense), net	(46)	(33)
Income from operations	192	322
Total non-operating income (expense)	(108)	(15)
Provision for income taxes	(43)	(89)
Equity-method investment activity, net of tax	89	(17)
Net income	$ 130	$ 201

(1) Represents operating expenses, excluding stock-based compensation and Other operating expense (income), net, which are not allocated to segments.

Net sales of similar products and services were as follows:

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
	(in millions)	
Net Sales:		
Media	$ 4,710	$ 3,958
Electronics and other general merchandise	7,975	5,588
Other (1)	500	311
	$ 13,185	$ 9,857

(1) Includes non-retail activities, such as Amazon Web Services (AWS), miscellaneous marketing and promotional agreements, our co-branded credit card agreements, and other seller sites.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

This Quarterly Report on Form 10-Q includes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical fact, including statements regarding guidance, industry prospects or future results of operations or financial position, made in this Quarterly Report on Form 10-Q are forward-looking. We use words such as anticipates, believes, expects, future, intends, and similar expressions to identify forward-looking statements. Forward-looking statements reflect management s current expectations and are inherently uncertain. Actual results could differ materially for a variety of reasons, including, among others, fluctuations in foreign exchange rates, changes in global economic conditions and consumer spending, world events, the rate of growth of the Internet and online commerce, the amount that Amazon.com invests in new business opportunities and the timing of those investments, the mix of products sold to customers, the mix of net sales derived from products as compared with services, the extent to which we owe income taxes, competition, management of growth, potential fluctuations in operating results, international growth and expansion, the outcomes of legal proceedings and claims, fulfillment center optimization, risks of inventory management, seasonality, the degree to which the Company enters into, maintains, and develops commercial agreements, acquisitions, and strategic transactions, payments risks, and risks of fulfillment throughput and productivity. In addition, the current global economic climate amplifies many of these risks. These risks and uncertainties, as well as other risks and uncertainties that could cause our actual results to differ significantly from management s expectations, are described in greater detail in Item 1A of Part II, Risk Factors.

For additional information, see Item 7 of Part II, Management s Discussion and Analysis of Financial Condition and Results of Operations Overview of our 2011 Annual Report on Form 10-K.

Critical Accounting Judgments

The preparation of financial statements in conformity with GAAP requires estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities in the consolidated financial statements and accompanying notes. The SEC has defined a company s critical accounting policies as the ones that are most important to the portrayal of the company s financial condition and results of operations, and which require the company to make its most difficult and subjective judgments, often as a result of the need to make estimates of matters that are inherently uncertain. Based on this definition, we have identified the critical accounting policies and judgments addressed below. We also have other key accounting policies, which involve the use of estimates, judgments, and assumptions that are significant to understanding our results. For additional information, see Item 8 of Part II, Financial Statements and Supplementary Data Note 1 Description of Business and Accounting Policies, of our 2011 Annual Report on Form 10-K and Item 1 of Part I, Financial Statements Note 1 Accounting Policies, of this Form 10-Q. Although we believe that our estimates, assumptions, and judgments are reasonable, they are based upon information presently available. Actual results may differ significantly from these estimates under different assumptions, judgments, or conditions.

Inventories

Inventories, consisting of products available for sale, are primarily accounted for using the first-in first-out (FIFO) method, and are valued at the lower of cost or market value. This valuation requires us to make judgments, based on currently-available information, about the likely method of disposition, such as through sales to individual customers, returns to product vendors, or liquidations, and expected recoverable values of each disposition category.

These assumptions about future disposition of inventory are inherently uncertain. As a measure of sensitivity, for every 1% of additional inventory valuation allowance at March 31, 2012 we would have recorded an additional cost of sales of approximately $43 million.

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Goodwill

We evaluate goodwill for impairment annually or more frequently when an event occurs or circumstances change that indicate that the carrying value may not be recoverable. Our annual testing date is October 1. We test goodwill for impairment by first comparing the book value of net assets to the fair value of the reporting units. If the fair value is determined to be less than the book value or qualitative factors indicate that it is more likely than not that goodwill is impaired, a second step is performed to compute the amount of impairment as the difference between the estimated fair value of goodwill and the carrying value. We estimate the fair value of the reporting units using discounted cash flows. Forecasts of future cash flow are based on our best estimate of future net sales and operating expenses, based primarily on expected category expansion, pricing, market segment share, and general economic conditions. Certain estimates of discounted cash flows involve businesses and geographies with limited financial history and developing revenue models. Changes in these forecasts could significantly change the amount of impairment recorded, if any.

During the quarter, management monitored the actual performance of the business relative to the fair value assumptions used during our annual goodwill impairment test. For the periods presented, no triggering events were identified that required an update to our annual impairment test. As a measure of sensitivity, a 10% decrease in the fair value of any of our reporting units as of December 31, 2011, would have had no impact on the carrying value of our goodwill.

Financial and credit market volatility directly impacts our fair value measurement through our weighted average cost of capital that we use to determine our discount rate and through our stock price that we use to determine our market capitalization. During times of volatility, significant judgment must be applied to determine whether credit or stock price changes are a short-term swing or a longer-term trend. As a measure of sensitivity, a prolonged 20% decrease from our March 31, 2012, closing stock price would not be an indicator of possible impairment.

Stock-Based Compensation

We measure compensation cost for stock awards at fair value and recognize it as compensation expense over the service period for awards expected to vest. The fair value of restricted stock units is determined based on the number of shares granted and the quoted price of our common stock. The estimation of stock awards that will ultimately vest requires judgment for the amount that will be forfeited, and to the extent actual results or updated estimates differ from our current estimates, such amounts will be recorded as a cumulative adjustment in the period estimates are revised. We consider many factors when estimating expected forfeitures, including employee class, economic environment, and historical experience. We update our estimated forfeiture rate quarterly. A 1% change to our estimated forfeiture rate would have had an approximately $18 million impact on our Q1 2012 operating income. Our estimated forfeiture rate at March 31, 2012, and December 31, 2011, was 28% for both periods.

We utilize the accelerated method, rather than the straight-line method, for recognizing compensation expense. For example, over 50% of the compensation cost related to an award vesting ratably over four years is expensed in the first year. If forfeited early in the life of an award, the forfeited amount is much greater under an accelerated method than under a straight-line method.

Income Taxes

We are subject to income taxes in both the U.S. and numerous foreign jurisdictions. Significant judgment is required in evaluating and estimating our tax positions and determining our provision and accruals for these taxes. During the ordinary course of business, there are many transactions and calculations for which the ultimate tax determination is uncertain. For example, our 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 losses incurred in jurisdictions for which we are not able to realize the related tax benefit, by changes in foreign currency exchange rates, by entry into new businesses and geographies and changes to our existing businesses, by acquisitions, by changes in the valuation of our deferred tax assets and liabilities, or by changes in the relevant tax, accounting and other laws, regulations, principles and interpretations. We are subject to audit in various jurisdictions, and such jurisdictions may assess additional income tax against us. Although we believe our tax estimates are reasonable, the final determination of tax audits and any related litigation could be materially different from our historical income tax provisions and accruals. The results of an audit or litigation could have a material effect on our operating results or cash flows in the period or periods for which that determination is made, as well as prior and subsequent periods.

If we determine that additional portions of our deferred tax assets are realizable, the majority of the benefit will come from the assets associated with the stock-based compensation that was not recognized in the financial statements, but was claimed on the tax return. Since this compensation did not originally run through our consolidated statements of operations, the benefit generated will be recorded to stockholders equity.

Recent Accounting Pronouncements

See Item 1 of Part I, Financial Statements Note 1 Accounting Policies Recent Accounting Pronouncements.

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Liquidity and Capital Resources

Cash flow information is as follows:

	Three Months Ended March 31,		Twelve Months Ended March 31,	
	2012	2011	2012	2011
	(in millions)		(in millions)	
Operating activities	$ (2,438)	$ (1,586)	$ 3,051	$ 3,033
Investing activities	450	390	(1,870)	(2,428)
Financing activities	(1,005)	24	(1,510)	92

Our financial focus is on long-term, sustainable growth in free cash flow[1]. Free cash flow, a non-GAAP financial measure, was $1.15 billion for the trailing twelve months ended March 31, 2012, compared to $1.90 billion for the trailing twelve months ended March 31, 2011, a decrease of 39%. See Non-GAAP Financial Measures below for a reconciliation of free cash flow to cash provided by operating activities. The decrease in free cash flow for the trailing twelve months ended March 31, 2012, compared to the comparable prior year period was primarily due to increased capital expenditures, changes in working capital[2], and less net income, partially offset by decreases in noncash expenses, increases in deferred revenue, and increases in sales of gift certificates to customers. Tax benefits relating to excess stock-based compensation deductions are presented in the statement of cash flows as financing cash inflows; accordingly, as such tax benefits decline, a greater amount of cash is classified as operating cash inflow. Operating cash flows and free cash flows can be volatile and are sensitive to many factors, including changes in working capital, the timing and magnitude of capital expenditures, and our federal taxable income. Working capital at any specific point in time is subject to many variables, including seasonality, inventory management and category expansion, the timing of cash receipts and payments, vendor payment terms, and fluctuations in foreign exchange rates.

Our principal sources of liquidity are cash flows generated from operations and our cash, cash equivalents, and marketable securities balances, which, at fair value, were $5.7 billion and $9.6 billion at March 31, 2012, and December 31, 2011. Amounts held in foreign currencies were $3.0 billion and $4.1 billion at March 31, 2012, and December 31, 2011, and were primarily Euros, British Pounds and Japanese Yen.

Cash provided by (used in) operating activities was $(2.4) billion and $(1.6) billion for Q1 2012 and Q1 2011. Our operating cash flows result primarily from cash received from our consumer, seller, and enterprise customers, miscellaneous marketing and promotional agreements, and our co-branded credit card agreements, offset by cash payments we make for products and services, employee compensation (less amounts capitalized related to internal use software that are reflected as cash used in investing activities), payment processing and related transaction costs, operating leases, and interest payments on our long-term obligations. Cash received from our consumer, seller, and enterprise customers, and other activities generally corresponds to our net sales. Because consumers primarily use credit cards to buy from us, our receivables from consumers settle quickly. Changes to our operating cash flows have historically been driven primarily by changes in operating income and changes to the components of working capital, including changes to receivable and payable days and inventory turns, as well as changes to non-cash items such as excess stock-based compensation and deferred taxes.

(1) Free cash flow, a non-GAAP financial measure, is defined as net cash provided by operating activities less purchases of fixed assets, including capitalized internal-use software and website development, both of which are presented on our consolidated statements of cash flows. See Non-GAAP Financial Measures below.

(2) Working capital consists of accounts receivable, inventory, and accounts payable.

Cash provided by (used in) investing activities corresponds with capital expenditures, including leasehold improvements, internal-use software and website development costs, cash outlays for acquisitions, investments in other companies, and intellectual property rights, and purchases, sales, and maturities of marketable securities. Cash provided by (used in) investing activities was $450 million and $390 million for Q1 2012 and Q1 2011, with the variability caused primarily by purchases, maturities, and sales of marketable securities and other investments, increased capital expenditures, and increases in cash paid for acquisitions. Capital expenditures were $386 million and $298 million during Q1 2012 and Q1 2011, with the sequential increases primarily reflecting additional investments in support of continued business growth due to investments in technology infrastructure, including AWS, and additional capacity to support our fulfillment operations. We expect this trend to continue over time. Capital expenditures included $75 million and $52 million for internal-use software and website development during Q1 2012 and Q1 2011. Stock-based compensation capitalized for internal-use software and website development costs does not affect cash flows. We made cash payments, net of acquired cash, related to acquisition and other investment activity of $50 million and $139 million during Q1 2012 and Q1 2011.

Cash provided by (used in) financing activities was $(1.0) billion and $24 million for Q1 2012 and Q1 2011. Cash outflows from financing activities result from common stock repurchases, payments on obligations related to capital leases and leases accounted for as financing arrangements and repayments of long-term debt. Payments on obligations related to capital leases and leases accounted for as financing arrangements and repayments of long-term debt were $153 million and $111 million in Q1 2012 and Q1 2011. In Q1 2012, we repurchased $960 million of our common stock under the $2 billion repurchase program authorized by our Board of Directors (see Item 2 of Part II Unregistered Sales of Equity Securities and Use of Proceeds). Cash inflows from financing activities primarily result from proceeds from long-term debt and tax benefits relating to excess stock-based compensation deductions. Proceeds from long-term debt and other were $68 million and $89 million in Q1 2012 and Q1 2011. Tax benefits relating to excess stock-based compensation deductions are presented as financing cash flows. Cash inflows (outflows) from tax benefits related to stock-based compensation deductions were $40 and $46 million for Q1 2012 and Q1 2011.

We recorded net tax provisions of $43 million and $89 million in Q1 2012 and Q1 2011. A majority of this provision is non-cash. We have tax benefits relating to excess stock-based compensation deductions that are being utilized to reduce our U.S. taxable income. Except as required under U.S. tax law, we do not provide for U.S. taxes on our undistributed earnings of foreign subsidiaries that have not been previously taxed since we intend to invest such undistributed earnings indefinitely outside of the U.S. Cash taxes paid (net of refunds) were $19 million and $7 million for Q1 2012 and Q1 2011. As of December 31, 2011, our federal net operating loss carryforward was approximately $384 million and we had approximately $273 million of federal tax credits potentially available to offset future tax liabilities. Once we utilize federal net operating losses and tax credits, we expect cash paid for taxes to significantly increase. We endeavor to optimize our global taxes on a cash basis, rather than on a financial reporting basis.

In January 2010, our Board of Directors authorized a program to repurchase up to $2 billion of our common stock, which replaces the prior February 2008 repurchase authorization. We repurchased 1.5 million shares of common stock for $277 million in 2011 and 5.3 million shares of common stock for $960 million in Q1 2012.

See Item 1 of Part I, Financial Statements Note 3 Commitments and Contingencies for additional discussion of our principal contractual commitments, as well as our pledged securities. Purchase obligations and open purchase orders, consisting of inventory and significant non-inventory commitments, were $3 billion at March 31, 2012. Purchase obligations and open purchase orders are generally cancelable in full or in part through the contractual provisions. Additionally, in March 2012, we signed an agreement to acquire Kiva Systems, Inc., for approximately $775 million in cash, which we expect to satisfy with cash on hand. We expect the acquisition to close in Q2 2012, subject to regulatory approvals and closing conditions.

Because of our model we are able to turn our inventory quickly and have a cash-generating operating cycle[3]. On average, our high inventory velocity means we collect from our customers before our payments to suppliers come due. Inventory turnover[4] was 10 and 12 for Q1 2012 and Q1 2011. We expect variability in inventory turnover over time as it is affected by several factors, including category expansion and changes in our product mix, the mix of sales by us and by other sellers, our continuing focus on in-stock inventory availability, our investment in new geographies and product lines, and the extent to which we choose to utilize outsource fulfillment providers.

(3) The operating cycle is number of days of sales in inventory plus number of days of sales in accounts receivable minus accounts payable days.

(4) Inventory turnover is the quotient of trailing twelve month cost of sales to average inventory over five quarter ends.

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We believe that current cash, cash equivalents, and marketable securities balances will be sufficient to meet our anticipated operating cash needs for at least the next 12 months. However, any projections of future cash needs and cash flows are subject to substantial uncertainty. See Item 1A of Part II, Risk Factors. We continually evaluate opportunities to sell additional equity or debt securities, obtain credit facilities, repurchase common stock, pay dividends, or repurchase, refinance, or otherwise restructure our debt for strategic reasons or to further strengthen our financial position. The sale of additional equity or convertible debt securities would likely be dilutive to our shareholders. In addition, we will, from time to time, consider the acquisition of, or investment in, complementary businesses, products, services, and technologies, which might affect our liquidity requirements or cause us to issue additional equity or debt securities. There can be no assurance that additional lines-of-credit or financing instruments will be available in amounts or on terms acceptable to us, if at all.

Results of Operations

We have organized our operations into two principal segments: North America and International. We present our segment information along the same lines that our chief executive reviews our operating results in assessing performance and allocating resources.

Net Sales

Net sales include product and services sales. Product sales represent revenue from the sale of products and related shipping fees and digital content where we are the seller of record. Services sales represent third-party seller fees earned (including commissions) and related shipping fees, digital content subscriptions, and non-retail activities. Net sales information is as follows:

	Three Months Ended March 31,	
	2012	**2011**
	(in millions)	
Net Sales:		
North America	$ 7,427	$ 5,465
International	5,758	4,392
Consolidated	$ 13,185	$ 9,857
Year-over-year Percentage Growth:		
North America	36%	45%
International	31	31
Consolidated	34	38
Year-over-year Percentage Growth, excluding effect of exchange rates:		
North America	36%	45%
International	32	27
Consolidated	34	36
Net Sales Mix:		
North America	56%	55%
International	44	45
Consolidated	100%	100%

Sales increased 34% in Q1 2012. Changes in currency exchange rates impacted net sales by $(56) million for Q1 2012 and $144 million for Q1 2011. For a discussion of the effect on sales growth of exchange rates, see Effect of Exchange Rates below.

North America sales grew 36% in Q1 2012 compared to the comparable prior year period. The sales growth primarily reflects increased unit sales. Increased unit sales were driven largely by our continued efforts to reduce prices for our customers, including from our shipping offers, by sales in faster growing categories such as electronics and other general merchandise, by increased in-stock inventory availability, and by increased selection of product offerings.

International sales grew 31% in Q1 2012 compared to the comparable prior year period. The sales growth primarily reflects increased unit sales. Increased unit sales were driven largely by our continued efforts to reduce prices for our customers, including from our shipping offers, by sales in faster growing categories such as electronics and other general merchandise, by increased in-stock inventory availability, and by increased selection of product offerings. Additionally, changes in currency exchange rates impacted International net sales by $(55) million for Q1 2012 and $141 million for Q1 2011. We expect that, over time, our International segment will represent 50% or more of our consolidated net sales.

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Supplemental Information

Supplemental information about shipping results is as follows:

	Three Months Ended March 31, 2012	2011
	(in millions)	
Shipping Activity:		
Shipping revenue (1)(2)(3)	$ 461	$ 330
Outbound shipping costs	(1,129)	(786)
Net shipping cost	$ (668)	$ (456)
Year-over-year Percentage Growth:		
Shipping revenue	40%	33%
Outbound shipping costs	44	52
Net shipping cost	47	69
Percent of Net Sales:		
Shipping revenue	3.5%	3.3%
Outbound shipping costs	(8.6)	(7.9)
Net shipping cost	(5.1)%	(4.6)%

(1) Excludes amounts earned on shipping activities by third-party sellers where we do not provide the fulfillment service.
(2) Includes the portion of amounts earned from Amazon Prime memberships.
(3) Shipping revenue for the three months ended March 31, 2012, includes amounts earned from Fulfillment By Amazon programs related to shipping services.

We expect our net cost of shipping to continue to increase to the extent our customers accept and use our shipping offers at an increasing rate; to the extent our product mix shifts to the electronics and other general merchandise category; to the extent we reduce shipping rates; to the extent we use more expensive shipping methods; and to the extent we offer additional services. We seek to mitigate costs of shipping over time in part through achieving higher sales volumes, negotiating better terms with our suppliers, and achieving better operating efficiencies. We believe that offering low prices to our customers is fundamental to our future success, and one way we offer lower prices is through shipping offers.

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Net sales by similar products and services were as follows:

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
	(in millions)	
Net Sales:		
North America		
Media	$ 2,197	$ 1,885
Electronics and other general merchandise	4,772	3,303
Other (1)	458	277
Total North America	$ 7,427	$ 5,465
International		
Media	$ 2,513	$ 2,073
Electronics and other general merchandise	3,203	2,285
Other (1)	42	34
Total International	$ 5,758	$ 4,392
Consolidated		
Media	$ 4,710	$ 3,958
Electronics and other general merchandise	7,975	5,588
Other (1)	500	311
Total consolidated	$ 13,185	$ 9,857
Year-over-year Percentage Growth:		
North America		
Media	17%	18%
Electronics and other general merchandise	44	63
Other	66	74
Total North America	36	45
International		
Media	21%	13%
Electronics and other general merchandise	40	54
Other	24	15
Total International	31	31
Consolidated		
Media	19%	15%
Electronics and other general merchandise	43	59
Other	61	65
Total consolidated	34	38
Year-over-year Percentage Growth:		
Excluding the effect of exchange rates		
International		
Media	22%	9%
Electronics and other general merchandise	42	49
Other	26	12
Total International	32	27
Consolidated		
Media	19%	13%
Electronics and other general merchandise	43	57
Other	61	64

Total consolidated	34	36
Consolidated Net Sales Mix:		
Media	36%	40%
Electronics and other general merchandise	60	57
Other	4	3
Total consolidated	100%	100%

(1) Includes non-retail activities, such as AWS, miscellaneous marketing and promotional activities, our co-branded credit card agreements, and other seller sites.

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Operating Expenses

Information about operating expenses with and without stock-based compensation is as follows (in millions):

	Three Months Ended March 31,					
	2012			2011		
	As Reported	Stock-Based Compensation	Net	As Reported	Stock-Based Compensation	Net
Operating Expenses:						
Cost of sales	$ 10,027	$	$ 10,027	$ 7,608	$	$ 7,608
Fulfillment	1,295	(37)	1,258	855	(24)	831
Marketing	480	(12)	468	327	(7)	320
Technology and content	945	(85)	860	579	(61)	518
General and administrative	200	(26)	174	133	(18)	115
Other operating expense (income), net	46		46	33		33
Total operating expenses	$ 12,993	$ (160)	$ 12,833	$ 9,535	$ (110)	$ 9,425
Year-over-year Percentage Growth:						
Fulfillment	51%		52%	57%		57%
Marketing	47		47	63		63
Technology and content	63		66	58		62
General and administrative	49		50	37		44
Percent of Net Sales:						
Fulfillment	9.8%		9.5%	8.7%		8.4%
Marketing	3.6		3.6	3.3		3.2
Technology and content	7.2		6.5	5.9		5.3
General and administrative	1.5		1.3	1.4		1.2

Operating expenses without stock-based compensation are non-GAAP financial measures. See Non-GAAP Financial Measures below.

Cost of Sales

Cost of sales consists of the purchase price of consumer products and digital content where we are the seller of record, including Prime Instant Video, inbound and outbound shipping charges, and packaging supplies. Shipping charges to receive products from our suppliers are included in our inventory, and recognized as cost of sales upon sale of products to our customers.

The increase in cost of sales in absolute dollars in Q1 2012 compared to the comparable prior year period is primarily due to increased product, digital content, and shipping costs resulting from increased sales.

Consolidated gross profit and gross margin for each of the periods presented were as follows:

	Three Months Ended March 31,	
	2012	2011
Gross profit (in millions)	$ 3,158	$ 2,249
Gross margin	24.0%	22.8%

Gross margin increased in Q1 2012 compared to the comparable prior year primarily due to service sales increasing as a percentage of total sales. We believe that income from operations is a more meaningful measure than gross profit and gross margin due to the diversity of our product categories and services.

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Fulfillment

Fulfillment costs as a percentage of net sales may vary due to several factors, such as payment processing and related transaction costs, our level of productivity and accuracy, changes in volume, size, and weight of units received and fulfilled, timing of fulfillment capacity expansion, the extent we utilize fulfillment services provided by third parties, mix of products and services sold, and our ability to affect customer service contacts per unit by implementing improvements in our operations and enhancements to our customer self-service features. Additionally, because payment processing costs associated with seller transactions are based on the gross purchase price of underlying transactions, and payment processing and related transaction costs are higher as a percentage of sales versus our retail sales, sales by our sellers have higher fulfillment costs as a percent of net sales.

The increase in fulfillment costs in absolute dollars in Q1 2012, compared to the comparable prior year period, is primarily due to variable costs corresponding with physical and digital product and services sales volume, inventory levels, and sales mix; costs from expanding fulfillment capacity; and payment processing and related transaction costs.

We seek to expand our fulfillment capacity to accommodate greater selection and in-stock inventory levels and meet anticipated shipment volumes from sales of our own products as well as sales by third parties for which we provide the fulfillment services. We evaluate our facility requirements as necessary.

Marketing

We direct customers to our websites primarily through a number of targeted online marketing channels, such as our Associates program, sponsored search, portal advertising, email marketing campaigns, and other initiatives. Our marketing expenses are largely variable, based on growth in sales and changes in rates. To the extent there is increased or decreased competition for these traffic sources, or to the extent our mix of these channels shifts, we would expect to see a corresponding change in our marketing expense.

The increase in marketing costs in absolute dollars in Q1 2012, compared to the comparable prior year period, is primarily due to increased spending on online marketing channels, such as our Associates program and sponsored search programs, and payroll and related expenses.

While costs associated with Amazon Prime memberships and other shipping offers are not included in marketing expense, we view these offers as effective worldwide marketing tools, and intend to continue offering them indefinitely.

Technology and Content

We seek to efficiently invest in several areas of technology and content including seller platforms, digital initiatives, AWS, and expansion of new and existing product categories and offerings, as well as technology infrastructure, so we may continue to enhance the customer experience and improve our process efficiency. We expect spending in technology and content to increase over time as we continue to add employees and technology infrastructure.

The increase in technology and content costs in absolute dollars in Q1 2012 compared to the comparable prior year period is primarily due to increases in payroll and related expenses, including those associated with our digital initiatives, and increased spending on technology infrastructure. We expect these trends to continue over time as we invest in these areas by adding technology infrastructure and increasing payroll and related expenses. See Item 7 of Part II, Management s Discussion and Analysis of Financial Condition and Results of Operations Overview of our 2011 Annual Report on Form 10-K for a discussion of how management views advances in technology and the importance of innovation.

During Q1 2012 and Q1 2011, we capitalized \$88 million (including \$13 million of stock-based compensation) and \$62 million (including \$10 million of stock-based compensation) of costs associated with internal-use software and website development. Amortization of previously capitalized amounts was \$71 million and \$52 million for Q1 2012 and Q1 2011. A majority of our technology costs are incurred in the U.S., most of which are allocated to our North America segment. Infrastructure and other technology costs used to support AWS are included in technology and content.

General and Administrative

The increase in general and administrative costs in absolute dollars in Q1 2012 compared to the comparable prior year period is primarily due to increases in payroll and related expenses and professional service fees.

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Stock-Based Compensation

Compensation cost for all stock-based awards is measured at fair value on date of grant and recognized using an accelerated method over the service period for awards expected to vest. The fair value of restricted stock units is determined based on the number of shares granted and the quoted price of our common stock. Such value is recognized as expense over the service period, net of estimated forfeitures, using the accelerated method. The estimation of stock awards that will ultimately vest requires judgment, and to the extent actual results or updated estimates differ from our current estimates, such amounts are recorded as a cumulative adjustment in the period estimates are revised. We consider many factors when estimating expected forfeitures including employee class, the economic environment, and historical experience. Actual results and future estimates may differ substantially from our current estimates.

Stock-based compensation was $160 million and $110 million during Q1 2012 and Q1 2011. The increase is primarily due to an increase in total stock-based compensation value granted to our employees and to a decrease in our estimated forfeiture rate.

Other Operating Expense (Income), Net

Other operating expense (income) was $46 million and $33 million for Q1 2012 and Q1 2011 and was primarily related to the amortization of intangible assets.

Income from Operations

For the reasons discussed above, income from operations decreased 40% to $192 million in Q1 2012, from $322 million in Q1 2011.

Interest Income and Expense

Our interest income was $12 million and $15 million during Q1 2012 and Q1 2011. We generally invest our excess cash in investment grade short- to intermediate-term fixed income securities and AAA-rated money market funds. Our interest income corresponds with the average balance of invested funds and the prevailing rates we are earning on them, which vary depending on the geographies and currencies in which they are invested.

The primary component of our interest expense is related to our capital leases and leases accounted for as financing arrangements. Interest expense was $21 million and $12 million during Q1 2012 and Q1 2011.

Other Income (Expense), Net

Other income (expense), net was $(99) million and $(18) million during Q1 2012 and Q1 2011. The primary component of other income (expense), net, is related to foreign-currency gains (losses) on intercompany balances. The decrease is primarily due to the weakening of the Japanese Yen against the U.S. Dollar and the Euro during the period.

Income Taxes

Our tax provision for interim periods is determined using an estimate of our annual effective tax rate, adjusted for discrete items, if any, that are taken into account in the relevant period. Each quarter we update our estimate of the annual effective tax rate, and if our estimated tax rate changes, we make a cumulative adjustment.

In 2012, our effective tax rate will reflect the favorable impact of earnings in lower tax rate jurisdictions that primarily relate to our European operations, which are headquartered in Luxembourg, offset by the adverse effect of losses incurred in other foreign jurisdictions for which we may not realize a tax benefit and have therefore recorded a valuation allowance against the related deferred tax asset. Such losses reduce our pre-tax income without a corresponding reduction in our tax expense, and therefore increase our effective tax rate. Our effective tax rate may also be adversely impacted by the amount of our pre-tax income relative to our income tax expense, nondeductible expenses, and changes in tax law such as the expiration of the US federal research and development credit at the end of 2011. Taking these items into account, we estimate our annual effective tax rate to be higher than both the 35% US federal statutory rate and our 2011 effective tax rate.

As compared to our current estimate of annual 2012 pre-tax income, we generated a disproportionate amount of losses during Q1 2012 in jurisdictions for which no tax benefit is recognized. Accordingly, our 51% Q1 2012 effective tax rate is higher than both our current estimated annual effective rate and our 2011 effective tax rate.

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Equity Method Investment Activity, Net of Tax

Equity method investment activity, net of tax, was $89 and $(17) million during Q1 2012 and Q1 2011. The increase in equity-method investment activity in Q1 2012 compared to Q1 2011 is primarily due to $53 million of equity-method income and gains of $36 million as a result of reductions in our equity ownership, through dilution, in LivingSocial. The equity-method income is primarily due to the recognition of non-operating, non-cash gains on previously held equity positions in companies LivingSocial acquired during the quarter.

Effect of Exchange Rates

The effect on our consolidated statements of operations from changes in exchange rates versus the U.S. Dollar is as follows (in millions):

	Three Months Ended March 31,					
	2012			2011		
	At Prior Year Rates (1)	Exchange Rate Effect (2)	As Reported	At Prior Year Rates (1)	Exchange Rate Effect (2)	As Reported
Net sales	$ 13,241	$ (56)	$ 13,185	$ 9,713	$ 144	$ 9,857
Operating expenses	13,045	(52)	12,993	9,398	137	9,535
Income from operations	196	(4)	192	315	7	322

(1) Represents the outcome that would have resulted had exchange rates in the reported period been the same as those in effect in the comparable prior year period for operating results.

(2) Represents the increase or decrease in reported amounts resulting from changes in exchange rates from those in effect in the comparable prior year period for operating results.

Non-GAAP Financial Measures

Regulation G, Conditions for Use of Non-GAAP Financial Measures, and other SEC regulations define and prescribe the conditions for use of certain non-GAAP financial information. Our measures of Free cash flow, operating expenses with and without stock-based compensation, and the effect of exchange rates on our consolidated statements of operations, meet the definition of non-GAAP financial measures.

Free cash flow is used in addition to and in conjunction with results presented in accordance with GAAP and free cash flow should not be relied upon to the exclusion of GAAP financial measures.

Free cash flow, which we reconcile to Net cash provided by (used in) operating activities, is cash flow from operations reduced by Purchases of fixed assets, including internal-use software and website development. We use free cash flow, and ratios based on it, to conduct and evaluate our business because, although it is similar to cash flow from operations, we believe it typically will present a more conservative measure of cash flows since purchases of fixed assets are a necessary component of ongoing operations.

Free cash flow has limitations due to the fact that it does not represent the residual cash flow available for discretionary expenditures. For example, free cash flow does not incorporate the portion of payments representing principal reductions of obligations related to capital leases and leases accounted for as financing arrangements or cash payments for business acquisitions. Therefore, we believe it is important to view free cash flow as a complement to our entire consolidated statements of cash flows.

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The following is a reconciliation of free cash flow to the most comparable GAAP measure, Net cash provided by (used in) operating activities for the trailing twelve months ended March 31, 2012 and 2011 (in millions):

	Twelve Months Ended March 31, 2012	2011
Net cash provided by (used in) operating activities	$ 3,051	$ 3,033
Purchases of fixed assets, including internal-use software and website development	(1,899)	(1,138)
Free cash flow	$ 1,152	$ 1,895
Net cash used in investing activities	$ (1,870)	$ (2,428)
Net cash provided by (used in) financing activities	$ (1,510)	$ 92

Operating expenses with and without stock-based compensation is provided to show the impact of stock-based compensation, which is non-cash and excluded from our internal operating plans and measurement of financial performance (although we consider the dilutive impact to our shareholders when awarding stock-based compensation and value such awards accordingly). In addition, unlike other centrally-incurred operating costs, stock-based compensation is not allocated to segment results and therefore excluding it from operating expense is consistent with our segment presentation in our footnotes to the consolidated financial statements.

Operating expenses without stock-based compensation has limitations since it does not include all expenses primarily related to our workforce. More specifically, if we did not pay out a portion of our compensation in the form of stock-based compensation, our cash salary expense included in the Fulfillment, Technology and content, Marketing, and General and administrative line items would be higher.

Information regarding the effect of exchange rates, versus the U.S. Dollar, on our consolidated statements of operations is provided to show reported period operating results had the exchange rates remained the same as those in effect in the comparable prior year period.

Guidance

We provided guidance on April 26, 2012, in our earnings release furnished on Form 8-K as set forth below. These forward-looking statements reflect Amazon.com s expectations as of April 26, 2012, and exclude financial results of the Kiva Systems, Inc. acquisition which we expect to close in second quarter 2012. Our results are inherently unpredictable and may be materially affected by many factors, such as fluctuations in foreign exchange rates, changes in global economic conditions and consumer spending, world events, the rate of growth of the Internet and online commerce and the various factors detailed below.

Second Quarter 2012 Guidance

- Net sales are expected to be between $11.9 billion and $13.3 billion, or to grow between 20% and 34% compared with second quarter 2011.

- Operating income (loss) is expected to be between $(260) million and $40 million, or between 229% decline and 80% decline compared with second quarter 2011.

- This guidance includes approximately $260 million for stock-based compensation and amortization of intangible assets, and it assumes, among other things, that no additional business acquisitions or investments are concluded and that there are no further revisions to stock-based compensation estimates.

These projections are subject to substantial uncertainty. See Item 1A of Part II, Risk Factors.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risk for the effect of interest rate changes, foreign currency fluctuations, and changes in the market values of our investments. Information relating to quantitative and qualitative disclosures about market risk is set forth below and in Item 2 of Part I, Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources.

Interest Rate Risk

Our exposure to market risk for changes in interest rates relates primarily to our investment portfolio. All of our cash equivalent and marketable fixed income securities are designated as available-for-sale and, accordingly, are presented at fair value on our consolidated balance sheets. We generally invest our excess cash in investment grade short- to intermediate-term fixed income securities and AAA-rated money market funds. Fixed rate securities may have their fair market value adversely affected due to a rise in interest rates, and we may suffer losses in principal if forced to sell securities that have declined in market value due to changes in interest rates.

Foreign Exchange Risk

During Q1 2012, net sales from our International segment accounted for 44% of our consolidated revenues. Net sales and related expenses generated from our international websites, as well as those relating to *www.amazon.ca* (which is included in our

North America segment), are denominated in the functional currencies of the corresponding websites and primarily include Euros, British Pounds, and Japanese Yen. The functional currency of our subsidiaries that either operate or support these websites is the same as the corresponding local currency. The results of operations of, and certain of our intercompany balances associated with, our internationally-focused websites are exposed to foreign exchange rate fluctuations. Upon consolidation, as exchange rates vary, net sales and other operating results may differ materially from expectations, and we may record significant gains or losses on the remeasurement of intercompany balances. For example, as a result of fluctuations in foreign exchange rates throughout the period compared to rates in effect the prior year, International segment revenues in Q1 2012 decreased by $(55) million in comparison with Q1 2011.

We have foreign exchange risk related to foreign-denominated cash, cash equivalents, and marketable securities (foreign funds). Based on the balance of foreign funds at March 31, 2012, of $3.0 billion, an assumed 5%, 10%, and 20% negative currency movement would result in fair value declines of $150 million, $300 million, and $595 million. All investments are classified as available-for-sale. Fluctuations in fair value are recorded in Accumulated other comprehensive loss, a separate component of stockholders equity.

We have foreign exchange risk related to our intercompany balances denominated in various foreign currencies. Based on the intercompany balances at March 31, 2012, an assumed 5%, 10%, and 20% adverse change to foreign exchange would result in losses of $65 million, $130 million, and $260 million, recorded to Other income (expense), net.

See Item 2 of Part I, Management s Discussion and Analysis of Financial Condition and Results of Operations Results of Operations Effect of Exchange Rates for additional information on the effect on reported results of changes in exchange rates.

Investment Risk

As of March 31, 2012, our recorded basis in equity investments was $374 million. These investments primarily relate to equity-method investments in private companies. We review our investments for impairment when events and circumstances indicate that the decline in fair value of such assets below the carrying value is other-than-temporary. Our analysis includes review of recent operating results and trends, recent sales/acquisitions of the investee securities, and other publicly available data. The current global economic climate provides additional uncertainty. Valuations of private companies are inherently more difficult due to the lack of readily available market data. As such we believe that market sensitivities are not practicable.

Item 4. Controls and Procedures

We carried out an evaluation required by the Securities Exchange Act of 1934 (the 1934 Act), under the supervision and with the participation of our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rule 13a-15(e) of the 1934 Act, as of the end of the period covered by this report. Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the 1934 Act is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms and to provide reasonable assurance that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

During the most recent fiscal quarter, there has not occurred any change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives as specified above. Management does not expect, however, that our disclosure controls and procedures will prevent or detect all error and fraud. Any control system, no matter how well designed and operated, is based upon certain assumptions and can provide only reasonable, not absolute, assurance that its objectives will be met. Further, 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, within the Company have been detected.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

See Item 1 of Part I, Financial Statements Note 3 Commitments and Contingencies Legal Proceedings and Other Contingencies.

Item 1A. Risk Factors

Please carefully consider the following risk factors. If any of the following risks occur, our business, financial condition, operating results, and cash flows could be materially adversely affected. In addition, the current global economic climate amplifies many of these risks.

We Face Intense Competition

Our businesses are rapidly evolving and intensely competitive, and we have many competitors in different industries, including retail, e-commerce services, digital content and digital media devices, and web services. Many of our current and potential competitors have greater resources, longer histories, more customers, and greater brand recognition. They may secure better terms from vendors, adopt more aggressive pricing and devote more resources to technology, infrastructure, fulfillment, and marketing.

Competition may intensify as our competitors enter into business combinations or alliances and established companies in other market segments expand into our market segments. In addition, new and enhanced technologies, including search, web services, and digital, may increase our competition. The Internet facilitates competitive entry and comparison shopping, and increased competition may reduce our sales and profits.

Our Expansion Places a Significant Strain on our Management, Operational, Financial and Other Resources

We are rapidly and significantly expanding our global operations, including increasing our product and service offerings and scaling our infrastructure to support our retail and services businesses. This expansion increases the complexity of our business and places significant strain on our management, personnel, operations, systems, technical performance, financial resources, and internal financial control and reporting functions. We may not be able to manage growth effectively, which could damage our reputation, limit our growth and negatively affect our operating results.

Our Expansion into New Products, Services, Technologies and Geographic Regions Subjects Us to Additional Business, Legal, Financial and Competitive Risks

We may have limited or no experience in our newer market segments, and our customers may not adopt our new offerings. These offerings may present new and difficult technology challenges, and we may be subject to claims if customers of these offerings experience service disruptions or failures or other quality issues. In addition, profitability, if any, in our newer activities may be lower than in our older activities, and we may not be successful enough in these newer activities to recoup our investments in them. If any of this were to occur, it could damage our reputation, limit our growth and negatively affect our operating results.

We May Experience Significant Fluctuations in Our Operating Results and Growth Rate

We may not be able to accurately forecast our growth rate. We base our expense levels and investment plans on sales estimates. A significant portion of our expenses and investments is fixed, and we may not be able to adjust our spending quickly enough if our sales are less than expected.

Our revenue growth may not be sustainable, and our percentage growth rates may decrease. Our revenue and operating profit growth depends on the continued growth of demand for the products and services offered by us or our sellers, and our business is affected by general economic and business conditions worldwide. A softening of demand, whether caused by changes in customer preferences or a weakening of the U.S. or global economies, may result in decreased revenue or growth.

Our sales and operating results will also fluctuate for many other reasons, including due to risks described elsewhere in this section and the following:

our ability to retain and increase sales to existing customers, attract new customers, and satisfy our customers demands;

our ability to retain and expand our network of sellers;

our ability to offer products on favorable terms, manage inventory, and fulfill orders;

the introduction of competitive websites, products, services, price decreases, or improvements;

changes in usage or adoption rates of the Internet, e-commerce, digital media devices and web services, including in non-U.S. markets;

timing, effectiveness, and costs of expansion and upgrades of our systems and infrastructure;

the success of our geographic, service, and product line expansions;

the outcomes of legal proceedings and claims;

variations in the mix of products and services we sell;

variations in our level of merchandise and vendor returns;

the extent to which we offer free shipping, continue to reduce product prices worldwide, and provide additional benefits to our customers;

the extent to which we invest in technology and content, fulfillment and other expense categories;

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- increases in the prices of fuel and gasoline, as well as increases in the prices of other energy products and commodities like paper and packing supplies;
- the extent to which our equity-method investees record significant operating and non-operating items;
- the extent to which operators of the networks between our customers and our websites successfully charge fees to grant our customers unimpaired and unconstrained access to our online services;
- our ability to collect amounts owed to us when they become due;
- the extent to which use of our services is affected by spyware, viruses, phishing and other spam emails, denial of service attacks, data theft, computer intrusions and similar events; and
- terrorist attacks and armed hostilities.

We May Not Be Successful in Our Efforts to Expand into International Market Segments

Our international activities are significant to our revenues and profits, and we plan to further expand internationally. In certain international market segments, we have relatively little operating experience and may not benefit from any first-to-market advantages or otherwise succeed. It is costly to establish, develop and maintain international operations and websites and promote our brand internationally. Our international operations may not be profitable on a sustained basis.

In addition to risks described elsewhere in this section, our international sales and operations are subject to a number of risks, including:

- local economic and political conditions;
- government regulation of e-commerce, other online services and electronic devices and restrictive governmental actions (such as trade protection measures, including export duties and quotas and custom duties and tariffs), nationalization and restrictions on foreign ownership;
- restrictions on sales or distribution of certain products or services and uncertainty regarding liability for products, services and content, including uncertainty as a result of less Internet-friendly legal systems, local laws, lack of legal precedent, and varying rules, regulations, and practices regarding the physical and digital distribution of media products and enforcement of intellectual property rights;
- business licensing or certification requirements, such as for imports, exports and electronic devices;
- limitations on the repatriation and investment of funds and foreign currency exchange restrictions;
- limited fulfillment and technology infrastructure;

- shorter payable and longer receivable cycles and the resultant negative impact on cash flow;
- laws and regulations regarding consumer and data protection, privacy, network security, encryption, and restrictions on pricing or discounts;
- lower levels of use of the Internet;
- lower levels of consumer spending and fewer opportunities for growth compared to the U.S.;
- lower levels of credit card usage and increased payment risk;
- difficulty in staffing, developing and managing foreign operations as a result of distance, language and cultural differences;
- different employee/employer relationships and the existence of workers councils and labor unions;
- laws and policies of the U.S. and other jurisdictions affecting trade, foreign investment, loans and taxes; and
- geopolitical events, including war and terrorism.

As the international e-commerce channel grows, competition will intensify. Local companies may have a substantial competitive advantage because of their greater understanding of, and focus on, the local customer, as well as their more established local brand names. We may not be able to hire, train, retain, and manage required personnel, which may limit our international growth.

The People s Republic of China (PRC) regulates Amazon s and its affiliates businesses and operations in the PRC through regulations and license requirements restricting (i) foreign investment in the Internet, IT infrastructure, retail, delivery, and other sectors, (ii) Internet content and (iii) the sale of media and other products. For example, in order to meet local ownership and regulatory licensing requirements, www.amazon.cn is operated by PRC companies that are indirectly owned, either wholly or partially, by PRC nationals. Although we believe these structures comply with existing PRC laws, they involve unique risks. There are substantial uncertainties regarding the interpretation of PRC laws and regulations, and it is possible that the PRC government will ultimately take a view contrary to ours. If our Chinese business interests were found to be in violation of any existing or future PRC laws or regulations or if interpretations of those laws and regulations were to change, the business could be subject to fines and other financial penalties, have licenses revoked or be forced to shut down entirely. In addition, the Chinese businesses and operations may be unable to continue to operate if we or our affiliates are unable to enforce contractual relationships with respect to management and control of such businesses.

If We Do Not Successfully Optimize and Operate Our Fulfillment Centers, Our Business Could Be Harmed

If we do not adequately predict customer demand or otherwise optimize and operate our fulfillment centers successfully, it could result in excess or insufficient inventory or fulfillment capacity, result in increased costs, impairment charges, or both, or harm our business in other ways. A failure to optimize inventory will increase our net shipping cost by requiring long-zone or partial shipments. Orders from several of our websites are fulfilled primarily from a single location, and we have only a limited ability to reroute orders to third parties for drop-shipping. We and our co-sourcers may be unable to adequately staff our fulfillment and customer service centers. As we continue to add fulfillment and warehouse capability or add new businesses with different fulfillment requirements, our fulfillment network becomes increasingly complex and operating it becomes more challenging. If the other businesses on whose behalf we perform inventory fulfillment services deliver product to our fulfillment centers in excess of forecasts, we may be unable to secure sufficient storage space and may be unable to optimize our fulfillment centers. There can be no assurance that we will be able to operate our network effectively.

We rely on a limited number of shipping companies to deliver inventory to us and completed orders to our customers. If we are not able to negotiate acceptable terms with these companies or they experience performance problems or other difficulties, it could negatively impact our operating results and customer experience. In addition, our ability to receive inbound inventory efficiently and ship completed orders to customers also may be negatively affected by inclement weather, fire, flood, power loss, earthquakes, labor disputes, acts of war or terrorism, acts of God and similar factors.

Third parties either drop-ship or otherwise fulfill an increasing portion of our customers orders, and we are increasingly reliant on the reliability, quality and future procurement of their services. Under some of our commercial agreements, we maintain the inventory of other companies, thereby increasing the complexity of tracking inventory and operating our fulfillment centers. Our failure to properly handle such inventory or the inability of these other companies to accurately forecast product demand would result in unexpected costs and other harm to our business and reputation.

The Seasonality of Our Business Places Increased Strain on Our Operations

We expect a disproportionate amount of our net sales to occur during our fourth quarter. If we do not stock or restock popular products in sufficient amounts such that we fail to meet customer demand, it could significantly affect our revenue and our future growth. If we overstock products, we may be required to take significant inventory markdowns or write-offs, which could reduce profitability. We may experience an increase in our net shipping cost due to complimentary upgrades, split-shipments, and additional long-zone shipments necessary to ensure timely delivery for the holiday season. If too many customers access our websites within a short period of time due to increased holiday demand, we may experience system interruptions that make our websites unavailable or prevent us from efficiently fulfilling orders, which may reduce the volume of goods we sell and the attractiveness of our products and services. In addition, we may be unable to adequately staff our fulfillment and customer service centers during these peak periods and delivery and other fulfillment companies and customer service co-sourcers may be unable to meet the seasonal demand. We also face risks described elsewhere in this Item 1A relating to fulfillment center optimization and inventory.

We generally have payment terms with our vendors that extend beyond the amount of time necessary to collect proceeds from our customers. As a result of holiday sales, at December 31 of each year, our cash, cash equivalents, and marketable securities balances typically reach their highest level (other than as a result of cash flows provided by or used in investing and financing activities). This operating cycle results in a corresponding increase in accounts payable at December 31. Our accounts payable balance generally declines during the first three months of the year, resulting in a corresponding decline in our cash, cash equivalents, and marketable securities balances.

Our Business Could Suffer if We Are Unsuccessful in Making, Integrating, and Maintaining Commercial Agreements, Strategic Alliances, and Other Business Relationships

We provide e-commerce services to other businesses through our seller programs and other commercial agreements, strategic alliances and business relationships. Under these agreements, we provide technology, fulfillment and other services, as well as enable sellers to offer products or services through our websites and power their websites. These arrangements are complex and require substantial personnel and resource commitments by us, which may limit the agreements we are able to enter into and our ability to integrate and deliver services under them. If we fail to implement, maintain, and develop the components of these commercial relationships, which may include fulfillment, customer service, inventory management, tax collection, payment processing, licensing of third-party software, hardware, and content, and engaging third parties to perform hosting and other services, these initiatives may not be viable. The amount of compensation we receive under certain of these agreements is partially dependent on the volume of the

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other company s sales. Therefore, if the other company s offering is not successful, the compensation we receive may be lower than expected or the agreement may be terminated. Moreover, we may not be able to enter into additional commercial relationships and strategic alliances on favorable terms. We also may be subject to claims from businesses to which we provide these services if we are unsuccessful in implementing, maintaining or developing these services.

As our agreements terminate, we may be unable to renew or replace these agreements on comparable terms, or at all. We may in the future enter into amendments on less favorable terms or encounter parties that have difficulty meeting their contractual obligations to us, which could adversely affect our operating results.

Our present and future e-commerce services agreements, other commercial agreements, and strategic alliances create additional risks such as:

- disruption of our ongoing business, including loss of management focus on existing businesses;
- impairment of other relationships;
- variability in revenue and income from entering into, amending, or terminating such agreements or relationships; and
- difficulty integrating under the commercial agreements.

Our Business Could Suffer if We Are Unsuccessful in Making, Integrating, and Maintaining Acquisitions and Investments

We have acquired and invested in a number of companies, and we may acquire or invest in or enter into joint ventures with additional companies. These transactions create risks such as:

- disruption of our ongoing business, including loss of management focus on existing businesses;
- problems retaining key personnel;
- additional operating losses and expenses of the businesses we acquired or in which we invested;
- the potential impairment of tangible assets, such as inventory, and intangible assets and goodwill acquired in the acquisitions;
- the potential impairment of customer and other relationships of the company we acquired or in which we invested or our own customers as a result of any integration of operations;
- the difficulty of incorporating acquired technology and rights into our offerings and unanticipated expenses related to such integration;
- the difficulty of integrating a new company s accounting, financial reporting, management, information and information security, human resource and other administrative systems to permit effective management, and the lack of control if such integration is

delayed or not implemented;

for investments in which an investee s financial performance is incorporated into our financial results, either in full or in part, the dependence on the investee s accounting, financial reporting and similar systems, controls and processes;

the difficulty of implementing at companies we acquire the controls, procedures and policies appropriate for a larger public company;

potential unknown liabilities associated with a company we acquire or in which we invest; and

for foreign transactions, additional risks related to the integration of operations across different cultures and languages, and the economic, political, and regulatory risks associated with specific countries.

As a result of future acquisitions or mergers, we might need to issue additional equity securities, spend our cash, or incur debt, contingent liabilities, or amortization expenses related to intangible assets, any of which could reduce our profitability and harm our business. In addition, valuations supporting our acquisitions and strategic investments could change rapidly given the current global economic climate. We could determine that such valuations have experienced impairments or other-than-temporary declines in fair value which could adversely impact our financial results.

We Have Foreign Exchange Risk

The results of operations of, and certain of our intercompany balances associated with, our international websites are exposed to foreign exchange rate fluctuations. Upon translation, operating results may differ materially from expectations, and we may record significant gains or losses on the remeasurement of intercompany balances. As we have expanded our international operations, our exposure to exchange rate fluctuations has increased. We also hold cash equivalents and/or marketable securities primarily in Euros, Japanese Yen, and British Pounds. If the U.S. Dollar strengthens compared to these currencies, cash equivalents and marketable securities balances, when translated, may be materially less than expected and vice versa.

The Loss of Key Senior Management Personnel Could Negatively Affect Our Business

We depend on our senior management and other key personnel, particularly Jeffrey P. Bezos, our President, CEO, and Chairman. We do not have key person life insurance policies. The loss of any of our executive officers or other key employees could harm our business.

We Could Be Harmed by Data Loss or Other Security Breaches

As a result of our services being web-based and the fact that we process, store and transmit large amounts of data, including personal information, for our customers, failure to prevent or mitigate data loss or other security breaches could expose us or our customers to a risk of loss or misuse of such information, adversely affect our operating results, result in litigation or potential liability for us and otherwise harm our business. In addition, we rely on third party technology and systems in certain aspects of our businesses, including for encryption and authentication technology to securely transmit confidential information. Although we have developed systems and processes that are designed to protect customer information and prevent data loss and other security breaches, including systems and processes designed to reduce the impact of a security breach at a third party vendor, such measures cannot provide absolute security.

We Face Risks Related to System Interruption and Lack of Redundancy

We experience occasional system interruptions and delays that make our websites and services unavailable or slow to respond and prevent us from efficiently fulfilling orders or providing services to third parties, which may reduce our net sales and the attractiveness of our products and services. If we are unable to continually add software and hardware, effectively upgrade our systems and network infrastructure and take other steps to improve the efficiency of our systems, it could cause system interruptions or delays and adversely affect our operating results.

Our computer and communications systems and operations could be damaged or interrupted by fire, flood, power loss, telecommunications failure, earthquakes, acts of war or terrorism, acts of God, computer viruses, physical or electronic break-ins, and similar events or disruptions. Any of these events could cause system interruption, delays, and loss of critical data, and could prevent us from accepting and fulfilling customer orders and providing services, which could make our product and service offerings less attractive and subject us to liability. Our systems are not fully redundant and our disaster recovery planning may not be sufficient. In addition, we may have inadequate insurance coverage to compensate for any related losses. Any of these events could damage our reputation and be expensive to remedy.

We Face Significant Inventory Risk

In addition to risks described elsewhere in this Item 1A relating to fulfillment center and inventory optimization by us and third parties, we are exposed to significant inventory risks that may adversely affect our operating results as a result of seasonality, new product launches, rapid changes in product cycles and pricing, defective merchandise, changes in consumer demand and consumer spending patterns, changes in consumer tastes with respect to our products and other factors. We endeavor to accurately predict these trends and avoid overstocking or understocking products we manufacture and/or sell. Demand for products, however, can change significantly between the time inventory or components are ordered and the date of sale. In addition, when we begin selling or manufacturing a new product, it may be difficult to establish vendor relationships, determine appropriate product or component selection, and accurately forecast demand. The acquisition of certain types of inventory or components may require significant lead-time and prepayment and they may not be returnable. We carry a broad selection and significant inventory levels of certain products, such as consumer electronics, and we may be unable to sell products in sufficient quantities or during the relevant selling seasons. Any one of the inventory risk factors set forth above may adversely affect our operating results.

We May Not Be Able to Adequately Protect Our Intellectual Property Rights or May Be Accused of Infringing Intellectual Property Rights of Third Parties

We regard our trademarks, service marks, copyrights, patents, trade dress, trade secrets, proprietary technology, and similar intellectual property as critical to our success, and we rely on trademark, copyright, and patent law, trade secret protection, and confidentiality and/or license agreements with our employees, customers, and others to protect our proprietary rights. Effective intellectual property protection may not be available in every country in which our products and services are made available. We also may not be able to acquire or maintain appropriate domain names in all countries in which we do business. Furthermore, regulations governing domain names may not protect our trademarks and similar proprietary rights. We may be unable to prevent third parties from acquiring domain names that are similar to, infringe upon, or diminish the value of our trademarks and other proprietary rights.

We may not be able to discover or determine the extent of any unauthorized use of our proprietary rights. Third parties that license our proprietary rights also may take actions that diminish the value of our proprietary rights or reputation. The protection of our intellectual property may require the expenditure of significant financial and managerial resources. Moreover, the steps we take to protect our intellectual property may not adequately protect our rights or prevent third parties from infringing or misappropriating our proprietary rights. We also cannot be certain that others will not independently develop or otherwise acquire equivalent or superior technology or other intellectual property rights.

Other parties also may claim that we infringe their proprietary rights. We have been subject to, and expect to continue to be subject to, claims and legal proceedings regarding alleged infringement by us of the intellectual property rights of third parties. Such claims, whether or not meritorious, may result in the expenditure of significant financial and managerial resources, injunctions against us or the payment of damages. We may need to obtain licenses from third parties who allege that we have infringed their rights, but such licenses may not be available on terms acceptable to us or at all. In addition, we may not be able to obtain or utilize on terms that are favorable to us, or at all, licenses or other rights with respect to intellectual property we do not own in providing e-commerce services to other businesses and individuals under commercial agreements. These risks have been amplified by the increase in third parties whose sole or primary business is to assert such claims.

Our digital content offerings depend in part on effective digital rights management technology to control access to digital content. If the digital rights management technology that we use is compromised or otherwise malfunctions, we could be subject to claims, and content providers may be unwilling to include their content in our service.

We Have a Rapidly Evolving Business Model and Our Stock Price Is Highly Volatile

We have a rapidly evolving business model. The trading price of our common stock fluctuates significantly in response to, among other risks, the risks described elsewhere in this Item 1A, as well as:

- changes in interest rates;
- conditions or trends in the Internet and the e-commerce industry;
- quarterly variations in operating results;
- fluctuations in the stock market in general and market prices for Internet-related companies in particular;
- changes in financial estimates by us or securities analysts and recommendations by securities analysts;
- changes in our capital structure, including issuance of additional debt or equity to the public;
- changes in the valuation methodology of, or performance by, other e-commerce or technology companies; and
- transactions in our common stock by major investors and certain analyst reports, news, and speculation.

Volatility in our stock price could adversely affect our business and financing opportunities and force us to increase our cash compensation to employees or grant larger stock awards than we have historically, which could hurt our operating results or reduce the percentage ownership of our existing stockholders, or both.

Government Regulation Is Evolving and Unfavorable Changes Could Harm Our Business

We are subject to general business regulations and laws, as well as regulations and laws specifically governing the Internet, e-commerce, and electronic devices. Existing and future laws and regulations may impede our growth. These regulations and laws may cover taxation, privacy, data protection, pricing, content, copyrights, distribution, mobile communications, electronic device certification, electronic waste, electronic contracts and other communications, consumer protection, web services, the provision of online payment services, unencumbered Internet access to our services, the design and operation of websites, and the characteristics and quality of products and services. It is not clear how existing laws governing issues such as property ownership, libel, and personal privacy apply to the Internet, e-commerce, digital content and web services. Jurisdictions may regulate consumer-to-consumer online businesses, including certain aspects of our seller programs. Unfavorable regulations and laws could diminish the demand for our products and services and increase our cost of doing business.

We Do Not Collect Sales or Consumption Taxes in Some Jurisdictions

U.S. Supreme Court decisions restrict the imposition of obligations to collect state and local sales taxes with respect to remote sales. However, an increasing number of states have considered or adopted laws that attempt to impose obligations on out-of-state retailers to collect taxes on their behalf. We support a Federal law that would require sales tax collection under a nationwide system. More than half of our revenue is already earned in jurisdictions where we collect sales tax or its equivalent. A successful assertion by one or more states or foreign countries requiring us to collect taxes where we do not do so could result in substantial tax liabilities, including for past sales, as well as penalties and interest.

We Could be Subject to Additional Income Tax Liabilities

We are subject to income taxes in the United States and numerous foreign jurisdictions. Significant judgment is required in evaluating and estimating our worldwide provision and accruals for these taxes. During the ordinary course of business, there are many transactions for which the ultimate tax determination is uncertain. For example, our 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 losses incurred in jurisdictions for which we are not able to realize the related tax benefit, by changes in foreign currency exchange rates, by entry into new businesses and geographies and changes to our existing businesses, by acquisitions, by changes in the valuation of our deferred tax assets and liabilities, or by changes in the relevant tax, accounting and other laws, regulations, principles and interpretations. We are subject to audit in various jurisdictions, and such jurisdictions may assess additional income tax liabilities against us. Although we believe our tax estimates are reasonable, the final

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outcome of tax audits and any related litigation could be materially different from our historical income tax provisions and accruals. Developments in an audit or litigation could have a material effect on our operating results or cash flows in the period or periods for which that development occurs, as well as for prior and subsequent periods.

Our Supplier Relationships Subject Us to a Number of Risks

We have significant suppliers, including licensors, that are important to our sourcing, services, manufacturing and any related ongoing servicing of merchandise and content. We do not have long-term arrangements with most of our suppliers to guarantee availability of merchandise, content, components or services, particular payment terms, or the extension of credit limits. If our current suppliers were to stop selling or licensing merchandise, content, components or services to us on acceptable terms, or delay delivery, including as a result of one or more supplier bankruptcies due to poor economic conditions, as a result of natural disasters or for other reasons, we may be unable to procure alternatives from other suppliers in a timely and efficient manner and on acceptable terms, or at all.

We May be Subject to Risks Related to Government Contracts and Related Procurement Regulations

Our contracts with U.S., as well as state, local and foreign, government entities are subject to various procurement regulations and other requirements relating to their formation, administration and performance. We may be subject to audits and investigations relating to our government contracts and any violations could result in various civil and criminal penalties and administrative sanctions, including termination of contract, refunding or suspending of payments, forfeiture of profits, payment of fines and suspension or debarment from future government business. In addition, such contracts may provide for termination by the government at any time, without cause.

We May Be Subject to Product Liability Claims if People or Property Are Harmed by the Products We Sell

Some of the products we sell or manufacture may expose us to product liability claims relating to personal injury, death, or environmental or property damage, and may require product recalls or other actions. Certain third parties also sell products using our e-commerce platform that may increase our exposure to product liability claims, such as if these sellers do not have sufficient protection from such claims. Although we maintain liability insurance, we cannot be certain that our coverage will be adequate for liabilities actually incurred or that insurance will continue to be available to us on economically reasonable terms, or at all. In addition, some of our agreements with our vendors and sellers do not indemnify us from product liability.

We Are Subject to Payments-Related Risks

We accept payments using a variety of methods, including credit card, debit card, credit accounts (including promotional financing), gift certificates, direct debit from a customer s bank account, consumer invoicing, physical bank check and payment upon delivery. As we offer new payment options to our customers, we may be subject to additional regulations, compliance requirements, and fraud. For certain payment methods, including credit and debit cards, we pay interchange and other fees, which may increase over time and raise our operating costs and lower profitability. We rely on third parties to provide payment processing services, including the processing of credit cards, debit cards, electronic checks, and promotional financing, and it could disrupt our business if these companies become unwilling or unable to provide these services to us. We are also subject to payment card association operating rules, including data security rules, certification requirements and rules governing electronic funds transfers, which could change or be reinterpreted to make it difficult or impossible for us to comply. If we fail to comply with these rules or requirements, or if our data security systems are breached or compromised, we may be liable for card issuing banks costs, subject to fines and higher transaction fees and lose our ability to accept credit and debit card payments from our customers, process electronic funds transfers, or facilitate other types of online payments, and our business and operating results could be adversely affected. We also offer co-branded credit card programs that represent a significant component of our services revenue. If one or more of these agreements are terminated and we are unable to replace them on similar terms, or at all, it could adversely affect our operating results.

In addition, we qualify as a money services business in certain jurisdictions because we enable customers to keep account balances with us and transfer money to third parties, and because we provide services to third parties to facilitate payments on their behalf. In these jurisdictions, we may be subject to requirements for licensing, regulatory inspection, bonding, the handling of transferred funds and consumer disclosures. We are also subject to or voluntarily comply with a number of other laws and regulations relating to money laundering, international money transfers, privacy and information security and electronic fund transfers. If we were found to be in violation of applicable laws or regulations, we could be subject to civil and criminal penalties or forced to cease our payments services business.

We Could Be Liable for Fraudulent or Unlawful Activities of Sellers

The law relating to the liability of providers of online payment services is currently unsettled. In addition, governmental agencies could require changes in the way this business is conducted. Under our seller programs, we may be unable to prevent sellers from collecting payments, fraudulently or otherwise, when buyers never receive the products they ordered or when the products received are materially different from the sellers descriptions. Under our A2Z Guarantee, we reimburse buyers for payments up to

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certain limits in these situations, and as our marketplace seller sales grow, the cost of this program will increase and could negatively affect our operating results. We also may be unable to prevent sellers on our sites or through other seller sites from selling unlawful goods, from selling goods in an unlawful manner, or violating the proprietary rights of others, and could face civil or criminal liability for unlawful activities by our sellers.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

In January 2010, our Board of Directors authorized the Company to repurchase up to $2 billion of our common stock with no fixed expiration. We repurchased 5.3 million shares of our common stock for $960 million in Q1 2012 under this program. The table below sets forth information regarding the Company s purchases of its common stock during Q1 2012 (in millions, except per share data):

	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Approximate Dollar Value of Shares that May Yet be Repurchased Under the Program
January 1 - January 31, 2012		$		$ 1,723
February 1 - February 29, 2012	5.3	181.38	5.3	763
March 1 - March 31, 2012				763
Total	5.3		5.3	

All repurchases disclosed in this table were repurchased pursuant to the January 2010 Board of Directors authorization.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits

See exhibits listed under the Exhibit Index below.

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SIGNATURES

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

AMAZON.COM, INC. (REGISTRANT)

By: /s/ Shelley Reynolds

Shelley Reynolds
Vice President, Worldwide Controller
(Principal Accounting Officer)

Dated: April 26, 2012

EXHIBIT INDEX

Exhibit Number	Description
3.1	Restated Certificate of Incorporation of the Company (incorporated by reference to the Company s Quarterly Report on Form 10-Q for the Quarter ended March 31, 2000).
3.2	Restated Bylaws of the Company (incorporated by reference to the Company s Current Report on Form 8-K, filed February 18, 2009).
10.1	1997 Stock Incentive Plan (incorporated by reference to the Company s Proxy Statement filed April 13, 2012).
31.1	Certification of Jeffrey P. Bezos, Chairman and Chief Executive Officer of Amazon.com, Inc., pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.
31.2	Certification of Thomas J. Szkutak, Senior Vice President and Chief Financial Officer of Amazon.com, Inc., pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.
32.1	Certification of Jeffrey P. Bezos, Chairman and Chief Executive Officer of Amazon.com, Inc., pursuant to 18 U.S.C. Section 1350.
32.2	Certification of Thomas J. Szkutak, Senior Vice President and Chief Financial Officer of Amazon.com, Inc., pursuant to 18 U.S.C. Section 1350.
101	The following financial statements from the Company s Quarterly Report on Form 10-Q for the quarter ended March 31, 2012, formatted in XBRL: (i) Consolidated Statements of Cash Flows, (ii) Consolidated Statements of Operations, (iii) Consolidated Statements of Comprehensive Income, (iv) Consolidated Balance Sheets, and (v) Notes to Consolidated Financial Statements.

Executive Compensation Plan or Agreement